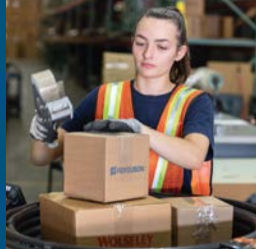
FERGUSON

Going beyond for our customers



Ferguson plc
Annual Report and Accounts 2021

Strategic report

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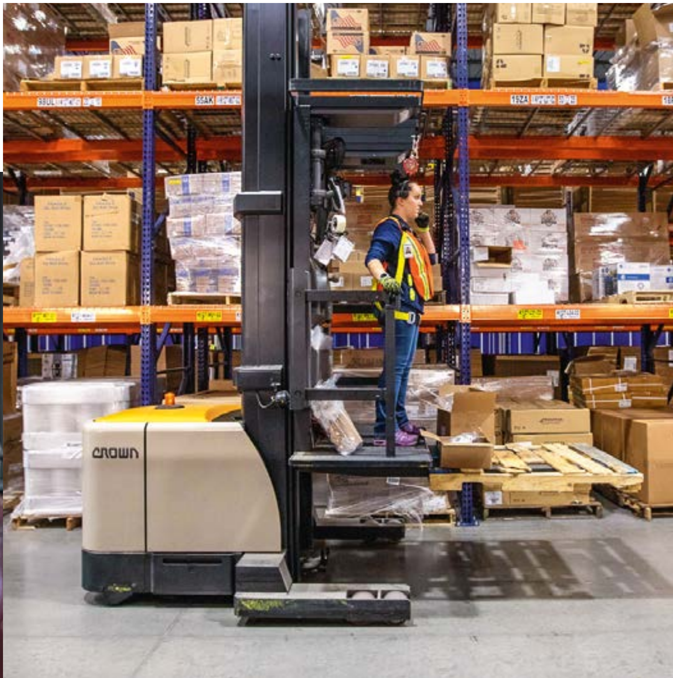
Our purpose is to act as a trusted supplier and partner to our customers, providing innovative solutions to make their projects more successful. We have a strong service culture where going beyond for our customers is part of our everyday life

Going beyond

We serve large and fragmented markets with strong growth potential



Going beyond for our customers is what our talented associates do every day. We offer excellent service, advice and an extensive range of specialist plumbing and heating products delivered where and when our customers need them. We have set out our strategy in the Group Chief Executive's review on pages 17 to 21 and showcase four competitive advantages of our strategy and how we go beyond on the following pages:

Going beyond:

- Best associates >
- Product strategy >
- Digital capability >
- Supply chain network >

Going beyond: Best associates

Our associates are the heart of our business

> Ferguson's new Virtual Design and Construction ("VDC") Team and our fabrication team were essential to this project. The VDC team delivered a 3-D scan, field verification drawings, a fabrication map and spool drawings for the fabrication team to build and deliver a complete bolt-up piping system."

Joe Smith
National Sales Manager

Read more about how our associates are integral to our strategy.

> Pages 28 and 29

Joe Smith, National Sales Manager for PP-R (polypropylene random) pipe, has been with Ferguson for 44 years. Joe joined Ferguson through the acquisition of Atlas Supply in 1977 as a warehouse manager. "At the time, there weren't many of us at the location so the role encompassed everything the business did which meant I got trained in everything," remembers Joe. It was this attitude from Joe and Ferguson's Best Associates culture that has seen him develop his career to become a national sales manager.

"Ferguson sent me on every product training there was. Whether it was US Steel's training in Lorain, Ohio, Top Lines sanitary fittings training in Bradford, Pennsylvania or our own valve actuation training, I was very hands on and gravitated to that side of the business," said Joe. He continued, "I've done every kind of internal and external training. Anything you can imagine for 44 years, I've been involved in it at some point, including classes like time management or sales training. Ferguson associates have an incredible thirst for knowledge – we're training people all the time whether it's basic product knowledge or on jobsites installing products. As part of that training we're developing our associates to be the trainers of the future so it's a constant learning for all our associates – it's great."

When a pharmaceutical customer approached Joe and Ferguson needing to enlarge its manufacturing plant in Gainesville, Georgia, the challenge they faced was that the roof of the existing facility could not support the weight of a larger cooling system required to make the expansion viable. The cost and operational disruption of reinforcing the roof was not an option for the business and so CRB, the construction and design firm awarded the contract, turned to Joe and Ferguson for help. Joe's idea was to use prefabricated polypropylene pipes, which are about one-fourth the weight of steel pipe, reducing the load on the roof without extensive reinforcing.

The result saved the customer more than $50,000 in direct costs, as well as the costs associated with any downtime that would have been required for extensive structural reinforcing. It also helped to reduce on-site construction hours and was completed with no recorded injuries. The customer was so impressed that they have awarded a second-phase contract that is currently being fabricated and shipped.

Image caption: Rooftop PP-R pipe installation supervised by Joe Smith, Ferguson National Sales Manager for PP-R

Going beyond: Product strategy

Own brand or branded, we meet our customers' needs

We have a focused product strategy that includes both branded and own brand offerings and with over a million products across nine specialist customer groups our extensive range can meet every customer's need. Own brands, which represent 8.6 per cent of revenue, offer customers high-quality, "on trend" products at competitive prices with excellent availability and industry leading warranties. For the business, own brands offer higher gross margins. As such, our customers, associates and the business all do well when we sell own brand products.

In November 2020 we launched an exciting new line of own brand products in the Heating, Ventilation and Air Conditioning ("HVAC") equipment category called Durastar. Durastar has been designed to offer a broad, high-quality range of residential unitary and ductless HVAC products at competitive price points.

The initial Durastar offering has included air conditioners, heat pumps, gas furnaces, air handlers and coils and we are executing a phased, targeted launch strategy starting in the Ohio Valley District and growing geographically into new markets over the next several years. Durastar will be our primary line of equipment as we expand our HVAC business within our branch network as it offers us a considerable growth opportunity to sell our brand across the US, giving our customers even greater choice for their HVAC needs. Our scale and global sourcing capabilities make this a strong competitive advantage for the business in the HVAC market worth approximately $50 billion, in which we currently have approximately 4 per cent market share.

Image caption: Durastar product installation

"Creating and launching Durastar has been a cross-functional team effort. Durastar enables us to sell in any market and any channel which is a borderless brand deployment opportunity. From a thought leadership perspective, this supports our multi-brand product strategy that includes branded, branded exclusives and own brand products."

Rodney Grainger
Senior Director, Category Management

Read how our product range fits into our strategy.

> Pages 19 and 20

Going beyond: Digital capability

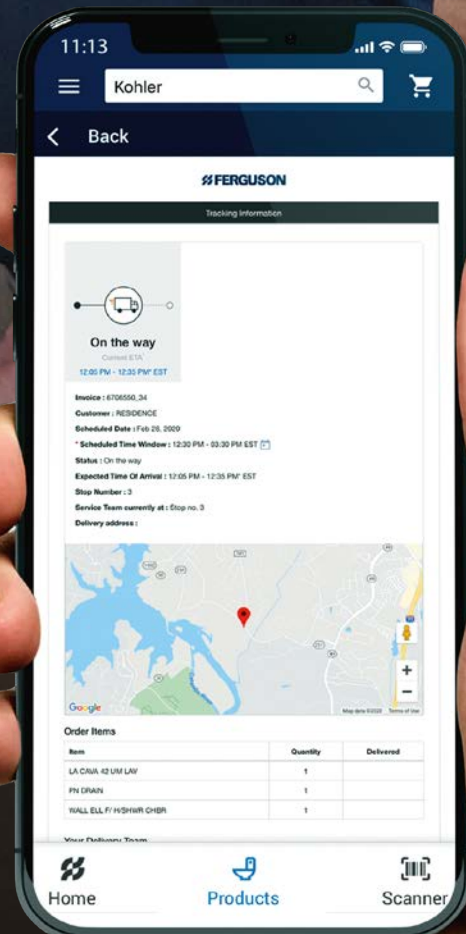
Empowering customers

Our digital capabilities mean that our customers are more efficient, saving them time and money. Through our digital platforms we continually keep our customers updated with their order details when they are on the go, which means they know where the products they have ordered will be exactly when they need them. Through geolocation technology implemented across our delivery fleet, customers can pinpoint the exact location of the truck that has their order on it and know precisely what has been loaded so they can plan for the day ahead. This also reduces call volumes freeing up our associates to concentrate on sales and service.

Customer Aaron Walton with Stillwater Group LLC, often runs several high-end, large residential projects simultaneously. Aaron is able to schedule installation with his Ferguson install coordinator, Alexandra Miller, and return to other aspects of his job. During a recent project, the layout of a new construction home required the rental of a boom truck to lift the appliances in through the second-floor terrace. Aaron was able to confirm his requested date and time of installation with Alexandra and leave her to arrange the details. Behind the scenes, Alexandra worked with a local company to rent a boom truck and have it delivered to the jobsite on the morning of installation.

Aaron received a system generated email and text message confirming and reminding him that the install for his project was scheduled for the following morning. The message noted which job the appointment was for, provided a time window for delivery, a link to see where the truck was located, who the installers were, exactly what products were being delivered and the current status of the installation. The Ferguson installers were able to notify Aaron via the mobile app that they were en-route and were approximately 30 minutes from his project. They met the company delivering the boom truck on-site and delivered the appliances through the second floor.

through digital capability



Upon completion Ferguson sent the delivery receipt via the app to Aaron confirming what had been delivered and installed that day. This freed Aaron up to visit other projects throughout the day and continually be informed on what Ferguson had delivered and installed at his jobsite. A more detailed installation summary was sent to him the next business day by Alexandra who verified everything was completed to his liking and thanked him for his business.

Read how our digital capabilities fit into our strategy.

> Pages 18 to 21

Image caption: Laura Wolfe, Ferguson showroom consultant, with Aaron Walton from Stillwater Group reviewing the installation for Aaron's customer

Going beyond: Supply chain network

Our supply chain is built around the needs of our customers who require access to a wide variety of products, high fill-rates and speed of delivery. We bridge the gap between over 34,000 suppliers and over one million customers and we continue to invest in our procurement, logistics and supply chain to constantly improve efficiency and speed.

Across the US, we have 6.5 million square feet in 10 distribution centers and 35 million square feet across our branch network which makes us capable of same-day and next-day delivery to over 95 per cent of the US population.

This is the foundation for our seamless omnichannel customer experience combined with our investment in the best-in-class technology and tools which enables us to stay ahead of our competition and grow market share.

Our new market distribution center ("MDC") in Denver came online towards the end of the fiscal year and is a step change in productivity.

Sca

delivered locally

Wherever your project, our comprehensive supply chain delivers products anywhere in the country within hours.

The 450,000 square foot facility has a revolutionary automated inventory picking and replenishment system that will complete 60 per cent of all product picks for the facility.

The 16,000 square foot system holds 49,000 bins and 26,000 products and utilizes energy-efficient robots to run these product bins across a modular grid, optimizing space, time, energy and productivity. With energy efficient motors and regenerative power, each robot uses about 100 watts of power, a tenth of an average toaster, improving energy efficiency. The robots work day and night, saving on traditional warehouse costs including labor, lighting, heating and cleaning.

The system also decreases manual handling of materials by 50 per cent which will improve health and safety metrics. In the future, it is possible to expand the system without the need to shut it down. Denver is the first of our new future state MDC facilities and we are planning to build approximately two or three of these annually over the next several years. This is in addition to our 11 distribution centers (10 in the United States and 1 in Canada).

ale

Our business model shows how our supply chain goes beyond to create value for our customers and stakeholders.

> Pages 26 and 27

Across North America we have:

34,000 suppliers

11 distribution centers

1,679 branches

>1 million customers

Image caption: Inside our new Denver MDC with its automated inventory picking and replenishment system (on the left hand side)

Ferguson at a glance

Trusted supplier and partner

We are a leading supplier of heating and plumbing products and solutions, serving nine customer groups, principally in the USA.

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

For more information on our customer groups

\> Pages 40 to 45

For more information on our markets

\> Pages 22 and 23

Residential Building and Remodel
(formerly Residential Showroom)

Operates a national network of 247 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

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 Digital Commerce
(formerly eBusiness)

Sells home improvement products directly to consumers and trade customers online through various websites. The primary brand is Build with Ferguson and the business creates synergies by using the same distribution network as the trade businesses.

10%
of total US revenue

HVAC

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

11%
of total US revenue

Commercial/Mechanical
(formerly 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.

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.

of total US revenue

Fire and Fabrication

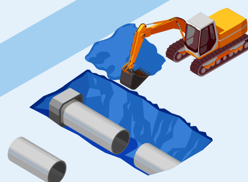
Fabricates and supplies fire protection products, fire protection systems and bespoke fabrication services to commercial contractors for new construction projects.

of total US revenue

Industrial

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

of total US revenue

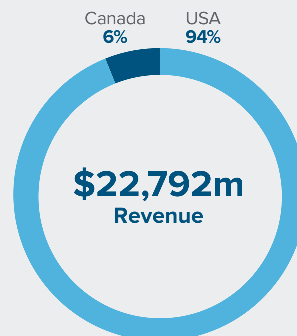


Waterworks

Distributes pipe, valves and fittings ("PVF"), hydrants, meters and related water management products alongside related services including water line tapping and pipe fusion often to civil or municipal organizations.

of total US revenue

Group



USA

Revenue
(2019/20: $18,857m)

Underlying trading profit[1,2]
(2019/20: $1,587m)

Canada

Revenue
(2019/20: $1,083m)

Underlying trading profit[1,2]
(2019/20: $43m)

1. This is an Alternative Performance Measure ("APM"); for further information on APMs, including a description of our policy, purpose, definitions and reconciliations to equivalent IFRS statutory measures, see note 2 on pages 129 to 132. Underlying trading profit refers to continuing operations unless otherwise stated.
2. See note 3 on pages 133 to 135 for further information on segmental metrics.

Chairman's statement

Our associates delivered record revenue and profit growth despite global supply chain pressures

Geoff Drabble
Chairman

Demonstrating the strength and resilience of our business model

2020/21 was an exceptional year for Ferguson and despite the continued challenges and uncertainty of the COVID-19 pandemic we delivered record financial results. In spite of these unprecedented circumstances, we again kept our customers running, many of whom provide critical services keeping millions of homes and businesses functioning. The second half of the financial year was really the inverse of the sharp contraction we saw in our markets in the prior year during the crisis phase of the pandemic as lockdowns were imposed. The rapid roll-out of vaccines has accelerated the reopening of our markets which led to a sharp acceleration in demand from February onwards.

During the year, the strength, flexibility and resilience of the Ferguson business model was again underlined as we accommodated unprecedented levels of demand. We have maintained industry leading availability of products during a time of unsurpassed scarcity, particularly in the second half, as we continue to support our customers. I'm also extremely proud of our talented workforce of 31,000 associates who have again steadfastly delivered to keep Ferguson and our customers operating smoothly during this challenging period.

Throughout this period we have continued to act swiftly and responsibly to ensure we protect the interests of all of our stakeholders. At all times our priority has remained focused on the health and safety of our associates and customers as we supported those working on the frontline in the fight against COVID-19. Sadly, during the year we lost a number of valued colleagues and I extend the deepest sympathies of the Board and everyone at Ferguson plc to the families of those affected. We remain committed to doing all we can to support them.

Financial performance and strategy

Despite the operational challenges of the COVID-19 pandemic, 2020/21 has been another year of significant progress in executing our strategy under the leadership of Kevin Murphy, Group Chief Executive, and his team. Although the disruption brought about by COVID-19 created short-term challenges it has created medium-term opportunities. We remain focused on "Going Beyond" for our customers and we are adapting our strategy and operations to meet the changing needs of our customers as they rebuild their businesses and as we all learn to live with the virus.

In many ways COVID-19 is redrawing the map of how and where we live and work and spend our leisure time in the future and in response the residential and commercial spaces that will be needed in the coming years are being reimagined. This creates opportunities for Ferguson and we continue to develop solutions to take advantage of the emerging trends in our industry. We are innovating more than ever and investing in our associates, technology and operations and prioritizing that investment to focus on our largest growth opportunities. Details about how we are evolving our strategy can be found on pages 19 to 21.

The Group delivered record results in 2020/21 and generated revenue growth of 14.3 per cent to $22.8 billion (2019/20: $19.9 billion)[1]. Total basic earnings per share of 674.7 cents was 57.8 per cent ahead of last year. Headline earnings per share[2] was 35.5 per cent higher at 688.1 cents mainly due to the strong profit performance in the second half of the year. Strong cash generation remains one of the great hallmarks of the business and we delivered another solid performance while investing in inventory to ensure high ongoing fill-rates for our customers during a period of supply chain disruption which underlines the agility of our business model. Details of our operational and financial performance can be found on pages 17 to 21, 34 to 39 and 46.

Shareholder returns

For more than a decade Ferguson's investment priorities have remained firmly focused on investing in the business and consistently generating above market organic growth. We set out to maintain and grow the ordinary dividend sustainably through the economic cycle so that shareholders are rewarded with an attractive recurring income stream.

We also want to selectively invest in bolt-on acquisitions that meet our investment criteria and given our fragmented markets M&A remains a strong focus in the business as a means of generating growth. Any surplus cash after meeting these investment needs will be returned to shareholders and we have returned nearly $5 billion in share buy backs and special dividends over the past 10 years. We aim to maintain a strong balance sheet with target leverage of 1x to 2x net debt to adjusted EBITDA through the cycle.

Given the uncertainty of COVID-19, our balance sheet has been a source of great strength as we have guided the business through the ongoing challenges of the pandemic. Initially last year we took prompt actions to optimize cash flow, reducing capital expenditure and operating costs, and to further improve our liquidity position. As markets have recovered this year we have progressively reinstated our capital priorities in line with the priorities above. This included paying a final dividend of 208.2 cents per share (2018/19: 208.2 cents per share) in December 2020 which effectively reinstated the 2019/20 withdrawn interim dividend from April last year during the crisis phase of the COVID-19 pandemic.

Financial highlights

Statutory financial results

$22,792m
Revenue
+14.3%
(2019/20 restated[1]: $19,940m)

$1,891m
Profit before tax
+46.4%
(2019/20 restated[1]: $1,292m)

674.7c
Total basic earnings per share
+57.8%
(2019/20: 427.5c)

239.4c
Total ordinary dividend per share
+15.0%
(2019/20: 208.2c)

Alternative performance measures

30.6%
Gross margin[2]
+60bps
(2019/20 restated[1]: 30.0%)

$2,099m
Underlying trading profit[2]
+31.8%
(2019/20 restated[1]: $1,592m)

688.1c
Headline EPS[2]
+35.5%
(2019/20 restated[1]: 508.0c)

0.6x
Net debt: adjusted EBITDA[2]
Flat
(2019/20: 0.6x)

1. The Group disposed of its UK business on January 29, 2021. Pursuant to IFRS requirements, the UK results have been reclassified to discontinued operations and the prior year comparative results have been restated.
2. 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 129 to 135.

Chairman's statement continued

In March 2021, the Board declared an interim dividend of 72.9 cents per share and given the exceptional profit delivery in the second half of the year a final dividend of 166.5 cents per share is being proposed. If approved, the dividend will be paid on December 10, 2021 to shareholders on the register on October 29, 2021. The total dividend of 239.4 cents per share for 2020/21 represents growth over the prior year of 15.0 per cent.

On January 29, 2021 we completed the disposal of Wolseley UK and returned substantially all of the net proceeds of the disposal to shareholders by way of a special dividend. This amounted to 180 cents per share, approximately $400 million, and was paid alongside the interim dividend in May 2021. This was an important milestone in the refocusing of Ferguson to concentrate on the significant growth opportunities we have in North America.

> "Above all else this year, I have been struck by the unwavering commitment of Ferguson's 31,000 associates, who despite the challenges of the virus have steadfastly committed to keeping our customers running, many of whom provide critical services keeping millions of homes and businesses functioning."
>
> **Geoff Drabble**

Having restored ordinary dividend payments, we also resumed returning surplus capital to shareholders in the year. The Board announced a $400 million share buy back program in March 2021 which was completed in July 2021. Taking into account the Group's excellent prospects and continued strong financial position with net debt to adjusted EBITDA of 0.6 times, we announced a further $1 billion share buy back program with the Full Year Results, which we aim to complete over the next 12 months.

Governance and the Board

Companies today are judged as much by their integrity and trustworthiness as by their financial performance. One of my key responsibilities as Chairman is to ensure good governance for Ferguson (see pages 60 to 116). In this regard, I have been extremely well supported by the members of the Board. With their diverse backgrounds, they bring balance and a wealth of skills and experience to our organization that complements the talents of our Executive team. I would like to thank all of my Board colleagues for their support and valuable contributions as we continue to maintain oversight of the strategic, operational and compliance risks across the Group, define our path to success and uphold the high standards expected of us.

During the year we continued to significantly reshape the Board to support our strategy. In October 2020, Mike Powell stepped down as Group CFO and was succeeded by Bill Brundage who was previously CFO of Ferguson Enterprises, our largest subsidiary.

Additionally, we continue to ensure that we maintain an appropriate number of independent Non Executive Directors through an orderly succession, without compromising the effectiveness of the Board and its Committees. During the year we welcomed three new Non Executive Directors to the Board. Suzanne Wood and Brian May joined in January 2021 and Kelly Baker joined in May 2021. All three are highly experienced executives with considerable financial, operational and industry expertise. I am confident each will bring new perspectives to the Board which will add diversity of thought to our Board discussions. You can read about these appointments in the Nominations Committee report on pages 72 to 74 and their biographies on pages 62 to 64. Finally, Tessa Bamford will step down as a Non Executive Director at the 2021 Annual General Meeting. We are grateful for her excellent contribution spanning over 10 years during a period of significant change for the Group and we wish her well for the future.

Corporate actions and proposed primary listing change

We've made good progress this year on completing the required corporate actions ahead of the shareholder vote to change the primary listing from London to New York, which we expect to hold in the spring of 2022.

To that aim, as well as the exit from Wolseley UK, we have also remained focused this year on the other corporate actions required to achieve it. This has included standing up the appropriate Sarbanes-Oxley financial and operational control environment required by US authorities for US listed businesses, completing the majority of migrating UK-based corporate functions to the USA and transitioning our financial statements from IFRS to US GAAP for periods beginning on and after August 1, 2021.

Today, Ferguson is 100 per cent a North American business and the Board believes that a US primary listing will provide our Company with access to significant incremental pools of capital in the largest domestic investment market in the world and is fully aligned with the long-term strategy and focus for the business. As an interim step towards achieving the primary US listing, a special resolution for an additional US listing of ordinary shares on the New York Stock Exchange was put to shareholders in July 2020. This received over 99 per cent support and the additional listing became effective on March 8, 2021. Ferguson retained its premium listing on the London Stock Exchange and inclusion in the FTSE 100 index and the Company's ordinary shares trade on both exchanges under the ticker symbol: FERG. The Board expects that over time the additional US listing will facilitate increased ownership by domestic US funds. The Executive team is undertaking additional investor engagement in the US which is enhancing understanding and awareness of Ferguson's business amongst this significant incremental pool of capital.

Looking ahead

Ferguson has made excellent progress this year on many fronts despite considerable challenges. The Board is confident that the Group has a winning strategy, strong leadership and the right culture to deliver on its full potential. We remain excited about the significant structural growth opportunities in North America, the potential for further revenue and profit growth, and returns to shareholders over time.

Geoff Drabble
Chairman
September 28, 2021

Group Chief Executive's review

Going beyond for our customers in a year of significant challenges

Kevin Murphy
Group Chief Executive

In 2020/21, we demonstrated again that Ferguson is a strong and resilient organization. We continued to execute our strategy while "Going beyond" for our customers at a time of great need given the unfolding COVID-19 pandemic. At all times, our priority remained the health and safety of our associates and our customers. We have worked hard to strengthen the long-term prospects of the business and are well positioned to continue to support our associates, customers and the communities in which we operate to emerge stronger than ever.

Fiscal 2020/21 overview

We are extremely proud of how the organization has responded to the COVID-19 pandemic and we are humbled by the commitment and dedication our people are showing, day in day out. From our fabricators, technicians and drivers, to our showroom consultants and sales representatives to those working tirelessly on our counters, and in our warehouses and distribution centers, not to mention the many thousands of associates asked to perform their jobs remotely; they have all risen to the challenge. I want to extend my deepest sympathies to the families of those colleagues that have lost loved ones.

Fiscal 2020/21 was certainly a year of two halves. We began the year in the early stages of the opening up of the economy after the lockdowns which extended through the spring and early summer of 2020. Our first half performance was strong but from February onwards the pace of our recovery accelerated sharply. This presented us with very different challenges, not least product scarcity, as manufacturing supply chains became stretched in addition to significant price inflation. Ferguson's financial performance in the second half was very strong, but as important has been how the organization responded to the new environment as we used our scale and capabilities to ensure we kept our customers running, offering them certainty of supply and the confidence to operate their own businesses in equally challenging circumstances.

The health and safety of our associates and customers has been, and remains, our absolute priority. As the COVID-19 pandemic unfolded, sites that remained open were operating with enhanced health and safety protocols and Personal Protective Equipment ("PPE"). As restrictions were lifted and customers returned to jobsites across North America, we have helped them reopen and ensure they operate safely. Nevertheless, throughout the year, in the face of unprecedented volatility, we have continued to invest in our business and execute our long-term strategy at pace while ensuring that we continue to protect the interests of all our stakeholders.

Group Chief Executive's review continued

Operating highlights

Revenue 14.3 per cent ahead of last year with accelerated market share gains.

Gross margins of 30.6 per cent were 60bps ahead of last year, driven primarily by our ability to service our customers while managing price inflation.

Good cost control ensured strong underlying trading profit delivery of $2,099 million, up $507 million, and significantly outpacing revenue growth with profit before tax increasing to $1,891 million.

Cash generation was solid and the balance sheet remains strong with 0.6x leverage.

Continued to consolidate our markets, investing $335 million in seven acquisitions.

UK disposal completed in January 2021 with operations now focused on North America.

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 129 to 135.

Operating performance

We are proud that Ferguson achieved another period of exceptional operational delivery in fiscal 2020/21. Revenue of $22.8 billion was 14.3 per cent ahead of last year and 13.0 per cent ahead on an organic basis[1].

Gross margins remained a key focus through the COVID-19 pandemic. In the early part of the year there was a short-term adverse shift in business and sales channel mix, but margins recovered strongly in the second half as the mix improved and were also aided by a tailwind of product price inflation of 3 per cent. This started in commodities and is now flowing through into finished goods due to rising input, manufacturing and transportation costs.

We continued to control our operating expenses, despite a backdrop of a tightening labor market, particularly in distribution and drivers which led to increased wage inflation. Despite this headwind, we ensured profit growth outpaced revenue growth and I am pleased to say we delivered another period of strong operational leverage. Underlying trading profit[1] in the year was 31.8 per cent ahead of last year at $2.1 billion with headline earnings per share[1] of 688.1 cents, 35.5 per cent ahead, benefiting from the strong profit growth. Profit before tax increased sharply to $1,891 million (2019/20 restated: $1,292 million) and total basic earnings per share of 674.7 cents was 57.8 per cent ahead. All these measures were records for the business underlining the strength of the financial performance in the year.

We also delivered another solid cash performance while investing in inventory to ensure we maintained high availability for customers during a period of supply chain disruption. The business continues to be underpinned by a strong balance sheet which enables us to continue to invest in generating profitable growth.

Ferguson is successful because of our associates, and our baseline commitment is to create a safe and healthy work environment for all. We will always embed safety as a core value driver in everything we do. We are pleased that our recordable injuries continue to improve with our Group Total Injury Rate and our Lost Time Rate showing strong improvements (see page 48). We are making progress in our journey to become First in Safety, and throughout the pandemic keeping our associates and customers safe has been at the forefront of everything we do. And in such a challenging year we were really pleased to have also achieved a four percentage point increase in our associate engagement scores in this year's survey, which was completed in February. We rightly increased variable pay significantly for our hourly paid associates who worked at the frontline during the pressures of the crisis phase of the pandemic, in recognition of their wonderful contribution and dedication to serving our customers.

Despite our significant investment in additional inventory, our customers also faced product shortages caused by increased supply chain pressures throughout the industry. Given the need to communicate extended lead times and product shortages to our customers this has been reflected in a lower Net Promoter Score ("NPS") in recent months. While we understand the drivers, we are not satisfied with this performance and remain committed to return our NPS back to, and beyond, previous levels and will redouble our efforts in 2021/22 (see page 25).

Delivery against corporate actions

We are pleased with the continued momentum on the delivery of the corporate actions we set out last year. We have delivered what we promised and we're pleased with the execution to date. Most importantly, as markets have recovered this year, we have progressively been able to use our strong balance sheet to drive continued organic expansion, grow ordinary dividend payments, restart investment in bolt-on M&A, and return surplus capital to shareholders.

In January, we announced the completion of the disposal of Wolseley UK, which achieved our aim of focusing our business on North America. We returned substantially all the proceeds from the transaction alongside the interim dividend payment in May.

Seven bolt-on acquisitions were completed in the year with total annualized revenues of approximately $360 million. As previously announced these included Old Dominion Supply, an HVAC acquisition, and Atlantic Construction Fabrics, part of Waterworks. Additionally, in January we acquired Amerock, a leading provider of own brand cabinet hardware, and Clarksville Lighting & Appliance, a lighting and appliance showroom in Tennessee. Later in the year we welcomed Moore Industrial Supply to Ferguson, a distributor of industrial PVF, hoses and MRO located in Savannah, Georgia; Canyon Pipe and Supply, a plumbing distributor based in Phoenix, Arizona; and The Kitchen Showcase, a high-end designer and installer of cabinets in Denver, Colorado.

Having restored ordinary dividend payments this year we also felt that the Group's prospects and continued strong financial position meant that we could also resume returning surplus capital and we commenced a $400 million share buy back program in March, which was completed in July and announced a further $1 billion program with the Full Year Results. Geoff Drabble, our Chairman, has set out our capital allocation priorities and plans in detail in his annual review on pages 14 to 16.

Update on strategy and investment

Our strategy is consistent with the direction of travel in recent years. Of course, we will constantly evolve our approach over time and our strategic framework (below) is our roadmap for developing our business in the coming years. This will ensure that we drive those initiatives to further enhance our competitive advantage and provide a continually improving experience for our customers, suppliers, and our associates.

The theme of this Annual Report is "Going Beyond" for our customers and on pages 2 to 11 we have picked four important competitive advantages of our strategic framework, highlighting examples of what we think makes us unique in the minds of our customers.

You can see from the strategic framework diagram below (figure 1), that in essence we see ourselves as partners to our customers, making their projects more successful because they dealt with Ferguson. Distribution remains a core competence and we bring a deep and wide inventory which is market leading in our product categories together with a world class supply chain. We want the most effective and efficient same-day or next-day omnichannel supply chain in North America by placing our products closer to the customer, being in-stock for shipping the same day, while further developing the capability for 24/7 customer access to our inventory.

Today, in the US, we have 6.5 million square feet in 10 distribution centers and more than 35 million square feet in our branch network as the foundation for our overall omnichannel strategy supported by developing best-in-class technology and tools. We have also established import centers on each coast to ensure efficient replenishment of globally sourced products across the country. The strategy also includes progressively developing our market distribution centers ("MDCs") in the major metropolitan areas as the most efficient means of final mile distribution. Our network of regional distribution centers, pipe yards, import centers, MDCs and branches allows us to put the product closer to the customer increasing availability, speed of delivery and providing greater operating efficiency.

Figure 1: **Our strategic framework**

How tomorrow works

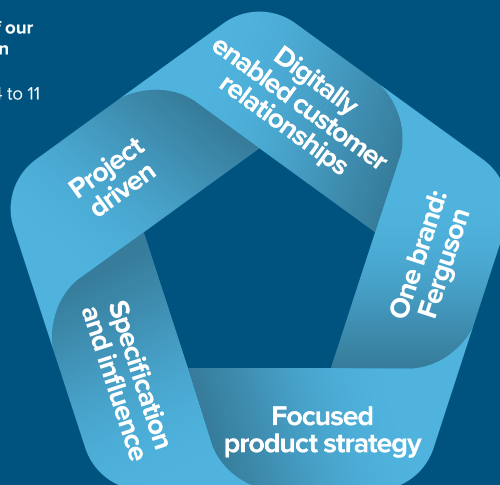
Ferguson provides innovative products and solutions to make our customers' projects better underpinned by our values (see page 20).

Strategy

We will expand our role in the value chain to build durable competitive advantages to achieve profitable growth.

See examples of our strategy in action

> See pages 4 to 11



Where we invest

We will focus on key capabilities that lay the groundwork for our path to tomorrow.

- **Culture of best associates**
- **Innovation and Ferguson Ventures**
- **Omnichannel and digital capabilities**
- **Technology and data capabilities**
- **Supply chain and value added services**
- **Salesforce evolution**

Changing landscape

– Changing customer expectations
– Shifting channels
– Industry disruptors
– Labor shortage
– Vertical integration

Running a great business

– First in safety
– Customer service
– Strategic growth
– Gross margin improvement
– Operational leverage
– Capital discipline
– Environmental, social and governance

Group Chief Executive's review continued

To our customers this means putting together a bundle of products and getting it to them when and where they need it. This is foundational for our business, but we also want to make sure that through a consultative approach with our associates, we are guiding a customer's project to make sure that it is more successful because they did business with Ferguson. As the recent investment in the Denver MDC example shows on pages 10 and 11, we are not complacent about the need to continue to invest in a world class procurement, logistics and supply chain. It's the heart of our business and we continuously evaluate our distribution network to optimize it for efficient speed, based on our proximity to every major US market.

From a strategy perspective we start with thought leadership, which in essence means the expansion of our role in the value chain. Put another way, the key question is always, "How did we guide that project to make it more successful?" Our customer relationships are clearly critical but we believe in the future this won't be enough. Our strategy starts with our associates and Ferguson investing in training and developing the best associates, giving them structured and rewarding careers, which ensures we maintain our culture by having the right people enabling us to deliver on our strategic goals. The example on page 5 which sets out Joe Smith's career is a typical path illustrating just how in a service business like ours everything starts with training and development within an inclusive and diverse environment for all our associates.

We also need to build the capabilities that drive the best digitally enabled customer relationships through investment in technology. It is clear from the COVID-19 pandemic that technology can support our customers to make them operate more efficiently and save them time so they can focus on serving their customers.

Through our focused product strategy we will also provide a robust offering that includes both branded and own brand offerings.

Own brand is important not just from a gross margin perspective (it does attract higher gross margins than branded products) but it's also a clear advantage if we can get our proprietary products specified in a job. The example on pages 6 and 7 highlights our new HVAC own brand range "Durastar", which we launched this year giving our customers even more choice and helping us accelerate growth in the HVAC business which generated over $2 billion of revenue in 2020/21.

Where we invest

On the right side of figure 1 on page 19, we set out the areas that we're going to invest in to enable thought leadership to become a reality. The major focus will be omnichannel, which means creating a seamless customer experience by leveraging the talent and the assets that we have, both bricks and mortar and digital, and how we bring to bear those physical and digital relationships in service of the customer.

Today our customers want flexibility and a seamless interaction from order to fast delivery and returns. Now, more than ever, we are focusing on technology solutions and pairing digital capabilities with our existing associate/customer relationships. For example, last year we introduced Pro pick-up which is a fast collect service providing digital enhancements to online order placement, order status and delivery. For customers ordering online, through their mobile device or over the phone, the service puts the customer in control by giving them multiple delivery and pick-up options that best fits their changing needs. Once placed, orders are typically picked in approximately one hour at the branch selected by the customer who then receives real-time alerting of the order progress. There is an example on pages 8 and 9 of how customers are rapidly adopting this technology and how our customer, Aaron Walton, uses a mix of Ferguson digital and human assets to run his residential plumbing business, saving him time and money.

During the COVID-19 pandemic we introduced curbside pick-up at our counters to protect our customers and associates. For that reason, Pro pick-up also now includes a Text-2-Counter service so that when a customer's order is ready, he or she can text us when they arrive at the branch and we will bring their order out to their vehicle. We are also now piloting secure lockers for stock at our major sites which enables both contactless pick-up but also 24/7 access to product which can be really useful for customers doing off hours repairs.

Other important areas of focus are value added services inside our supply chain, for example geo-positioning of our delivery fleet or the continued evolution of our salesforce as advisers acting as partners to multiple stakeholders at the start of a project. We also want to invest in innovation and disruption that's coming from outside our organization, for example investment in new technology or through Ferguson Ventures.

Efficiency is absolutely critical and we aim to continue to grow faster than the market even if that market looks challenging over that period. We will continue to do this through the value we provide to our customers and growing our gross margins and generating operating leverage which to us means growing trading profit faster than revenue by controlling our cost base. We will continue to be efficient in working capital management so that we can generate strong and attractive cash flows. These things allow us to invest and become even more relevant, even more durable in the long run as customer expectations change, channels shift and as industry disruption happens from non-incumbent competitors.

Finally, all this needs to be built on strong foundations which are our purpose (see page 1), vision, mission and values (below). We are going to always live these values and they are important in guiding us to the right way to do business.

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 recognize the behaviors that guide our actions and those of our Company (as shown below).

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

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

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

People
We recruit passionate people and provide excellent development opportunities.

Integrity
We act fairly, honestly and with integrity.

Innovation
We encourage innovation to improve our customers' solutions.

Our ESG framework

Environmental

Facilities (e.g. lighting, HVAC, solar)
- Energy management
- Renewable energy

Fleet (e.g. foster development of and transition to electric/hybrid vehicles)

Products (e.g. encourage adoption of sustainable and energy efficient solutions)
- Customers
- Vendors

Social

Health and Safety

Human Capital Management
- Inclusion and diversity
- Talent management and retention

Supply Chain
- Supplier compliance and supplier Code of Conduct
- Product safety
- Product quality

Community Investment/Ferguson Cares

Governance

Board Management and Composition
Shareholder Engagement
- Shareholder rights
- Executive compensation

Regulatory and Risk Oversight
- Ethics/business conduct
- Enterprise risk management
- Information security/cyber
- Privacy
- Compliance with laws and regulations

Equitable and sustainable growth

We understand that at Ferguson we have a role to play in the transition to a more sustainable future. We are well positioned to support people, communities and the environment through our role in the construction cycle and global supply chains. As a major US value added distributor Ferguson is a trusted partner to its customers, collaborating with thousands of suppliers to help them achieve the sustainability objectives most relevant to their respective industries and fulfill their ambitious sustainability commitments while growing the Group's business.

The management of environmental, social, and governance ("ESG") matters remains of high importance to Ferguson. The Executive Committee and Board have structured their agendas to always include ESG updates. We have developed our priority issues through consultation throughout the business and the diagram left illustrates our approach and guides our actions. Each of these matters are addressed more in-depth in the Sustainability and Governance sections of this report on pages 47 to 51 and 60 to 81 respectively.

Ferguson recognizes the need for more ambitious action on climate to limit the amount of global warming in line with the recommendations of the Paris Agreement. Therefore, moving forward, we have more challenging goals for carbon reduction.

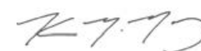
Following an in-depth analysis during 2020/21 the Group has identified new carbon reduction targets which are set out on page 51. These include a target to reduce our Scope 1 and 2 carbon emissions by 35 per cent per mUSD of revenue by 2026 (versus 2019/20 baseline). To achieve this we will increase the use of renewable energy across our business, incorporating on-site options particularly at our largest facilities. We will complete significant conversion of our operations to LED lighting and more energy efficient HVAC equipment. Fleet remains a significant proportion of our Scope 1 emissions and ultimately reductions in these emissions will require accelerated conversion of our medium-duty and heavy-duty fleet to electric vehicles. Electrification technology in these vehicle classes continues to face challenges, including battery range and payload capacity but innovation is occurring rapidly. During the target period we will start to pilot electric vehicle projects and in the meantime we remain committed to continuing to improve the efficiency of our fleet and reduce our overall fuel consumption.

We recognize that Scope 3 emissions represent a significant proportion of our overall total carbon emissions as a business and, while these are not directly within our control, we remain committed to working proactively with our customers and suppliers to reduce their emissions. Specific categories where we can collaborate to achieve a large impact throughout the supply chain include water heaters, HVAC equipment and appliances. Our long-term goal remains to look to align with the Science Based Targets Initiative and we are committed to transparency in our ESG disclosures and disclose our information in line with the recommendations set out by the Task Force For Climate-Related Financial Disclosures ("TCFD"). This year we have also adopted the reporting framework and guidance of methods set out by the Sustainability Accounting Standards Board ("SASB"). You can find more information on our corporate website **www.fergusonplc.com/sustainability** and in the Sustainability section on pages 47 to 51.

Summary and outlook

In summary, our business is in very good shape. We're extremely proud of how our associates have continued to rise to the challenge and we're staying focused on protecting their wellbeing as well as that of our customers. We are pleased with the operational delivery given the ongoing challenges of our markets and we will continue to focus on the rapid execution of our strategy. For Ferguson that means investing in the strong foundation of a world class supply chain, delivering a consultative approach to our customers, a balanced product strategy and investing in digital and technology.

The Group started the new financial year with strong momentum, with organic revenue growth at similar levels to Q4 2020/21. We expect a year of good growth overall but we anticipate a tapering in the second half on tougher prior year comparatives. We are mindful that the recent tailwinds from inflation on gross margins could moderate but for the full year ahead we expect operational improvements to broadly offset headwinds from inflation in the cost base. Given the strong momentum in the business and the agility of our business model, we are well positioned to have a year of good growth and the Board continues to look forward to the medium term with confidence.



Kevin Murphy
Chief Executive
September 28, 2021

Market overview

Our markets are large and fragmented with strong growth attributes

We operate across North America with attractive and balanced end market exposure. The USA continues to be our largest market with the greatest opportunities for growth. It is highly fragmented with no market dominated by any single distributor. To read more about our markets see pages 38, 39 and 46.

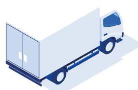
Market characteristics and opportunities

Customers' needs are local

The customer base is fragmented. Professional contractors typically operate close to 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 over 34,000 reputable suppliers.

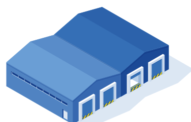


Clear need for distributors in the supply chain

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.

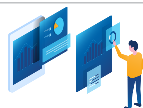


Benefits of scale

Due to scale benefits, market leaders such as Ferguson 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[1].

Housing transactions

>6m

Existing home sales averaged in excess of six million, remaining significantly below the 2005 peak[2].

Consumer confidence

Moderate

Consumer confidence was lower in 2020/21 due to COVID-19 concerns[3].

Aging housing stock

43 years

The median age of homes in the USA is 43 years. There is high demand for repairs, maintenance and improvement in the large installed base of existing homes[4].

Increased comfort levels in homes

96%

96 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[4].

Disposable income

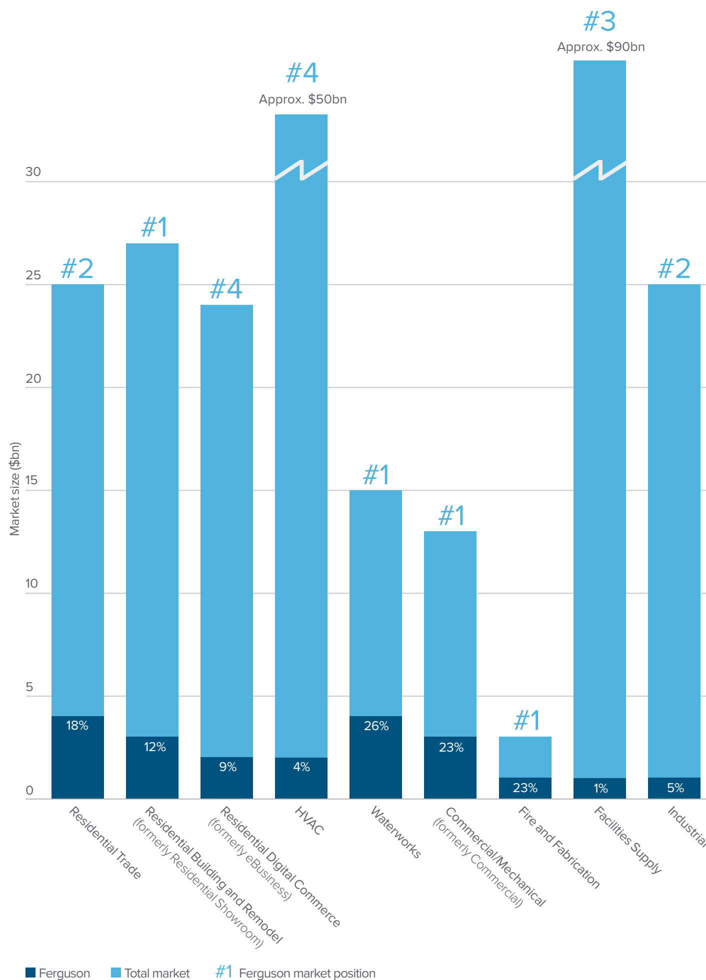
No. 1

The USA has the highest levels of disposable income per household in the OECD[5].

Sources:

1. United Nations Department of Economic and Social Affairs.
2. National Association of Realtors.
3. The Conference Board.
4. US Department of Housing and Urban Development.
5. Organisation for Economic Co-operation and Development ("OECD").

US market positions by customer group



In the USA we serve nine customer groups. The chart above sets out these customer groups and incorporates management's estimated market size and Ferguson's market share. We are the number one or two market position in the majority of the markets in which we operate.

There is a significant opportunity for strong growth and continued consolidation within each of these large, fragmented markets. These markets are made up of many small operations that cannot compete on scale, product range and availability or the technology capabilities that we can offer to our customers.

Many customer projects require a range of products and services from across our business (see case study right) and we leverage our scale and expertise across the organization for the benefit of our customers, which provides the opportunity to make attractive returns for our shareholders.

We benefit from significant synergies to help lower our costs and improve margins. We have chosen to operate in these markets because we have a record of generating strong growth, attractive gross and net margins and good returns on capital in each of these areas, which is good for our customers, suppliers, associates and shareholders and also ultimately creates real value for the end user.

When it all comes together

Case study

We aim to be part of our customers' decision-making process, at all stages of a project evolving from order taker to partner and can provide a multidisciplinary approach for larger development projects becoming a one-stop-shop for the customer, saving them time and money.

A good example of this is our current partnership with a 22,000-acre, $6.8 billion luxury master development in Northern California, incorporating civil/waterworks, hospitality, commercial spaces, and over 1,100 villas. Ferguson is harnessing the power of our scale and breadth of our business to meet the diverse needs of this customer through a single unified consultative approach. The first phase of the project will involve building five resort hotels, over 500 residential units; resort amenities including extensive commercial and retail facilities; essential temporary infrastructure including a 50-unit temporary workforce hotel, and supporting infrastructure including roads and utilities.

Ferguson has been written into the specifications by the General Contractor and subcontractors. The end customer will benefit from a single approach to procurement across multiple customer groups. Our approach includes design support, building code compliance, LEED (Leadership in Energy and Environmental Design) level environmental goals, as well as providing readily available products across all of the trades at a remote site location. All of this will be delivered through dedicated resources including associates, a temporary branch and laydown space close to the site and done together with the trade professional. We will be able to influence decision-making and offer solutions to suit the customer budget through our extensive product range, from our own brand products to premium brands, to best suit the project.

This highlights the power of Ferguson's diversity and our objective to be part of our end customers' decision-making process sooner, evolving from order taker to partner where we can help to specify products and influence projects, always focusing on the job as a whole rather than just quoting lists.

Key performance indicators ("KPIs")

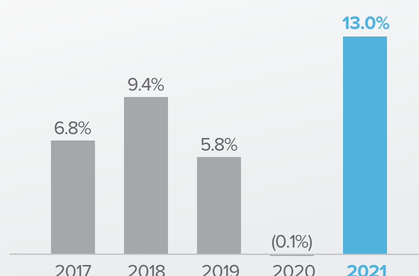
How we measure our progress

Our KPIs align to our strategic framework, How Tomorrow Works, our roadmap for developing our business in the coming years. For more information, see page 19.

Organic revenue growth[1, 2]

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

Performance



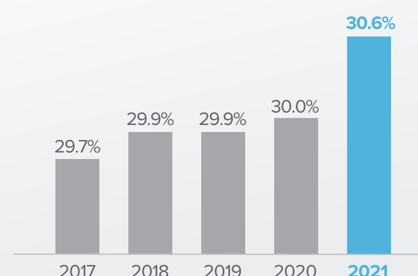
+13.0%

Organic revenue grew 13.0 per cent in 2020/21, with particularly strong growth in the second half of the year.

Gross margin[1, 2]

The ratio of gross profit to revenue.

Performance



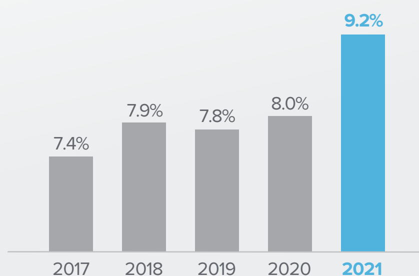
+0.6%

Gross margin improved 60 basis points compared to 2019/20 driven primarily by our ability to service customers while passing through price inflation.

Underlying trading margin[1, 2]

The ratio of underlying trading profit to revenue.

Performance



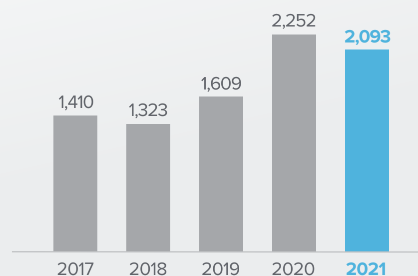
+1.2%

The underlying trading margin rose to 9.2 per cent with expansion due to strong gross margins and robust operating leverage during the year.

Cash generated from operations

Cash generated from operations before interest and tax.

Performance



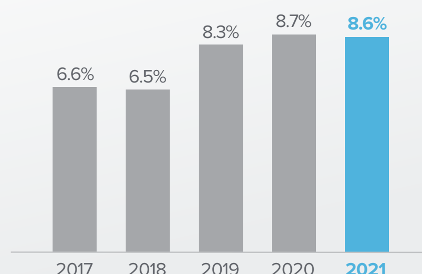
$2,093m

Cash generated from operations was $2.1 billion in the year as we continued to invest in inventory availability to service our customers given increased supply chain pressures this year. Cash generated from operations on a pre-IFRS 16[3] basis was $1,751 million (2019/20: $1,904 million) – see reconciliation on pages 129 to 135. Continued good cash flow is a key part of the Group's strategy in order to fund investment in organic expansion, ordinary dividends and bolt-on M&A, with surplus capital returned to shareholders.

Own brand percentage of revenue[2]

The proportion of revenue from own brand products to revenue.

Performance



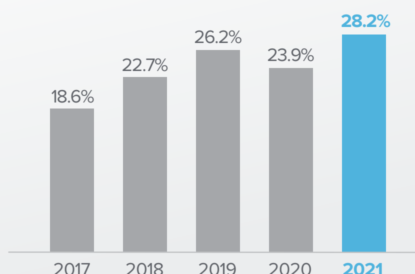
(0.1%) deterioration

The percentage of own brand revenue decreased by 0.1 per cent in 2020/21 to 8.6 per cent due to changes in channel mix and short-term supply chain pressures.

Return on gross capital employed[1]

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

Performance



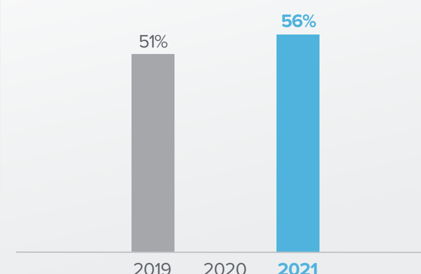
28.2%

Return on gross capital employed was 28.2 per cent in 2020/21. On a pre-IFRS 16[3] basis the return on gross capital employed was 31.0 per cent (2019/20: 24.9 per cent) with the increase driven by the good operating leverage generated in the year.

Associate engagement

Our associate engagement survey allows us to understand the drivers impacting engagement. The survey focuses on four engagement questions on advocacy, pride, satisfaction and commitment. Associates must agree with all four questions to be recognized as "engaged".

Performance



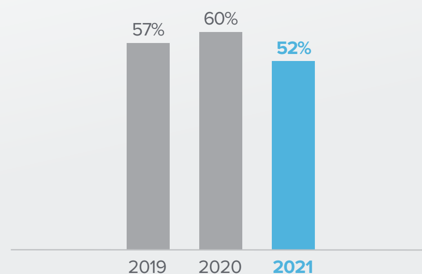
+5% improvement

The latest survey results improved by five percentage points to 56% since the last Group-wide survey in 2018/19. We unfortunately had to defer the 2019/20 engagement survey due to COVID-19. The methodology was changed in 2018/19 to offer global and country specific benchmarks allowing us greater insight into how we compare externally. As such, scores prior to 2018/19 are not comparable.

Customer service

There is a good correlation between high customer service scores and better financial results. The net promoter score is a measure of customer service. The survey asks: "How likely is it that you would recommend Ferguson to a friend or colleague?" and customers respond with scores between zero (bad) and 10 (exceptional). We look at the four quarter average of the customers who scored nine or more, minus those customers scoring six or less.

Performance



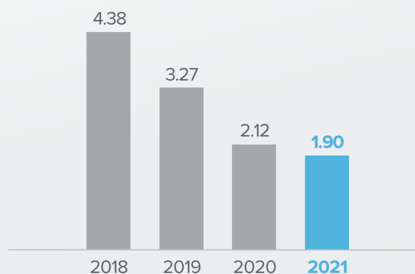
52%

The process of tracking and reporting customer service differs by region, therefore an example is given for the US. Our NPS score was lower than usual and we believe that was due to the communication of product shortages to customers caused by increased supply chain pressures throughout the industry. See page 20 in the Group Chief Executive's review for further details. The methodology was changed in 2018/19 to align to industry best practice while also collating a broader number of responses. As such, scores prior to 2018/19 are not comparable.

Group recordable injury rate

Total number of injuries per 200,000 worker hours. This is in line with globally recognized 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.

Performance



+10% improvement

The recordable injury rate improved by 10 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 program, senior leadership commitment and deployment of safety professionals in the field to focus on areas such as material handling and training. Prior year data has been restated to reflect the sale of our UK business – see the Sustainability section for more information on pages 47 to 51.

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 124 to 130.
2. 2017 to 2020 metrics restated to reflect continuing operations rather than the previously used alternative performance measure of ongoing operations.
3. On August 1, 2019, the Group adopted IFRS 16 "Leases". See note 1 on page 123 for further details.

Our business model

Going beyond to create value

We create value by going beyond for our customers using the expertise of our people, our scale, bespoke logistics network, technology and our value added service offering.

For more information on our customer groups
> Pages 23, and 30 to 45

For more information on our markets
> Pages 22 to 23, 38 to 39 and 46

Key resources and relationships

Our people
31,000
Our associates deliver outstanding customer service which acts as a differentiator in our industry.

Our customers
>1 million
We sell to and advise a broad mix of customers from sole traders and small businesses up to large contractors and construction companies.

Our suppliers
34,000
34,000 reputable suppliers giving us access to a diverse and broad range of quality products.

Channels to market
1,679
branches
We receive orders via branches, e-commerce, showrooms and call centers.

Technology
21%
revenue through e-commerce
Ongoing investment to improve our business and the customer experience.

Distribution network
5,300
fleet vehicles
We utilize our distribution centers, branches, showrooms and specialist vehicle fleets to get products to customers.

Balance sheet strength
0.6x
net debt to adjusted EBITDA[1]
A strong balance sheet to enable ongoing investment.

Find out more about key resources
> Pages 28 to 31

What makes us different?

Value added services

We consistently provide customers differentiated services, which are highly valued and make their projects more successful.

Our relentless focus on training and developing our associates and the advice, service and 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 being able to introduce our own trusted brands at higher margins.

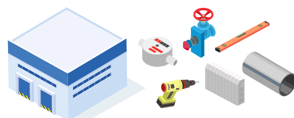
Read more about our value added services, see page opposite

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 28, 29 and 48 to 49

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 129 to 135.



Sourcing

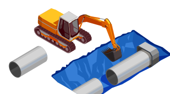
A wide range of branded and exclusive own brand products.

- Own brand
- Exclusive distribution
- Non-stock items
- Project information/specification

Bidding

Supporting our customers with advice and take-off software to help them win jobs.

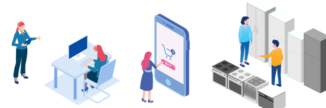
- Take-off software
- Value engineering
- Project-specific tendering



Customized solutions

Providing expertise to make the construction process easier and more efficient.

- Valve automation
- Fabrication
- Pre-assembled units and kits
- 24/7 commercial water heater service



Sales channels

An omnichannel offer to provide flexibility and maximize access to our services and products.

- Inside sales
- Showroom consultancy
- Field/outside sales
- Call/e-commerce call centers
- Online and electronic data interchange
- Credit and warranty services
- No-hassle returns

Pick-up

Nationwide outlets for face-to-face collection and on-the-spot advice.

- 24/7 secure access
- One-hour Pro pick-up
- Scheduled forward delivery
- Advice
- Emergency out of hours

Delivery

Same-day/next-day delivery of a broad range of products and solutions.

- Same-day
- Specialist e.g. "white glove"/crane truck
- Call-off options
- Geo-positioning of truck fleet
- Curbside delivery

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 22-23, 38-39 and 46

The value we create

For shareholders

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

$2,099m

Underlying trading profit 2020/21
+31.8% (2019/20 restated: $1,592m)

688.1c

Headline EPS 2020/21
+35.5% (2019/20 restated: 508.0c)

$1,436m

returned to shareholders during the year via dividends and share buy backs.

For customers

We provide essential products and services which enable customers to run their operations efficiently and effectively, saving them time and money (see pages 8 and 9). Our levels of customer service are reflected in our high net promoter score in the USA.

Net promoter score

52%

2020/21
(2019/20: 60%)
Although decreasing in the year due to communication of product shortages to customers caused by global supply chain pressures, this remains a high score for our industry. For further detail see pages 18 and 25.

For associates

Our first priority is to ensure our associates are safe and have a place of work where they feel motivated and part of our success.

Associate engagement

56%

5pts improvement versus 2018/19 baseline of 51 per cent following deferral of the engagement survey last year due to COVID-19.

For communities

We understand and respect our role in minimizing our carbon footprint, focusing on eco-friendly products and playing our part in supporting a variety of community and charity initiatives through our Ferguson Cares initiative, see pages 48 and 49.

Carbon emissions

25%

improvement versus 2015/16 baseline (24.3 to 18.2 tCO_2e per $m revenue).

Find out more about the outcomes of what we do

> Pages 14 to 16, 28 to 31 and 47 to 51

Key resources and relationships

What we rely on to provide value added services

Our goal is to offer industry leading, value added services to our customers that drive profitable growth. Our associates are fundamental to our customer offering and a key differentiator in how we create value. They are guided by our purpose, vision, mission and values that are a reminder of the goals we are working towards and how we expect to get there.

For information on our vision, mission and values see page 20 and for information on how we engage with and consider our key stakeholders, please see pages 32, 33 and 67.

Our people

31,000
associates

Our associates really differentiate Ferguson from our competitors and are at the core of everything we do. From the knowledge and skills that they bring and their unwavering commitment and passion, our associates drive our strategy, our growth and our productivity.

Leadership

Our leaders inspire our associates and create a culture of engagement and mutual respect. As with prior years, we continue to see a blend of external hires and internal succession appointments within the USA and Canada to leadership positions, enabling us to broaden the experience, knowledge and diversity of our leaders. How we engage and develop all our associates, including our leaders, is discussed in the "Talent management and development" section below.

Talent management and development

We continue to focus on our associates by building inclusive and diverse succession pipelines while recruiting, developing and retaining the best talent. This focus reinforces our commitment to our customers and by investing in our associates, we invest in our future success.

Our key focus areas in the USA over the last year have included:

- Relaunching our global engagement survey after the COVID-19 pandemic. Results show an increase in scores in those areas where we took action over the last two years (see KPIs on pages 24 and 25).
- Developing our senior leaders through our advanced leadership development experience which includes a real-life business simulation to act as the CEO over a three-year business cycle. This is to broaden their leadership experience and offer exposure to a day in the life of our executives.
- Investing in our frontline leaders by offering our two flagship development programs, Leadership Essentials and Leadership Foundation Experience.
- Execution of succession planning, role movement and launching our inclusive talent pipeline process to better identify critical roles and associates in the organization. These efforts aid our ability to have strong internal successors ready for their next experience.
- Developing a job sharing program for associates in showroom consultant roles. This has promoted work-life balance for those participating while ensuring the business and customer needs are fully and continually met.
- Responding to associate feedback and aligning talent initiatives with our business strategy, we developed and delivered resources and programs to support diversity and training requirements. For example, behavioral interviewing training, which highlights unconscious bias, to improve our associate recruitment efforts.
- Launching an on-demand and microlearning library with content providing associates the training they need to advance their skills in a delivery convenient to their work environment. This comprises a wide variety of technical and soft skill-related offerings, including leadership development, sales, customer service, product knowledge, and other programs that support our business strategy and the ever-changing needs of our customers.
- To help address mental health concerns arising from COVID-19 and social unrest, we developed a manager's toolkit to provide mental health support for our leaders. For our associates and their families we provide webinars on specific topics and free counseling sessions.

In Canada, we have continued to drive the talent strategy and enhance the organization's capabilities. Building upon the principles of employee self-service and maintaining a single system-of-record, we have continued to enhance technology-enabled capabilities for performance management, talent development, and our intranet. Additional refinements to our organization structure were made to ensure more efficient delivery of products and services to our customers. We expanded our Leadership Development Program to an additional 150+ leaders, spanning all functional areas of the business. Our Canadian team also provided opportunities for our associates to participate in activities supporting mental health awareness.

Inclusion and diversity

We want to attract, develop, engage and retain the best associates irrespective of race, color, religion, gender, age, sexual orientation, marital status, disability, or any other characteristic that makes people unique.

Females represent 50 per cent of the Board (2019/20: 44 per cent), while our percentage of women in senior management positions across the Group was 20 per cent (2019/20: 20 per cent). We recognize this is below the 25 per cent guideline set by the Institutional Voting Information Service ("IVIS") and we are committed to improving this in 2021/22 through the actions set out below. Detail on the Board's approach to diversity, including the Board Diversity Policy and performance against its specified objectives, can be found on pages 73 and 74.

Ferguson is committed to developing a diverse workforce and an inclusive working environment. By recognizing and celebrating our differences we learn so much more from each other and remain committed to listening, learning and doing more to advocate for inclusion, diversity, equality and acceptance at Ferguson and in our communities. We are committed to driving an inclusive culture and developing associates to help them reach their full potential, and championing initiatives to engage our associates so that they feel welcomed and valued.

To achieve our objectives, all people decisions at Ferguson are based on merit, where the best candidates are hired and promoted within the organization and associates are encouraged, supported and developed to reach their full potential.

Our recruitment practices factor in under-represented groups and we insist on diverse candidate slates when using executive search firms. We continue to support an environment that is free from discrimination and harassment, where all associates are treated with dignity, fairness and respect. We are committed to identify and remove any potential for unconscious bias in our employment, promotion and succession practices.

We are delivering our Inclusion and Diversity ("I&D") framework and in the last year our US initiatives covered four key action areas:

- Launching our I&D Council which is comprised of a diverse group of leaders from across the business responsible for aligning our I&D programs with our vision, mission and strategy (see pages 17 to 21).
- Building awareness through targeted communications campaigns, including the development of our Diversity Moments slide deck. When either opening or closing a meeting, the facilitator can use the opportunity to educate attendees on various aspects of I&D. This includes general I&D information, news articles and announcements related to I&D, bite-sized learning on unconscious bias or recognizing timely events or national and global days of awareness.
- Offering specific training and education for both leaders and all associates focused on recognizing and removing unconscious and unintentional bias. In August and November 2020, the Executive Committee participated in multiple highly interactive inclusion and diversity sessions. Our Top 600 leaders completed unconscious bias training. We continue to offer unconscious bias training via an on-demand option to all associates.
- Launching three Business Resource Groups ("BRGs"): LEAD, our African American group, EmpowHER, our Women's Business Resource Group and Building Pride, our LGBTQ group. Each BRG has an Executive Committee Sponsor, Co-Chair and leadership team who the membership voted into their roles. They have created their priorities and are well underway delivering to support their members.

In Canada, we launched both a Women's and LGBTQ BRG. All BRGs provide support, connection and affiliation for our associates across the Company and are open to everyone.

Key issues relating to our people directly affect our strategy, set out on pages 19 and 20. The effectiveness and level of engagement of our people is critical in delivering our strategy and maintaining the success of the business.

Inclusion and diversity gender breakdown

	Unspecified	Total men	Total women	% women
Directors (Board)		6	6	50%
Senior leadership[1]		69	17	20%
Total associates[2]	18	23,298	7,261	24%

1. The senior leadership group consists of those members of the Executive Committee, who are not Board Directors, and their direct reports. This is consistent with the data we supply to the annual Hampton-Alexander review.
2. The total average individual associate number of 30,577 is reported above (total men plus total women plus total unspecified).

Competitive pay and reward

We use our total reward programs to define our performance expectations and to reward and recognize our associates which reinforces the way we do business as an organization. Each year we review our incentive programs to ensure they support our goals and reinforce behaviors and our values. Our associates are typically incentivized through a combination of improvements in growth in profitability, working capital and, for some roles, personal objectives.

In the USA, we are introducing a formal annual bonus plan for our hourly paid associates to start in 2021/22 (except for our distribution centers, where a bonus plan was already in place), as well as a Family Leave Program for both birth and non-birth parents. We have a number of well-established recognition programs, which remain, including the President's Club and the President's Circle where our top performing outside sales associates and top performing sales associates and sales managers receive recognition; and the President's Gallery, where we honor our showroom sales associates. These programs all recognize exceptional performance and outstanding contributions, as well as reflecting our values while supporting profitable growth in the business. Finally, we recognize a Ferguson sales associate who consistently demonstrates exceptional performance and sales leadership, through the Bob Wells Leadership Award.

In Canada, we enhanced our annual bonus programs for all associates in the organization with a focus on driving a performance culture, individual performance metrics along with relevant financial targets. This year we created a monetary and social recognition program used to recognize associates who demonstrate our values through an online platform, and in addition we launched a new wellness program called Vitality, a mobile app-based program that offers rewards for physical activity and living a healthy lifestyle.

In May and October 2021, we provided additional bonus payments of $1,000 and $3,500 respectively to eligible hourly associates in recognition of their hard work which has helped deliver excellent results for the Group.

Our Group-wide long term incentive program continues to reward our leaders and senior managers for improved profit performance in their business. Our investment in this program is overseen by the Remuneration Committee and reviewed on a regular basis.

Beyond the Boardroom

In his role as Employee Engagement Director, Alan Murray, Senior Independent Director, conducted three virtual sessions with associates this year, two in the USA and one in Canada. These sessions are intended to provide the Board with additional insights into the views and concerns of associates and to understand their thoughts and opinions. The sessions included representatives from all Company subsidiaries, functions and customer groups in that region with discussion focused on several key topics including safety, customer service, culture, the use of technology, sustainability and the business strategy.

Ethical behavior and human rights

We are committed to acting with integrity and in compliance with applicable laws and regulations. This protects us from business risks; it also strengthens our reputation with customers, suppliers and other stakeholders. The standards that we expect of our associates and those who may work on our behalf are set out in our Code of Conduct. Our Code of Conduct is a resource dedicated to helping our associates live our values on a daily basis and provides guidance where there is doubt over how to proceed. You can read our Code of Conduct on **www.fergusonplc.com**.

We require all associates to complete Code of Conduct training and 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 for new associates on induction.

For information on ethical behavior in our supply chain and a summary of the Group's Modern Slavery Act statement please refer to page 51.

For more about our culture of best associates
> Pages 4 and 5

Key resources and relationships continued

We connect thousands of suppliers and customers with our strong, flexible, and resilient business model

Our suppliers

We have over 34,000 suppliers that give us access to a diverse and broad range of quality products. While the product is incredibly important, an essential part of what customers need is the expert knowledge that we bring. We aim to be a trusted partner to advise and influence their specifications from right at the start of their projects and 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.

For more about our product strategy

> Pages 6 and 7

Distribution network

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. For example, this year our first new format market distribution center ("MDC") came online, which you can read more about on pages 10 and 11. 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 also deliver to our distribution centers, our branches or directly to our customers in a safe way. We predominantly distribute from branches to customers, though in large metropolitan areas we aim to use more specialist MDCs to centralize 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 help us meet our goals for environmental performance in addition to our financial goals.

Our branches continue to utilize our distribution networks to send recyclable waste back to distribution centers for sorting, baling and weighing. When returned products are unable to be resold, they are also transported back to our distribution centers where we aim to donate these products to avoid landfill.

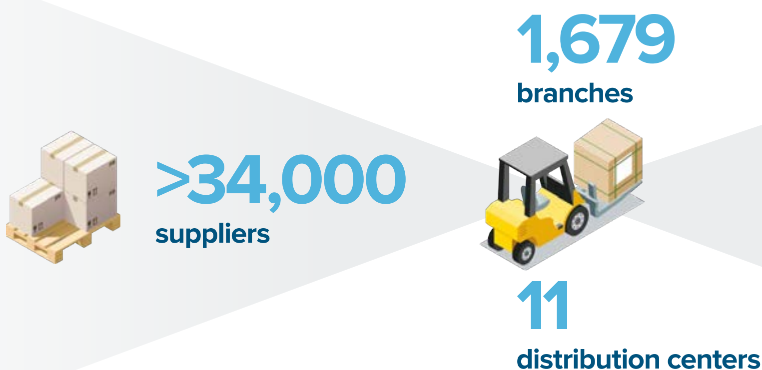
For more about our environmental efficiency efforts

> Pages 49 and 50

For more about our supply chain network

> Pages 10 and 11

Our hourglass distribution model



How we fulfill orders

51% Delivered from branches

16% Delivered from suppliers

21% Collected from branches

12% Delivered from DCs

Channels to market

Our customers interact with us through multiple sales channels on a 24/7 basis which is often a combination of branches, showrooms, mobile, transactional websites, call centers 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 minimize 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 omnichannel approach allows our customers to access products and advice whenever they need it.

We manage our locations very carefully to ensure the health and safety of our associates, customers, suppliers and any other visitors, which has become even more important during the COVID-19 pandemic. Health and safety risk assessments and branch audits are carried out 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 more about our health and safety program

> Pages 47 and 48

Technology

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, 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 fulfillment and transaction platform connected through cloud-based systems. We will connect all our systems and processes across the whole business and have one view of our customers, products, suppliers and inventory.

Our aim is to provide a seamless experience for our customers no matter what sales order channel they use so that they can engage with us in the most convenient way for them. Our associates will spend less time processing orders and more time interacting with our customers, enhancing productivity, customer service and relationships.

During the COVID-19 pandemic we have experienced high demand from customers for online channels as they seek to continue to run their business.

For more about our digital capability

> Pages 8 and 9

How customers buy from us (% Group revenue)

- **68%** in branches
- **21%** via e-commerce
- **11%** in showrooms

Our 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, mobile or online.

These are the fundamental but transactional aspects of our business which need to be executed consistently. Additionally, Ferguson offers a broad range of services to help our customers with their projects which are set out in the center of our business model as “value added services” on page 26 and 27. For example: same-day delivery, one-hour Pro pick-up, 24-hour emergency water heater replacement hotline or our outside sales associates visiting customer jobsites to support them when they are bidding for work. These are just some of the services that add value to our customers and help us gain market share and continue to generate profitable growth.

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. Since the COVID-19 pandemic customers appreciate the measures we have taken to protect them and our associates. We consult with key customers each year to understand their business needs and their 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. For example, customers of Build with Ferguson in the USA can filter their product search to view products with recognized national environmental labels, e.g. WaterSense (for more information see www.epa.gov/watersense).

For more on how we engage with this stakeholder group

> Pages 32 and 33

Section 172 and stakeholder engagement

Section 172, actively engaging with our stakeholders

We engage actively with our stakeholders at all levels of our business, which we believe is critical to the success of the Group.

At a Board level, all members are encouraged to engage with our stakeholders directly, for example through meeting with individual associates and customers during site visits or through investor meetings, such as those to obtain Remuneration Policy feedback or through attendance at the Annual General Meeting.

In addition, the Board is advised of stakeholder views on a regular basis in a number of ways including through Board reports and investor feedback reports.

For more information

> Pages 66 and 67

Section 172 statement

Section 172 of the Companies Act 2006 requires the Directors to take into consideration the interests of the stakeholders in their decision-making. The Directors have regard to the interests of the Company's employees and other stakeholders, including its impact on the community, the environment and its reputation, when making their decisions. The Directors consider what is likely to promote the success of the Company for its members in the long term in all their decision-making.

This statement should be read in conjunction with the corporate governance report on pages 61 to 71 (in particular 61, 66 and 67), the sustainability governance and introduction sections on page 47, the CEO review (in particular pages 20 and 21), the risk section on pages 52 to 59, the key resources and relationships section on pages 28 to 31, and the stakeholder engagement section above and right.

Stakeholder / relevant metrics	Importance of our stakeholders
Associates Existing and prospective associates, including apprentices and trainees **Relevant metrics** — Associate engagement survey scores — Safety performance metrics (see page 48) — Employee retention metrics	— Our associates want to work for a company that values them, provides ongoing development, treats them fairly, remunerates them appropriately and puts health and safety ("H&S") first — Investing in our associates ensures we maintain our culture by having the right people and enables us to deliver on our strategic goals
Customers National and large accounts Small and mid-sized contractors Individuals **Relevant metrics** — Customer net promoter (see page 25) and overall satisfaction scores — Level of repeat business — Customer spend per account — Churn analysis — Receivable days	— Our customers want to have confidence in the availability of our offering and tailored advice to deliver their projects, so they are more successful because they worked with Ferguson
Suppliers Branded manufacturers Outsourced third-party manufacturers for own brand **Relevant metrics** — Product fill-rate — Payable days	— Working with our suppliers in a collaborative manner ensures that we have access to the products our customers need when they need them and enables us to deliver new innovations to the market — In turn we give our suppliers an attractive path to market and provide feedback on customer needs
Communities Local communities to our operations Families of associates **Relevant metrics** — Charitable donations — Employee time contributed to community initiatives (see pages 48 and 49)	— We want to make a positive contribution to the communities in which we operate — Establishing the right relationships with our communities also helps us to attract the best talent into our business — One of Ferguson's values is integrity (see page 20) and supporting the families of our associates and the communities in which we operate is the right thing to do
Investors Shareholders (institutional) Shareholders (private) Financial institutions e.g. lending banks **Relevant metrics** — Returns to shareholders (see pages 15 and 16) — Qualitative shareholder feedback following key interactions e.g. post-results meetings — See KPIs on pages 24 and 25	— Our investors want to understand how we are managing the business to generate sustainable returns through the economic cycle and to promote the long-term success of the Group — Specific engagement on important corporate matters e.g. remuneration, strategy, corporate governance

Nature of engagement	Our response to engagement
— Employee Engagement Director, Alan Murray engages routinely with associates and reports back to the Board — H&S performance is discussed at every Board meeting and feedback is provided to management — Regular engagement and town hall meetings — Associate engagement surveys — Regional conferences and other associate events such as Ferguson appreciation day — First in Safety engagement program (see page 48) — Training and apprentice programs — Ferguson Cares relief program (see pages 48 and 49) — Further details are provided on pages 28 and 29	— The Board reviewed and approved an updated H&S policy — The Board approved the contribution of $40 million to the UK defined benefit pension scheme following the disposal of the UK business — Ensuring health and safety remains a cornerstone of our culture. — Associate reward and benefit structure recognizing the contribution our associates make to the success of the business — Associate policies which ensure our people are treated fairly
— The Board receives updates from the Group Chief Executive on customer feedback including net promoter score, see page 25, and satisfaction scores — Allocated sales managers — Branch-level staff with local customer relationships — Customer-centric technology to facilitate customer engagement — Customer-focused websites and online tools — Service level agreements measuring Ferguson's performance	— Directors approved the investment of a new market distribution center to support the evolution of the Group's supply chain strategy and to continue to enhance its capability to meet ever-changing customer needs (e.g. through expanding its ability to make same-day deliveries) — COVID-19 actions and preparedness — Addressing problem areas/actions as a result of satisfaction surveys — New service offerings — National pricing strategy for our trade customers — Sales center call routing — Local inventory needs and adjustments
— The Board receives updates from the Group Chief Executive on supplier and supply chain topics — Dedicated account managers for major suppliers — Central procurement teams manage supplier relationships — Regular meetings with specialist functions, e.g. supply chain, marketing, product data and category management teams — Field and regional meetings to reinforce local relationships	— Policies in place in relation to working with our suppliers to ensure high ethical standards and in the year the Board approved an updated anti-bribery and corruption policy — Regular meetings with key suppliers to assist in management of production cycles, e.g. capacity issues, disruption — Differences in sales channels between retail, wholesale and e-commerce
— Nationwide programs in addition to local community initiatives entered into by individual locations — Responding to community needs for emergency relief — Ferguson Cares program (see pages 48 and 49) which the Board received an update on during the year — Executives serve on boards of charities — Community engagement part of College of Ferguson induction for trainees — Further details are provided on pages 48 and 49	— The Board reviewed and approved the new ESG framework (see page 21), new carbon reduction targets (see page 51) and the community investment and environmental and social sustainability policies — Community building activities and national partnerships, see pages 48 and 49 — Disaster response when required — Financial support at times of crisis
— The Board receives regular feedback from investor relations — Directors consulted with shareholders following the vote at the 2019/20 Annual General Meeting regarding remuneration — Investor conferences — One-to-one meetings — Annual Report and other communications — Results presentations and bondholder calls — Reporting to financial lending institutions — Investor relations website	— The Board approved the disposal of Wolseley UK (see page 66), and the additional listing of shares in the US following 99 per cent shareholder approval in July 2019/20 (see page 16) — See page 83 where our Remuneration Committee Chair discusses the response to the shareholder consultation regarding remuneration — Communication of business model and strategic plan — Application of stated capital allocation priorities, e.g. the Board approved the special dividend paid in May 2021, see page 18 — Maintain compliance with stated financial objectives e.g. leverage range, etc

Financial review

Strong revenue and profit performance

Ferguson delivered strong sales and profit growth, achieved despite industry supply chain pressures. The business has delivered robust operating leverage, a solid cash flow performance and the balance sheet remains strong.

Bill Brundage
Group Chief Financial Officer

Key highlights

- Revenue increased 14.3 per cent.
- Gross margin increased to 30.6 per cent and underlying trading profit increased 31.8 per cent.
- Profit before tax increased 46.4 per cent to $1,891 million as a result of the strong trading performance and lower net exceptional charges.
- Headline earnings per share of 688.1 cents, 35.5 per cent higher than last year due principally to the strong profit growth in the year.
- Total basic earnings per share of 674.7 cents, 57.8 per cent higher than last year due to the strong profit growth and lower tax charge partially offset by the discontinued exceptional loss on disposal.
- Invested $335 million in acquisitions.
- Returned $1,436 million to shareholders during the year including $400 million by way of share buy backs.
- Return on gross capital employed increased from 23.9 per cent to 28.2 per cent.

Statutory results

The financial results have been prepared under IFRS and the Group's accounting policies are set out on pages 123 to 128.

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the Group has businesses which are classified as discontinued operations in the current and prior year and are excluded from continuing operations. The Group disposed of its UK business on January 29, 2021. The UK results have been reclassified to discontinued operations and the prior year comparative results have been restated throughout, denoted by the term "restated".

	2021 $m	Restated 2020 $m
Revenue	**22,792**	19,940
Operating profit	**2,034**	1,449
Net finance costs	**(144)**	(140)
Share of profit/(loss) after tax of associates	**1**	(2)
Gain on disposal of interests in associates and other investments	**–**	7
Impairment of interests in associates	**–**	(22)
Profit before tax	**1,891**	1,292
Tax	**(241)**	(317)
Profit from continuing operations	**1,650**	975
Loss from discontinued operations	**(142)**	(14)
Profit for the year attributable to shareholders	**1,508**	961

Revenue of $22,792 million (2019/20 restated: $19,940 million) was 14.3 per cent higher than last year, 13.0 per cent higher on an organic basis with a further 1.5 per cent from acquisitions offset by 0.2 per cent from trading days and the impact of foreign exchange.

Operating profit of $2,034 million (2019/20 restated: $1,449 million) was 40.4 per cent higher than last year as a result of the strong trading performance in both the USA and Canada and lower net exceptional charges.

Profit for the year attributable to shareholders increased to $1,508 million (2019/20: $961 million) as a result of the higher operating profit as mentioned above and lower tax charge partially offset by the discontinued exceptional loss on disposal.

Reconciliation between underlying trading profit and statutory operating profit

The Group uses certain 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 which enable it to assess the underlying performance of its businesses.

The Group's key financial performance metric is "underlying trading profit" which is operating profit before exceptional items, the amortization and impairment of acquired intangible assets and the impact of IFRS 16.

See note 2 on pages 129 to 132 for further information, definitions and reconciliations of alternative performance measures and the Group's definition of exceptional items.

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

	2021 $m	Restated 2020 $m
Underlying trading profit	**2,099**	1,592
Impact of IFRS 16	**77**	68
Trading profit	**2,176**	1,660
Exceptional items	**(11)**	(97)
Amortization of acquired intangible assets	**(131)**	(114)
Statutory operating profit	**2,034**	1,449

Operating profit

Underlying trading profit performance

	2021 $m	Restated 2020 $m	Growth %
Revenue	**22,792**	19,940	+14.3
Gross profit	**6,980**	5,983	+16.7
Operating expenses	**(4,881)**	(4,391)	+11.2
Underlying trading profit	**2,099**	1,592	+31.8
Gross margin	**30.6%**	30.0%	+0.6
Underlying trading margin	**9.2%**	8.0%	+1.2

Revenue of $22,792 million (2019/20 restated: $19,940 million) was 14.3 per cent ahead of last year including 13.0 per cent organic growth. The strong revenue performance was due to strong residential end markets and non-residential end markets improving in the second half. Gross margins of 30.6 per cent (2019/20 restated: 30.0 per cent) were higher than last year driven primarily by our ability to service customers while managing price inflation. Underlying trading profit was $2,099 million (2019/20 restated: $1,592 million), 31.8 per cent ahead of last year as good cost control led to robust operating leverage. There was one fewer trading day compared to last year which reduced underlying trading profit by about $20 million. Acquisitions generated revenue of $290 million and trading profit of $19 million in the year.

Impact of IFRS 16

The impact of IFRS 16 was to increase trading profit by $77 million (2019/20 restated: $68 million) to $2,176 million (2019/20 restated: $1,660 million), as the decrease in rental costs was partially offset by an increase in depreciation.

Amortization of acquired intangible assets

Amortization of $131 million (2019/20 restated: $114 million) represents the charge in respect of the Group's acquired intangible assets.

The Group reviews the carrying value of its goodwill and acquired intangible assets annually and when there is an indicator of impairment during the year. No impairment of goodwill or acquired intangible assets was identified as part of the annual review. Goodwill, with a carrying value of $1,757 million (2019/20: $1,721 million), remains on the balance sheet and is supported by value in use calculations. The increase from last year is a result of acquisitions partially offset by the disposal of the UK business.

Exceptional items

Net exceptional charges in operating profit were $11 million in the year (2019/20 restated: $97 million), principally relating to costs associated with the Group's listing in the USA partially offset by some small business restructuring provision releases. The charge in the prior year principally related to business restructuring charges as a result of cost actions taken to appropriately size the business for the post COVID-19 operating environment, the proposed UK business separation and the Group's listing in the USA.

Net finance costs

Net finance costs were broadly in line with last year at $144 million (2019/20 restated: $140 million) including $44 million (2019/20 restated: $49 million) of interest costs on lease liabilities.

Tax

The Group generates 96 per cent of its underlying trading profit in the USA 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 maximize shareholder value and serving the interests of all our stakeholders. The Group tax strategy can be found at **www.fergusonplc.com**.

The Group incurred a tax charge of $241 million (2019/20 restated: $317 million) on profit before tax of $1,891 million (2019/20 restated: $1,292 million) resulting in an effective tax rate of 12.7 per cent (2019/20 restated: 24.5 per cent). The decrease in the effective tax rate is primarily due to a release of provisions against uncertain tax positions following the closure of tax audits and lapsing of statute of limitation periods. The adjusted tax charge is $496 million (2019/20 restated: $376 million) which equates to an adjusted effective tax rate of 24.4 per cent (2019/20 restated: 24.9 per cent) on the adjusted profit before tax, exceptional items, the amortization and impairment of acquired intangible assets and the impairment of interests in associates of $2,034 million (2019/20 restated: $1,512 million). The decrease in the effective tax rate was driven by a reduction of prior period adjustments and decreased non-deductible expenses, the impact of which was partially offset by the tax effect of an increase in pre-tax earnings.

Financial review continued

The wider 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. Governments are responding to the COVID-19 pandemic, and this is creating political and regulatory uncertainty which is leading to changes to prevailing tax regimes and greater international co-operation on tax affairs. Following the announcement of a higher UK tax rate in 2023, proposals for a higher US federal tax rate and international co-operation on minimum global taxation, there is a possibility that the Group's consolidated effective tax rate could increase in the short term. The Group will continue to monitor and assess all external developments which could potentially impact the rate and will reflect these changes in its tax strategy as necessary.

The Group paid $404 million (2019/20: $225 million) in corporation tax in the year. The increase is primarily due to higher profit before tax. 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 recognize 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 principally relate to the results of the UK business. The result from discontinued operations is comprised as follows:

	2021 $m	Restated 2020 $m
Discontinued trading profit	**57**	17
Amortization of acquired intangible assets	**(3)**	(16)
Net finance costs	**(2)**	(4)
Exceptional items before tax	**(182)**	(21)
Tax	**(12)**	10
Loss from discontinued operations	**(142)**	(14)

Discontinued trading profit represents the results of the UK business for the six months of ownership (2019/20 restated: 12 months) and the results relating to the Nordic region and France.

Discontinued exceptional items in the current year are comprised of a $63 million impairment of assets held for sale relating to the sale of the UK business, a $370 million loss on disposal of the UK business generated from the recycling of cumulative translation adjustments, gains on prior year disposals of $14 million, a $235 million gain from the recycling of cumulative translation adjustments following the abandonment of former Group financing companies and a $2 million release relating to the UK business restructuring in prior years.

Discontinued exceptional items in the prior year principally relate to the UK business restructuring as a result of cost actions taken to appropriately size the business for the post COVID-19 operating environment.

Earnings per share

Headline earnings per share increased 35.5 per cent from 508.0 cents to 688.1 cents. Basic earnings per share from continuing operations were 738.3 cents (2019/20 restated: 433.7 cents) and diluted earnings per share were 733.7 cents (2019/20 restated: 429.7 cents). Total basic earnings per share, including discontinued operations, were 674.7 cents (2019/20: 427.5 cents) and total diluted earnings per share were 670.5 cents (2019/20: 423.5 cents).

Adjusted EBITDA and cash flow

Cash generated from operations performance

The Group's continuing operations generated strong adjusted EBITDA of $2,266 million (2019/20 restated: $1,760 million) as a result of the strong trading performance in the USA and Canada. The Group adjusted EBITDA of $2,323 million (2019/20: $1,802 million) includes discontinued operations.

The Group has continued to generate good cash flows during the year with cash generated from operations of $2,093 million (2019/20: $2,252 million) resulting in a cash conversion ratio of cash generated from operations/Group adjusted EBITDA of 90 per cent (2019/20: 125 per cent). Cash generated from operations in the year includes the impact of IFRS 16 of $342 million (2019/20: $348 million). Without this, the cash conversion would have been 75 per cent (2019/20: 106 per cent). The lower cash conversion was a result of continued investment in inventory availability to service our customers during a time of industry supply chain disruption.

	Net debt excluding lease liabilities $m	Lease liabilities $m	2021 Net debt including lease liabilities $m
Cash generated from operations	**1,751**	**342**	**2,093**
Interest and tax	**(506)**	**(46)**	**(552)**
Capital expenditure	**(246)**	**–**	**(246)**
Acquisition of businesses	**(335)**	**(12)**	**(347)**
Dividends paid	**(1,036)**	**–**	**(1,036)**
Share buy back	**(400)**	**–**	**(400)**
Disposal of businesses	**380**	**133**	**513**
Lease liability additions, disposals and remeasurements	**–**	**(141)**	**(141)**
Other items	**49**	**(11)**	**38**
Net movement	**(343)**	**265**	**(78)**

	Net debt excluding lease liabilities $m	Lease liabilities $m	2020 Net debt including lease liabilities $m
Cash generated from operations	1,904	348	2,252
Interest and tax	(331)	(53)	(384)
Capital expenditure	(302)	–	(302)
Acquisition of businesses	(351)	(30)	(381)
Dividends paid	(327)	–	(327)
Share buy back	(451)	–	(451)
Disposal of businesses	7	–	7
Lease liability additions, disposals and remeasurements	–	(131)	(131)
Other items	28	(8)	20
Net movement	177	126	303

Acquisitions and capital expenditure

Acquisitions are an important part of our growth model and during the year we invested $335 million in bolt-on acquisitions, all in the USA.

The strategy of investing in the development of the Group's business models is supported by capital expenditure of $246 million (2019/20: $302 million), which includes investment in technology and is slightly lower due to the timing of projects.

Returns to shareholders

The Group paid an interim dividend of 72.9 cents per share (2019/20: nil cents per share) amounting to $163 million. A final dividend of 166.5 cents per share (2019/20: 208.2 cents per share), equivalent to approximately $369 million, is proposed. This brings the total ordinary dividend for 2020/21 to 239.4 cents per share (2019/20: 208.2 cents per share), an increase of 15.0 per cent.

Following the disposal of the UK business, the Board reconfirmed its commitment to return substantially all of the net proceeds of the disposal to shareholders by way of a special dividend. Consequently, a special dividend of 180.0 cents per share was paid on May 11, 2021, amounting to $404 million.

During the year the Group returned $400 million (2019/20: $451 million) to shareholders through share buy backs. We announced a further $1 billion share buy back program with the 2020/21 Full Year Results, which we aim to complete over the next 12 months.

Net debt excluding lease liabilities

Net debt excluding lease liabilities increased during the year by $343 million to $1,355 million at July 31, 2021. Good cash generated from operations of $1,751 million and disposal proceeds of $380 million were offset by acquisition and capital expenditure of $581 million, interest and tax payments of $506 million and shareholder returns of $1,436 million.

Lease liabilities

Lease liabilities decreased during the year from $1,355 million at July 31, 2020 to $1,090 million at July 31, 2021 principally as a result of the disposal of the UK business and the natural attrition of lease extensions assumed on transition to IFRS 16.

Return on gross capital employed

Return on gross capital employed increased from 23.9 per cent to 28.2 per cent. The increase was driven by the growth in trading profit.

Pensions

At July 31, 2021, the Group's net pension asset of $96 million (2019/20: $61 million liability) comprised assets of $2,304 million (2019/20: $2,122 million) and liabilities of $2,208 million (2019/20: $2,183 million). The change in the net pension position is primarily due to the impact of changes in actuarial assumptions on the UK defined benefit obligation. 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 158.

Other matters

Capital structure

The Group's sources of funding currently comprise cash flow from operating activities, 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 excluding lease liabilities of one to two times Group adjusted EBITDA.

The Group's investment priorities are focused on the following areas:

(i) investing in the business and consistently generating above market organic revenue growth;

(ii) growing the ordinary dividend sustainably through the economic cycle;

(iii) investing in bolt-on and capability acquisitions that meet our investment criteria; and

(iv) returning any surplus capital beyond these needs to shareholders.

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 July 31, 2021, the Group had total committed facilities, excluding bank overdrafts, of $4,728 million (2019/20: $5,118 million). Of the Group's committed facilities at July 31, 2021, $2,200 million (2019/20: $2,200 million) was undrawn. $1,673 million (2019/20: $2,085 million) of the total facilities mature after more than five years.

Financial risk management

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

Other financial risks

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

The Group manages counterparty risk by setting credit and settlement limits for a panel of approved counterparties, which are approved by the Group's Treasury Committee and are monitored regularly. The management of customer trade credit and commodity risk is considered to be the responsibility of operational management and, in respect of these risks, the Group does not prescribe a uniform approach across the Group.

The Group's principal risks (including strategic, operational, legal and other risks) are shown on pages 52 to 59.

Bill Brundage
Group Chief Financial Officer
September 28, 2021

Regional performance

USA

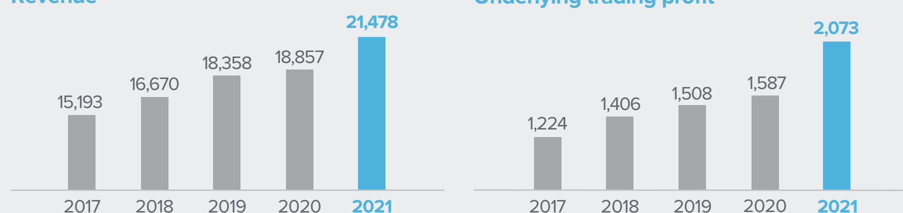
We have progressively focused more resources on our business in the USA where we generate the most attractive returns for our shareholders.

Key highlights this year

- Total revenue growth of 13.9 per cent and underlying trading profit of $2,073 million
- Continued market share gains across all end markets
- We have continued to protect the health and wellbeing of our associates and customers in light of COVID-19
- Excellent cost control throughout the year as we focused on productivity and efficiencies

Five-year performance

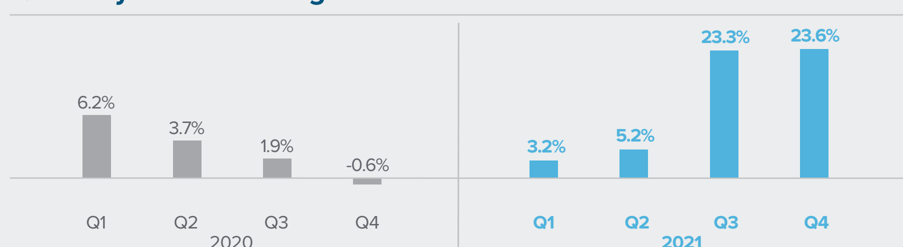
$m



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 note 2 on pages 129 to 132.

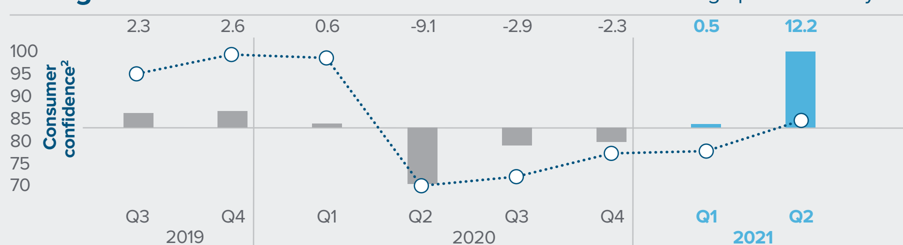
Quarterly total revenue growth

%



GDP growth[1]

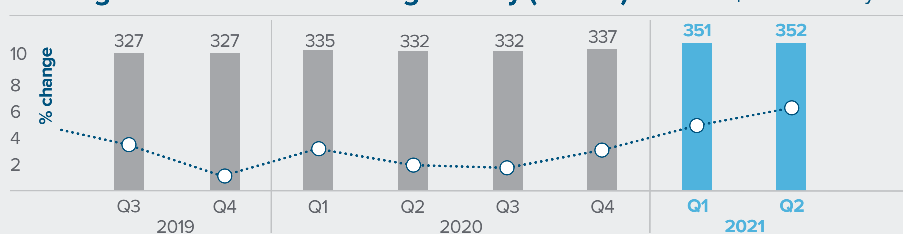
% change per calendar year



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 Remodeling Activity ("LIRA")[1]

$bn calendar year



1. $bn remodeling spend and percentage change compared to the same quarter of the previous calendar year.
Source: The Joint Center for Housing Studies.

Customer groups

We serve nine customer groups 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 a value added distributor of plumbing and heating products in the USA. It operates nationally, serving the residential, commercial, civil and industrial end markets. Ferguson predominantly serves the Repair, Maintenance and Improvement ("RMI") markets, with relatively low exposure to the new construction market.

Ferguson operates 1,470 branches serving all 50 states with approximately 28,000 associates. The branches are served by 10 distribution centers, providing same-day and next-day product availability, a key competitive advantage and an important requirement for customers.

Our operations and associate expertise align with the nine customer groups where we predominantly serve trade customers. By differentiating between the customer types, we are able to provide bespoke services and better cater to specific requirements, see pages 40 to 45 for further detail. Each group 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, see page 23. In line with the Group's strategy, the business aims to strengthen its position in existing and adjacent markets through bolt-on acquisitions.

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 end markets.

Gross Domestic Product ("GDP") in the USA declined from Q2 through Q4 of 2020 before returning to modest growth in Q1 2021. In Q2 2021 the growth strengthened to just over 12 per cent against a weak comparator.

The unemployment rate hit recent highs of 13.1 per cent in Q2 of calendar 2020 amid the COVID-19 pandemic. It has since returned to 5.9 per cent in Q2 of calendar 2021.

Residential – (56 per cent of revenue)

The Leading Indicator of Remodeling 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 strengthened and expect mid to high single-digit market growth.

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 remodeling spend. The average seasonally adjusted annual rate of sales has been 6.2 million in 2020/21, significantly ahead of last year.

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 1.7 million through 2020/21 while housing starts have averaged 1.6 million units. These measures have rebounded well and improved significantly over the prior year.

Non-residential (44 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 was below 50 in the first half of our fiscal year but moved over 50 in February 2021 where it has remained since indicating positive expectations of further market growth.

The non-residential construction "Put-In-Place" survey reflects the historical amount spent each month on construction. The value of non-residential spending declined year-over-year in all four quarters of the financial year.

The strength of the industrial market is indicated by the Institute of Supply Chain Management Purchasing 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 averaged 59.6 through 2020/21 indicating confidence in the market by purchasing managers.

Operating performance

The US business grew revenue by 13.9 per cent which comprised 12.8 per cent organic growth and 1.5 per cent from acquisitions offset by 0.4 per cent from one fewer trading day. Price inflation averaged approximately 3 per cent during the year, picking up from flat in the first half to mid-single digit in the second half.

The organic revenue growth by end market is set out in figure 1 (below). Residential end markets, which comprise just over half of our US revenue, were strong in the first half of the year and saw a significant step up in the second half. New residential housing starts and permits continued to grow well, as did residential RMI which performed strongly in the second half. Non-residential end markets were more challenging in the first half as commercial and industrial project work was subdued but returned to modest growth in the second half as the US economy re-opened and lapped relatively weaker comparators.

We operate nine customer groups across our end markets, see figure 2 (below). Residential Trade and Residential Building and Remodel (formerly Residential Showroom) customer groups grew well with a particular uptick in RMI revenues in the second half. Residential Digital Commerce (formerly eBusiness) generated exceptional growth with strong demand from the project minded consumer and light decorative pro. HVAC continued to grow strongly in both residential new construction and RMI. Waterworks grew well with a balance of strong public works demand, good residential growth and green shoots in commercial end markets. Commercial / Mechanical was restricted by more challenging non-residential end markets in the first half but saw robust growth in the second half.

The other category comprises Fire and Fabrication, Facilities Supply and Industrial, each of which returned to growth in the second half but overall remained slightly down for the full year driven by Industrial.

Gross margins were ahead of last year driven primarily by our ability to service customers while managing price inflation. Operating expenses were well controlled and we continued to invest in industry leading associates, global supply chain, product breadth and depth and digital solutions. Underlying trading profit of $2,073 million (2020: $1,587 million) was strongly ahead of last year.

Seven bolt-on acquisitions were completed during the year with total annualized revenues of approximately $360 million. As previously announced these included Old Dominion Supply, an HVAC acquisition, Atlantic Construction Fabrics, part of Waterworks, Amerock, a leading provider of own brand cabinet hardware, and Clarksville Lighting & Appliance, a lighting and appliance showroom in Tennessee. Additionally in the fourth quarter we acquired Canyon Pipe & Supply, an Arizona based wholesale plumbing distributor serving residential and commercial end markets, The Kitchen Showcase, a high-end designer and installer of cabinets in Colorado, and Moore Industrial Supply, a distributor of industrial products in Georgia.

Figure 1:
Estimated market growth

Growth by customer end market	% of US revenue	2020/21 Estimated market growth	**2020/21 Organic revenue growth**
Residential	56%	+14%	**+19%**
Non-residential	44%	+1%	**+6%**
		+8%	**+12.8%[1]**

Figure 2:
Revenue growth by customer group

Customer group	% of US revenue	**2020/21 Total revenue growth**
Residential Trade	20%	**+14%**
Residential Building and Remodel[2]	14%	**+14%**
Residential Digital Commerce[3]	10%	**+38%**
HVAC	11%	**+22%**
Waterworks	18%	**+17%**
Commercial/Mechanical	14%	**+6%**
Other[4]	13%	**(2%)**
	100%	**+13.9%**

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 129 to 135.
2. Formerly Residential Showroom.
3. Formerly eBusiness.
4. Comprises Fire and Fabrication, Facilities Supply and Industrial.

Regional performance continued

Residential Trade

Contribution to US revenue

Key services and products

- Consultation, advice and project management
- Pro pick-up
- Plumbing supplies and water heaters
- Pipe, valves and fittings
- Bathroom fixtures

Key highlights this year

- **More consistent approach to national product pricing**
- **Successful roll-out of real-time order tracking and mobile alerts**
- **Launched enhanced buy online pick-up in store capabilities**

Residential Trade serves the residential RMI (repairs, maintenance and improvement) and new construction sectors with a large proportion of sales through the branch counters.

Sales are typically made to plumbing contractors across both RMI and new construction. RMI contractors usually operate with a small number of vehicles and associates, working on small projects and day-to-day residential repair work. In these instances, their work is awarded based on their availability and the price and severity of the plumbing problem. The business is characterized by high order volumes, though average order size for RMI customers tends to be smaller. 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.

We continue to diversify our product offering through multiple brands to attract and retain a larger base of customers and have ensured better national price alignment during the year. We also continue to work on our digital presence providing mobile and inventory management for our customers.

In line with the rest of the customer groups we have successfully rolled out detailed order tracking, allowing customers to review live updates on where their products are and when they will be delivered or be available for collection. Alongside other improvements in digital offerings in recent years, this allows our trade customers to be more productive with their time (see case study on pages 8 and 9).

Due to the COVID-19 pandemic our physical locations have operated throughout much of the year with enhanced cleaning protocols and protective equipment in order to protect our associates and customers. The one-hour Pro pick-up service continues to be available across all counter locations in the USA to customers using any of our order channels.

Own brand remains a key part of our product strategy and we have continued to make progress in this area over the year. These products offer higher gross margins than branded equivalents and provide additional customer choice.

Our focus in the year ahead will remain on progressing the omnichannel experience within the Residential Trade business by improving the connection between our in-store, online and mobile offerings. We are also partnering with plumbing customers at a project level in order to help define product requirements.

Ferguson has an estimated market share of 18 per cent in the residential trade sector with an addressable market worth approximately $25 billion.

> For more information on market size and position see page 23

> See pages 38 and 39 for relevant residential end market indicators and trends

Residential Building and Remodel

(formerly Residential Showroom)

Contribution to US revenue

Key services and products

- Consultation, advice and project management
- White glove appliance delivery and installation
- Kitchen and bathroom plumbing fixtures
- Appliances
- Decorative lighting and fans
- Cabinetry and cabinetry hardware in select markets

Key highlights this year

- **Expanded capabilities in our showrooms by leveraging our Build with Ferguson platform**
- **Expanded customer choice with additional product offerings**
- **Increased coverage for delivery and installation of appliances**

Residential Building and Remodel operates a national network of 247 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.

Customers include consumers, builders, designers and remodeling contractors. The builders, designers and remodelers utilize 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 professionals expect Ferguson to understand their business requirements and assist their clients 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.

Our residential builder customers continue to benefit from our expanding product range, robust supply chain and product availability. During the year, we expanded our exclusive partnerships for own brand products with some of the countries largest home builders.

During the year, we expanded capabilities in our showrooms by leveraging our Build with Ferguson platform. For more information, see Residential Digital Commerce (right). Our showroom business will continue to focus on leveraging technology to improve the customer offering, both to consumers and the trade. We also look to further develop the omnichannel platform to ensure frictionless interactions across physical stores, online and mobile apps.

Earlier in the year, we were continuing to schedule many virtual appointments where customers could discuss their project requirements and receive advice on different products, designs and specifications from the comfort of their own homes. However, mid-way through the year we saw activity levels increase significantly as consumers became more comfortable coming into the showroom network and more willing to allow trade professionals into their homes to undertake larger remodeling projects.

We have continued to enhance both our customer service and product offering through the year. We are expanding our white glove delivery service and are now able to perform installations of a broader range of products while also removing old appliance units. The number of products on offer to customers has also increased through the year and we intend to continue offering customers greater choice in the future.

Ferguson has an estimated market share of 12 per cent in the residential building and remodel sector with an addressable market worth approximately $27 billion.

> For more information on market size and position see page 23

> See pages 38 and 39 for relevant residential end market indicators and trends

Residential Digital Commerce

(formerly eBusiness)

Contribution to US revenue

10%

Key services and products

- Call center support and advice
- Appliances
- Door and cabinet hardware
- Bathroom, kitchen and lighting products

Key highlights this year

- **Expanded capabilities in our showrooms by leveraging our Build with Ferguson platform**
- **Rebranded "Build.com" to "Build with Ferguson"**
- **Expanded customer choice with additional product offerings**

Residential Digital Commerce leverages our US product categories and supply chain with the majority of revenue generated through Build with Ferguson (www.build.com).

Residential Digital Commerce 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 Residential Digital Commerce is conducted through the brand "Build with Ferguson", which is supported by a dedicated customer support center. The center is staffed with knowledgeable Ferguson associates who deliver expert advice across all product categories. This differentiation gives us a competitive advantage against the other large competitors in the space.

We continue to evolve our digital commerce model, investing in the Ferguson brand to drive a best-in-class omnichannel experience to support both professional trade customers, in particular the light decorative pro, and consumers. During the year we rebranded "Build.com" to "Build with Ferguson" to ensure a consistent approach to branding across the business.

Additionally, we have expanded capabilities within our showroom network by leveraging our Build with Ferguson platform. This allows a seamless omnichannel experience for the customer as they can place orders directly from the showroom. By leveraging the Build with Ferguson platform and our projects tool, a home improvement tool designed to gather inspiration, plan, organize and collaborate with others in real-time, we are better able to service the project-minded consumer.

Throughout the year we saw a sustained period of rapid growth as consumers focused their attention on home improvement projects. We continue to expand the breadth of products available, both with branded and own brand items, in order to give our customers greater levels of choice. During the year, we acquired Amerock, an own brand cabinet hardware business, which has helped us to offer greater levels of choice across both Residential Digital Commerce and our physical network in categories such as cabinet pulls, knobs and hinges.

While we are able to deliver to the vast majority of the US population in one day, we continue to prioritize investments to improve delivery times and further our appliance installation services.

Ferguson has an estimated 9 per cent market share of the Residential Digital Commerce sector with an addressable market worth approximately $24 billion.

> For more information on market size and position see page 23

> See pages 38 and 39 for relevant residential end market indicators and trends

Regional performance continued

HVAC

Contribution to US revenue

Key services and products

- Technical expertise and support
- System to system ordering
- Fans, ventilation and indoor air quality products
- Ductless variable refrigeration flow training and systems
- Heat pumps and furnaces
- Light commercial equipment and controls
- Air conditioners and air handlers
- Repair and maintenance parts

Key highlights this year

- **Expanded geographic footprint, both organically and through M&A**
- **Launched own brand HVAC equipment**
- **Significantly grew sales in, and expanded our range of, indoor air quality products**

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

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

Typical customers include specialty and multi-trade contractors focused on installing, repairing and maintaining HVAC units serving single and multi-family residential developments in addition to light commercial markets. We also sell to contractors working on large RMI projects in the commercial market with the majority of trade going through the branch network.

We have continued to expand the geographic reach of HVAC with the opening of a number of new locations and the acquisition of Old Dominion Supply, a wholesale distributor of HVAC parts and supplies operating in Maryland and Northern Virginia.

During the year we successfully launched Durastar, our own brand of HVAC equipment, in a select number of markets. We see significant potential for expansion with Durastar as we expand the range of equipment we are able to offer customers (see pages 6 and 7).

We have diversified our customer offering with a particular focus on the indoor air quality market which has seen significant growth this year. We would expect to see further gains here in the year ahead. Additionally, we have continued to broaden product ranges through the year with a particular focus on light commercial equipment, repair parts, installation supplies and ductless products.

We have further developed our digital offerings to support customers and assist them in growing their businesses. These offerings give the customer choice over how they place orders with Ferguson, along with many other capabilities such as reviewing product availability, order tracking and specific product pricing.

Ferguson has an estimated market share of approximately 4 per cent of the HVAC sector with an addressable market worth approximately $50 billion.

> For more information on market size and position see page 23

> See pages 38 and 39 for relevant residential and commercial end market indicators and trends

Waterworks

Contribution to US revenue

Key services and products

- Digitally enhanced estimation
- Pipe, valves and fittings
- Irrigation and drainage
- Water meters and automation
- Advanced metering infrastructure
- Geosynthetics and stormwater solutions

Key highlights this year

- **Growth in geosynthetics offerings with Atlantic Construction Fabrics acquisition**
- **Enhanced the customer offering from our central estimating team**

Waterworks distributes pipe, valves and fittings ("PVF"), hydrants, meter systems, geosynthetics and related water management products.

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/wastewater 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.

We have continued to expand our plant division during the year, allowing customers to connect with our in-house experts to find the best water plant solutions. This includes creation and modification of computer-aided design ("CAD") drawings through to customized project management systems with better technology enabling us to do this work faster and more accurately.

Working closely with customers and leveraging technology helps us to deliver consistent value.

We continue to focus on the stormwater segment and enhancing our offerings in adjacent markets such as geosynthetics and erosion control products. We have integrated Atlantic Construction Fabrics ("ACF"), an east coast-based acquisition that complements our traditional Waterworks business and expands our product offering, allowing us to offer broader capabilities in geotextiles and erosion control solutions.

We have continued to develop our central estimating team, streamlining our processes and improving productivity levels. We have bolstered service offerings with 3D design capabilities and the team is working closely with other customer groups to leverage their specialist knowledge and improve bid and tender work across the business.

We will look to further develop our project management and central estimating team skills in the year ahead, leveraging both knowledge and technology across the business where possible.

Ferguson has an estimated market share of 26 per cent in the Waterworks sector with an addressable market worth approximately $15 billion.

> For more information on market size and position see page 23

> See pages 38 and 39 for relevant civil/infrastructure end market indicators and trends

Commercial/ Mechanical

(formerly Commercial)

Contribution to US revenue

14%

Key services and products

- Jobsite delivery and logistics
- Quotation services (partnering with customers on bids/tenders)
- Project management
- Plumbing parts and supplies
- Pipe, valves and fittings
- Hangers, struts and fasteners

Key highlights this year

- **Expanded design, modeling and estimating capabilities**
- **Enhanced project management capabilities**
- **Navigated supply chain disruption due to COVID-19 with strength**

Commercial / Mechanical provides commercial plumbing and mechanical contractors with products and services including bidding and tendering support and timeline planning to assist with their construction projects.

Projects typically 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 often serve plumbers and mechanical contractors focused on new commercial construction projects or repair and remodel 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 supported customers through a period of acute supply chain disruption, ensuring that customers were able to continue their projects with minimal disruption. Our skilled associates worked hard to consistently source the appropriate products, communicate clearly with our customers and offer alternatives where necessary.

We have also expanded our teams' technical capabilities regarding virtual design, modeling and providing estimates. These skills allow greater collaboration with our customers and better allow us to influence design and product specification. We also continue to partner with a number of construction technology providers to develop more advanced digital solutions for commercial and mechanical contractors.

Additionally, we have continued to improve customer experience with stronger project management capabilities and advisory services.

In the year ahead we will continue to invest in technologies that improve the efficiency of our customers' businesses and make it easier to do business with Ferguson. We will also continue to strengthen our advisory capabilities and customer service proposition to further reinforce our position as a value added distributor.

Ferguson has an estimated market share of 23 per cent in the Commercial / Mechanical sector with an addressable market worth approximately $13 billion.

> For more information on market size and position see page 23

> See pages 38 and 39 for relevant commercial end market indicators and trends

Regional performance continued

Fire and Fabrication

Contribution to US revenue

3%

Key services and products

- Design services
- Fire sprinkler systems
- Pipe and tubing
- Pipe fittings
- Pipe fabrication
- Pipe hangers, struts and fasteners

Key highlights this year

- **Continually expanded the geographic footprint of the branch network**
- **Successfully integrated MFP Design acquisition**
- **Successfully built upon our existing design services offering**

Fire and Fabrication supports our customers, principally contractors, working on fire protection systems for new installations, renovations and servicing of existing fire systems across multi-family residential and commercial end markets.

Within our Fire and Fabrication customer group we fabricate and supply fire protection products, fire protection systems and fabrication services to fire contractors. These contractors work on new installations, renovations and servicing of fire systems principally in commercial buildings but also in some residential facilities. 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 customize the product offering based on our customers' needs. We also supply materials to large government, manufacturing and sports facilities.

We expanded the geographic footprint of the business during the year allowing us to reach a greater number of customers, including an increase in our fabrication capacity in the Northeast.

Having acquired MFP Design in spring 2020, we completed the integration of the business in the current year enabling us to offer fire sprinkler design services. As our contractor customers are required to provide an appropriate fire sprinkler design in order to win tendered work, this capability has allowed Ferguson to collaborate with customers on both design and product fulfillment.

We continued to focus on the provision of fabrication services with new facilities becoming operational and more to follow in the year ahead. Additionally, we leveraged our Fire and Fabrication expertise and fabrication services with our commercial customers, which we will continue to do in the future. We have also continued the roll-out of our own brand products which has given customers more choice.

Ferguson has an estimated 23 per cent market share of the Fire and Fabrication sector with an addressable market worth approximately $3 billion.

> For more information on market size and position see page 23

> See pages 38 and 39 for relevant commercial end market indicators and trends

Facilities Supply

Contribution to US revenue

4%

Key services and products

- Appliance and HVAC installation (in select markets)
- Plumbing, HVAC and lighting products
- Appliances
- Door and cabinet hardware
- Renovation services
- Janitorial supplies

Key highlights this year

- **Continued to diversify our exposure across new sectors**
- **Integrated our service offering across our branch network**
- **Broadened product offerings**

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

Facilities Supply operates across several repair, maintenance and improvement markets. The majority of deliveries are made from Ferguson's distribution center network directly to customer facilities. Typical customers include multi-family properties, hospitality, education, healthcare, commercial properties or building service contractors.

We continued to diversify Facilities Supply into new sectors including senior living while focusing on improving the customer experience with additional training for our associates on all aspects of service from product and e-commerce knowledge to pricing and the agreement of contracts.

We have integrated our Facilities Supply offering across the whole of our physical branch network during the year in order to access an even greater number of potential customers. While we expect the majority of products to continue being directly shipped from our distribution centers, this integration allows us to leverage the existing geographic footprint of the business with both new and existing customers.

We have reinforced our product strategy by introducing new and relevant products for customers through the year, particularly in regards to Personal Protective Equipment ("PPE") and own brand.

We saw further growth in 2020/21 in the multi-family property sector, adding a number of new key national accounts and growing our wallet share with existing customers. The renovation part of Facilities Supply, which includes services such as appliance installation, continued to expand organically in the year.

E-commerce remains a key priority and opportunity within Facilities Supply where we continue to increase utilization of Ferguson.com and system-to-system integrations (our system to our customer system). This increases the speed of customer interactions and frees up associate time to focus on sales and customer service.

Ferguson has an estimated 1 per cent market share of the Facilities Supply market with an addressable market worth approximately $90 billion.

> For more information on market size and position see page 23

> See pages 38 and 39 for relevant commercial end market indicators and trends

Industrial

Contribution to US revenue

6%

Key services and products

- Valve and automation services
- Supply chain services
- HDPE products, fabrication, and equipment rental
- Pipe, fittings and flanges
- General industrial MRO (maintenance, repair and operations) products

Key highlights this year

- **Growth in our valve automation offering**
- **Expanded own brand product offerings**
- **Expanded Industrial MRO service in a number of geographies**

The Industrial business operates across a focused number of niche industries including energy, pulp and paper, chemical, mining, pharmaceutical and food and beverage.

Our Industrial customer group supplies pipe, valves and fittings ("PVF") as well as specialized 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 several niche sectors including energy, pulp and paper, chemical, mining, pharmaceutical 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 specialized services to ensure that facilities continue to operate safely and efficiently. Diversification across industries gives us a broader base of business leading to more stable profitability.

We have continued to grow the business ahead of the wider market during the year. Some industries such as chemicals and pulp and paper have traded reasonably well while COVID-19 and lower oil prices impacted adversely on aerospace, automotive, mining and oil and gas customers in the early part of the financial year.

During the year, we organically expanded our valve automation capabilities and we intend to grow further in the year ahead. Additionally, we fully integrated two acquisitions made in 2019/20, Process Instruments & Controls and Rencor Controls, which helped build out our valve automation service offering on the west coast and in the Northeast respectively.

We have further developed our own brand product offering principally utilizing our FNW brand. This strategy offers customers a greater choice of products while also enhancing Ferguson's margins and our ability to influence specification.

We continued to expand our Industrial MRO service in a number of geographies and through our digital platforms in order to improve our service offering and grow wallet share with customers. We expect to see further expansion within MRO in the year ahead.

Ferguson has an estimated market share of 5 per cent of the Industrial sector with an addressable market worth approximately $25 billion.

> For more information on market size and position see page 23

> See pages 38 and 39 for relevant industrial end market indicators and trends

Regional performance continued

Canada

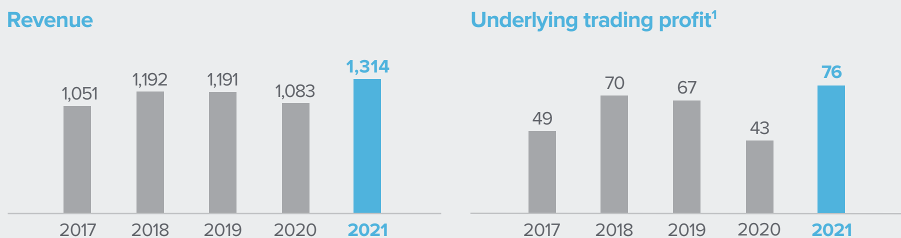
A wholesale distributor of plumbing, heating, ventilation and air conditioning, refrigeration, waterworks, fire protection, pipe, valves and fittings and industrial products.

Key highlights this year

- Total revenue growth of 21.3 per cent
- Buoyant residential markets and signs of improvement in industrial markets
- Underlying trading profit of $76 million, $33 million ahead of last year

Five-year performance

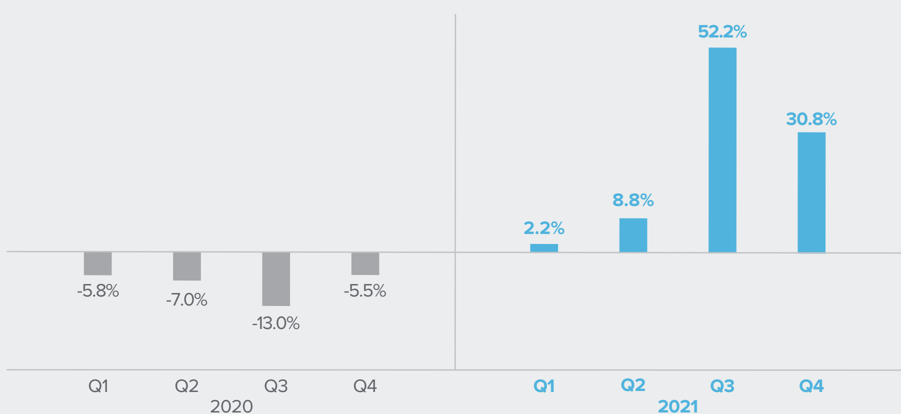
$m



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 note 2 on pages 129 to 132.

Quarterly total revenue growth

%



Wolseley Canada

Business profile

Wolseley Canada predominantly serves trade customers across the residential, commercial and industrial sectors in both RMI and new construction. The business operates 209 branches with one distribution center. At the year-end Canada had approximately 3,000 associates.

Customer groups 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. We are one of the largest businesses serving the plumbing and heating customer group in Canada.

Market trends

Canadian GDP continued to contract in Q3 and Q4 of calendar 2020 before returning to very modest growth in Q1 of 2021. In Q2 2021, GDP growth strengthened to nearly 14 per cent, albeit against a weak comparator. Consumer confidence averaged 47.8 during the financial year and has gradually risen through the exit rate of 55.7 in July. A score above 50 indicates an expectation of growth, while a score below 50 indicates an expectation of contraction.

Operating performance

In Canada, revenue grew 21.3 per cent with inflation of approximately 4 per cent. Canadian residential markets remained buoyant, particularly in the East and there were some signs of improvement in industrial end markets.

Gross margins were ahead of last year and costs were well controlled generating an underlying trading profit of $76 million, an increase of $33 million.

The local management team continue to work closely with the US team to leverage knowledge and expertise in order to generate synergies that enhance operations and customer experience across Canada.

Sustainability

Our sustainability program

Strong performance on environmental, social and governance ("ESG") matters is core to how Ferguson operates. We recognize our efforts are important to our customers, suppliers and shareholders, and are committed to making a difference through our work. Ferguson's strategy is focused on the areas where we can have the greatest positive impact given the industries and communities that we serve.

Governance

- We continue to utilize the guidance and methods provided by the Sustainability Accounting Standards Board ("SASB"), considering all issues relevant to Multiline and Specialty Retailers & Distributors (www.sasb.org). Our 2021 SASB disclosure is available on our website at **fergusonplc.com**.
- Oversight for the sustainability program rests with Ferguson's Board, which structures its agenda to always include ESG updates.
- We engage with subject matter experts throughout the business to ensure sustainability considerations are embedded in our business strategy, consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD").

Introduction by Kevin Murphy, Group Chief Executive

ESG touches everything we do at Ferguson, from our associates, customers and suppliers to our environment and the communities we serve. Our goal is for Ferguson to be a socially and environmentally responsible organization, with strong governance at the core of how we operate and we have introduced a new ESG framework this year, see page 21.

Ferguson continues to be successful because we have the best associates who deliver for our customers even in the most challenging of times. That is why we are so focused on health and safety and remain committed to being First in Safety. Ferguson continues to provide training and development opportunities for our associates and promote a culture of inclusion and diversity, see pages 28 and 29, and volunteerism. It is through these efforts, including investing our time and talents in our communities, that we can further develop these local ties.

We remain committed to running the most efficient operations possible and are taking steps to bring more renewable energy onto our portfolio while piloting different technologies in our fleet. We face many of the same challenges that other industries face regarding decarbonization and recognize that by partnering with our suppliers, we can have a larger collective impact.

In the environmental space, the biggest impact that we can have is through the products that we offer, such as leak detection technology, stormwater infiltration solutions or more energy efficient HVAC units. Our associates receive specialized training to ensure that they can pair our customers with innovative technology to help conserve water and energy and continue to find new ways to help businesses and households throughout North America operate more sustainably.

As our previous goals come to a close from 2015/16, Ferguson recognizes the need for more ambitious action on climate in order to limit global warming. While we are pleased with the continued improvement in health and safety performance and the reduction in carbon emissions, we are disappointed not to have met our waste and recycling targets in the period. We are fiercely committed to doing our part, and helping our customers meet their goals through sustainable products and services and we have set new and challenging targets for lowering our carbon footprint over the next five years.

We drive a culture of integrity throughout our business, and that is displayed in our commitment to product quality and supply chain management, information security and customer data privacy. I am proud of what we continue to achieve by working together. As we look forward, we continue to focus on driving strong ESG performance, while growing our business in North American markets.

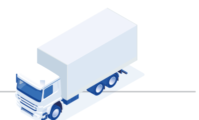
Kevin Murphy
Group Chief Executive Officer
September 28, 2021

Key focus areas

In our approach to ESG performance, we concentrate on the areas where we can make the largest positive impact and have strategically grouped these issues into the following three key focus areas. This approach was developed following feedback from our associates, customers and suppliers and in line with the latest best practice, utilizing the guidance and methods provided by SASB.

1 Best associates

2 Efficient operations



3 Sustainable products and solutions

Sustainability continued

1 Best associates

As our associates are our most important asset, this focus area includes health and safety, inclusion and diversity, compensation and benefits, development and retention and community investment. For more information on our associates, see pages 28 and 29.

Health and safety

Safety is a core value driver in everything we do (see page 20). As we continue operating in a COVID-19 environment, our focus has remained on safeguarding the health and safety of our associates, customers, suppliers and the communities around us. Health and safety considerations are at the forefront of our decision-making. It is always important that our associates are well-informed and resourced with the appropriate equipment and tools to protect themselves and those around them while performing their jobs safely.

We have continued to invest in all areas of health and safety to address the causes of injuries, and engage with our associates, empowering them to do what is right. In 2020/21 the Group's total recordable injury rate and lost time rate improved by 10 per cent and 12 per cent respectively compared to last year (see figures 1 and 2). This improvement is due to senior leadership commitment and engagement from all management levels, a strong engagement program for all associates, allocation of safety resources and deployment of safety professionals in the field to focus on areas such as material handling and training. The past year, we continue to drive change and strengthen our culture of "best associates" by focusing on enablers such as:

- **Continued health and safety culture training**: All associates receive annual training on Expected Safe Behaviors to ensure they understand and can demonstrate these on a daily basis. New and revamped training programs were launched this year including proper use of equipment, new hire inductions (first 90 days), and driver safety.
- **Health and safety professionals**: Support the effective delivery of the health and safety management process while developing and executing cultural change and technical learning programs. Our health and safety professionals build morale and foster an environment of inclusivity and diversity.
- **Associate behavior**: We continue to clearly communicate the agreed standard of expected safe behaviors, global safety rules and enforcement processes.

Health and safety performance in 2020/21

Figure 1: **Group total recordable injury rate**

Group 2020/21 Total recordable injury rate: 1.90 – 10% improvement (2019/20: 2.12)

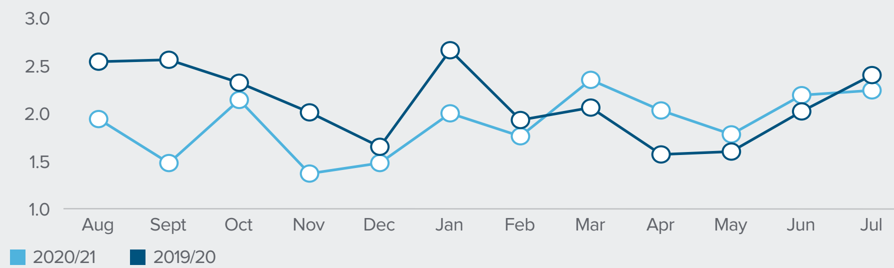
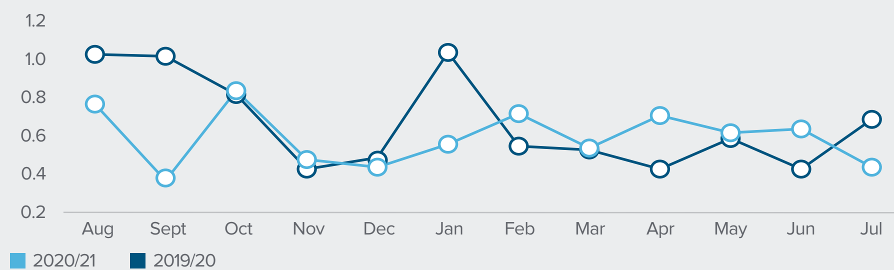


Figure 2: **Group lost time rate**

Group 2020/21 Lost time rate: 0.58 – 12% improvement (2019/20: 0.66)



Total recordable injury rate ("TRIR"): Total number of injuries per 200,000 hours (this represents 100 associates working 40 hours per week for 50 weeks) 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. For the first six months of 2020/21, TRIR in the UK business improved by 9 per cent.

Lost time rate: An injury case that involves at least one day absent following the day of an injury authorized by a registered medical professional. For the first six months of 2020/21, the lost time rate in the UK business improved by 8 per cent.

Prior year data has been restated to reflect the sale of our UK business.

- **Organizational structure**: We completed the implementation of our field safety organization which started in 2020. This new field organization allows for more direct consultancy with the local branch leadership on health, safety, and environmental issues.
- **Communications**: We sustained our "First in Safety" campaign to help all associates understand their contribution to health and safety performance.
- **Safety observations:** We conducted approximately 20,000 safety observations to ensure guidance was being followed and improve adherence to best practice.

Focusing our social investment

Ferguson's culture is deeply rooted in our commitment to support our associates, our customers and the community. We build long-lasting, purposeful partnerships, providing more than just a product or a donation. Ferguson Cares is part of the Company's overall Sustainability program and focuses on social initiatives and projects. Ferguson Cares is committed to doing good in the communities we serve with a focus on hunger, housing, clean water and sanitation and the skilled trades. Ferguson is proud of our national partnerships:

Homes for Our Troops: Homes for Our Troops ("HFOT") builds and donates specially adapted custom homes nationwide for severely injured post-9/11 veterans. We have partnered with HFOT since 2016 and recently extended our commitment to serve as the official plumbing supplier of the organization through 2022, providing nearly $18,000 in finished products for each home and $100,000 annually.

MikeroweWORKS Foundation: The skilled trades gap remains a challenge for many of our customers and we are committed to helping more plumbers, HVAC technicians and various other skilled trades professionals enter the workforce. In 2020/21, Ferguson continued its support of the MikeroweWORKS Foundation and helped award Work Ethic Scholarships to provide training for skilled jobs that are in demand. Since it started, MikeroweWORKS has granted or helped facilitate the granting of more

than $5 million in work ethic scholarships and other like-minded programs that also work to close the skills gap.

ACE Mentor: Ferguson's newest national partner, ACE Mentor, is a free, project-based afterschool program designed to attract high school students to the architecture, construction and engineering industries, including skilled trades. ACE is comprised of more than 70 local chapters in 37 states.

- 10,000 students participate annually from approximately 1,100 high schools.
- The majority of ACE students (69 per cent) are minority, and one-third are female.
- More than 4,100 volunteer industry professionals mentor student teams through a 35-hour-long simulation of designing and constructing a project.
- $2.5 million in scholarships are awarded annually to high school seniors and alumni studying to pursue industry-related careers.
- More than 70 per cent of ACE seniors annually enter a skilled trades program or college with an industry-related major.

DigDeep: Over two million Americans don't have access to safe, reliable water; a bathtub or shower; or a working flush toilet. Millions more don't have effective wastewater treatment. DigDeep is the only organization in the United States working to change that. We have signed on as the organization's first corporate partner and together, we help our neighbors in need through Community Plumbing Challenges ("CPCs"). CPCs bring together a team of volunteer tradespeople and organizations from all over, like International Water, Sanitation and Hygiene ("IWSH"), to deliver running water and safe wastewater disposal for families situated in a particular area. During the CPCs, residents are also trained on how to maintain their new plumbing systems. Along with DigDeep, we have also partnered with IWSH, the charitable arm of the International Association of Plumbing and Mechanical Officials ("IAPMO") – a nearly 100-year-old trade association in the plumbing industry, to support awareness of World Toilet Day and World Plumbing Day.

Children's Hospital of the King's Daughters' ("CHKD") Mental Health Hospital: The vitality of the Hampton Roads Community is important to Ferguson. In 2020/21, the Board approved a multi-year commitment totaling $2.5 million to support CHKD's efforts to build and operate a mental health hospital and outpatient center for children. The impacts of COVID-19 have made this effort more important than ever, and Ferguson is a proud supporter.

Inclusion and diversity: At Ferguson, we recognize the current health and economic crises are not affecting everyone equally. Ferguson Cares and our Business Resource Groups (see pages 28 and 29) partnered to award $250,000 to small, grassroots non-profit organizations addressing social equity in our 1,400 markets, ensuring that deep community inequities do not become permanent. Ferguson aims to provide resources and support to fund collaborative efforts that improve economic and social wellbeing, along with the equitable distribution of resources in underserved communities. Ferguson also plans to address social equity at the national level, recently adding the National Coalition of 100 Black Women as a new partner. The Coalition advocates on behalf of black women and girls to promote leadership development and gender equity in the areas of health, education and economic empowerment. See pages 28 and 29 for more information.

Fighting hunger: In light of greater community needs resulting from COVID-19, Ferguson donated more than $130,000 to Feeding America in 2020/21. For more than 40 years, Feeding America has responded to the needs of individuals struggling with food insecurity in the US. Every dollar donated can provide 10 meals and this donation equates to 1.3 million meals for those struggling with hunger during the pandemic.

> For more information on our associates and inclusion and diversity, see pages 28 and 29

2 Efficient operations

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

Ferguson strives to increase accuracy in our environmental data wherever possible. In 2020/21 our estimates of historical data were replaced with actual data where available. We improved our outsourced transportation emissions calculations using guidance and emissions factors from the EPA. Additional detail on our methodology is available in the "Basis of Reporting" document, which states our reporting boundary, on the Ferguson plc website **www.fergusonplc.com**.

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

Reduce carbon emissions intensity
-10%

Reduce total waste intensity
-15%

Achieve recycling rate of
40%

Performance for 2020/21, the end of the target period, is as follows:

Carbon
-25.1%

Total waste
-9.1%

Total waste recycled
23.4%*

Conclusion of our 2015/16 targets

For 2020/21 we have significantly reduced our carbon intensity versus our 2015/16 baseline. While our recycling rates and waste intensity improved, we did not meet our reduction goal set in 2015/16. Factors that contributed to this performance include the divestment of our European operations, where recycling efforts and circular economy planning is more mature, challenges in the US recycling industry and accepting customer waste. We have more work to do and we remain committed to our efforts to reduce carbon and waste while increasing recycling across our Group. See below for further details.

Carbon emissions

Our carbon emissions per $ million revenue, (shown in figure 1 on page 50) improved by 25.1 per cent compared to the 2015/16 baseline (18.2 tCO_2e per $m revenue in 2020/21 compared to 24.3 tCO_2e per $m revenue in 2015/16). This improvement from 2015/16 was as a result of carbon reduction initiatives over the target period, as well as an increase in revenue. We also continued to benefit from a reduction in relative Scope 2 emissions due to a cleaner conventional electricity grid mix in the countries where we operate.

Our total Scope 1 emissions increased in 2020/21, as we saw increased fuel usage from goods transport in the second half of the year. We continued to drive new energy efficiency projects in the US business, and the solar array for our Perris, California Distribution Center reached substantial completion. Additionally, in 2020/21, we contracted to purchase a solar array for our Chandler, Arizona Distribution Center, which demonstrates our commitment to integrating sustainability considerations into our new construction. We are examining additional ways to bring more renewable energy onto our portfolio.

We continue to refine our methodology for estimating Scope 3 carbon emissions and based on that refinement we have restated our 2019/20 emissions. We began using updated emissions factors from the US EPA, which allowed us to remove certain fuel

Sustainability continued

economy assumptions from our calculations. Our reported Scope 3 emissions are generated largely by outsourced transportation partners. Our new Transportation Management System has streamlined and consolidated the data collection process. Our US outsourced transportation partners are committed to reducing their carbon emissions and improving their fuel efficiency. While essential business travel resumed, we continued to see a lower level of associate travel, due to COVID-19.

Waste

During 2020/21, total waste has decreased 9.1 per cent relative to revenue versus our base line in 2015/16 (3.10 US tons per $m revenue in 2020/21 compared to 3.41 US tons per $m revenue in 2015/16) due to our waste reduction initiatives. Total waste decreased 6.9 per cent in 2020/21, which we attribute to our landfill diversion programs. The total waste recycled during the year was 23.4* per cent.

As part of our waste reduction initiatives, Ferguson partnered with Good360, a non-profit organization that helps companies distribute highly needed product donations to qualified 501(c)(3) non-profits. This year we donated over $26 million in products, including PPE, hand sanitizer, baths, faucets and sinks, resulting in healthier communities. By providing these non-profit partners with discontinued and excess inventory products, we were able to achieve additional landfill avoidance.

Our distribution centers continue to demonstrate high recycling rates, recycling pallets, corrugated cardboard, shrink wrap and plastic banding. We added three more PackSize machines to our DC network in 2020/21. These printers help us reduce overall package size and reduce the amount of waste that our customers need to recycle downstream. Additionally, our distribution centers expanded a foam injection system for particularly fragile items, in an effort to reduce overbox packaging and damage rates.

We retained ERM CVS, who provide sustainability assurance services, to conduct a third-party assurance of certain environmental metrics in our 2020/21 Annual Report. Specifically, they assessed whether these are fairly presented in accordance with the reporting criteria, in this case, Ferguson's "Basis for Reporting" where you can also find definition for Scope 1, 2 and 3 carbon emissions. For more information, please see the "External Assurance Statement" which details the scope, activities and conclusions of their engagement. Both of these documents are available on the Ferguson plc website **www.fergusonplc.com**.

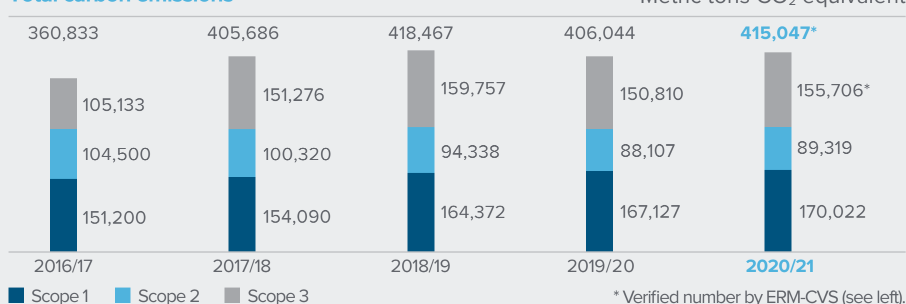
* Denotes number verified by EMR-CVS (see above).

Figure 1: **Carbon emissions**

Metric tons of CO_2 equivalent per million US dollars of revenue

Carbon emissions	Baseline 2015/16	2016/17	2017/18	2018/19	2019/20	**2020/21**	**Increase/ (reduction) from 2019/20**	Total emissions reduction since 2015/16
Scope 1 and 2 emissions	17.6	16.0	14.2	13.2	12.8	**11.4***	**(10.9%)**	–
Scope 3 emissions	6.7	6.5	8.5	8.2	7.5	**6.8***	**(9.3%)**	–
Total emissions	24.3	22.5	22.7	21.4	20.3	**18.2***	**(10.3%)**	(25.1%)

Total carbon emissions Metric tons CO_2 equivalent



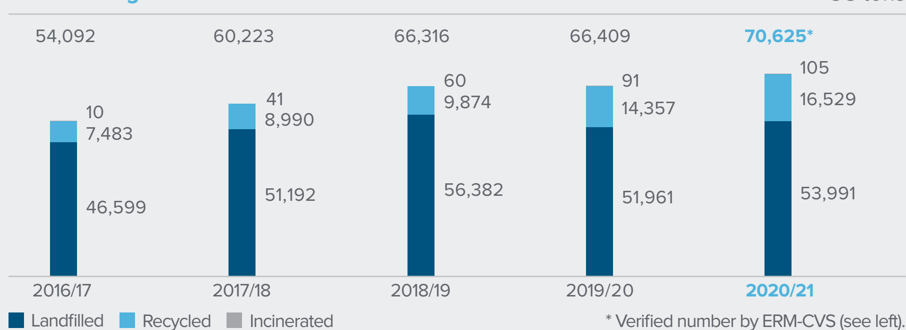
* Verified number by ERM-CVS (see left).

Figure 2: **Waste generation**

Relative waste – US tons per $ million revenue

Waste generation	Baseline 2015/16	2016/17	2017/18	2018/19	2019/20	**2020/21**	**Increase/ (reduction) from 2019/20**	Relative waste reduction since 2015/16
Landfilled and incinerated	2.94	2.91	2.87	2.88	2.61	**2.37**	**(9.1%)**	–
Recycled	0.47	0.47	0.50	0.51	0.72	**0.73**	**1.4%**	–
Total waste	3.41	3.38	3.37	3.39	3.33	**3.10***	**(6.9%)**	(9.1%)

Total waste generation US tons



* Verified number by ERM-CVS (see left).

Our approach to measuring carbon was developed in accordance with our basis of reporting which is based on the Greenhouse Gas Protocol ("GHG Protocol"). In line with that guidance, UK data has been removed from the above figures to reflect the sale of our UK business. For the first six months of 2020/21, the UK business generated 11,764 tCO_2e, 3,663 US tons of waste, with a relative emissions intensity ratio of 10.3 tCO_2e/mUSD. In 2019/20, the UK business generated 24,970 tCO_2e and 8,865 US tons of waste. Emissions are calculated using the carbon factors from the Department for Environment, Food & Rural Affairs in the UK, the International Energy Agency and the Environmental Protection Agency for USA and CAN, the Intergovernmental Panel on Climate Change (IPCC) and the GHG Protocol and are reported as tons of CO_2 equivalent (abbreviated as tCO_2e). 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.

Streamlined Energy and Carbon Reporting (SECR)

Globally, Ferguson utilized 948,773,350 kWh for heating, electricity and transportation. Our UK business consumed 47,709,109 kWh for heating, electricity and transportation.

Overall, during the first six months of 2020/21, the discontinued UK business' Scope 1 and 2 carbon emissions equated to 4.8 and 0 per cent of the Group's carbon emissions respectively (figure 1) and 5.0 per cent of the Group's total full year energy consumption. The difference in these percentages is due to the renewable

energy purchased in the UK business. The UK leadership team continued to address the results of the Energy Savings Opportunity Scheme (ESOS, a mandatory energy assessment scheme) and implemented multiple projects to save energy, including upgrades to lighting and heating equipment.

Climate-related risks and opportunities

In January 2021, Ferguson received a score of A- from CDP (formerly known as the Carbon Disclosure Project), representing "leadership" in disclosure, reflecting the commitment to meet our sustainability goals and to continually improve reporting transparency. Launched in 2002, CDP is an international non-profit organization that rates the sustainability performance of the world's largest companies.

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 (TCFD disclosure) online at **www.fergusonplc.com**.

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 higher risk suppliers (see the UK Modern Slavery Act section) 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 labor standards, standards for meeting environmental regulations and providing safe working conditions, measures for anti-bribery and corruption and supply chain transparency. During 2020/21 we continued to strengthen our quality control procedures for sourcing products. Quality teams in our overseas 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.

In 2020/21, our Product Assurance team refreshed our Group Product Assurance Policy and implemented a new Product Risk Management program which falls within our Enterprise Risk Management Program.

Sustainability and product design

We continue to develop products in our own brand offerings that offer more sustainable benefits to meet our customers' requirements. These include products that meet WaterSense and EnergyStar industry standards.
One excellent example of a high-efficiency own brand product is the Durastar Mini-Split Heat Pump. This unit is Air-conditioning, Heating & Refrigeration Institute ("AHRI") certified with a Seasonal Energy Efficiency Ration ("SEER") of 22.8, qualifying for an Energy Star rating.

We continue to offer specialized training for our associates regarding sustainable products, with manufacturer representatives teaching our associates about specialized and innovative technologies that add additional value for our customers.

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 labor in the global supply chain. While collectively Ferguson buys products from over 34,000 suppliers, over 95 per cent of the products sold in the United States are sourced from US-based suppliers 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 2020/21, key milestones included:

- Continuing to commit suppliers to Ferguson's anti-slavery standards. In total, over 1,100 major suppliers have contractually pledged to abstain from use of child, forced, or involuntary labor in their operations. Approximately 24 per cent of these suppliers are in countries with a prevalence of modern slavery according to the Global Slavery Index.
- Harmonization of anti-slavery measures across our businesses. We have continued the process of incorporating ethical and anti-slavery elements in our supplier audit methodologies and we have centralized all own brand supplier audit activities. Based on risk, product suppliers are audited prior to any purchases and we periodically audit existing suppliers. We continued to develop the audit team through training and practical experience.
- Continuing to apply our third-party risk assessment tool to enhance the effectiveness of our anti-slavery engagement with our higher risk suppliers. The risk assessment tool flags potential high-risk suppliers for review 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 2020/21 are set out in our annual statement in accordance with section 54 of the Modern Slavery Act, available at **www.fergusonplc.com**.

Our new five-year objectives

As our previous goals come to a close, Ferguson recognizes the need for more ambitious actions on carbon reduction in order to limit global warming. We are committed to doing our part, and helping our customers meet their goals through promoting sustainable products and services.

Over the past year, we have partnered with an experienced environmental consultant on strategies for decarbonizing our business. Through this engagement, we completed a Scope 3 emissions screening and learned more about our overall emissions profile, including categories like "Use of Sold Products" and "Purchased Goods and Services". Specifically, we learned that Scope 3 emissions are more significant than our own Scope 1 + 2 emissions. We also learned that most Scope 3 emissions in the "Use of Sold Products" category are attributed to the water heater, HVAC and appliance categories. These preliminary findings have influenced our strategy moving forward.

We have laid out our roadmap for the near term, looking longer-term to a science-based target as medium-duty fleet technology matures. The business commits to the following objectives:

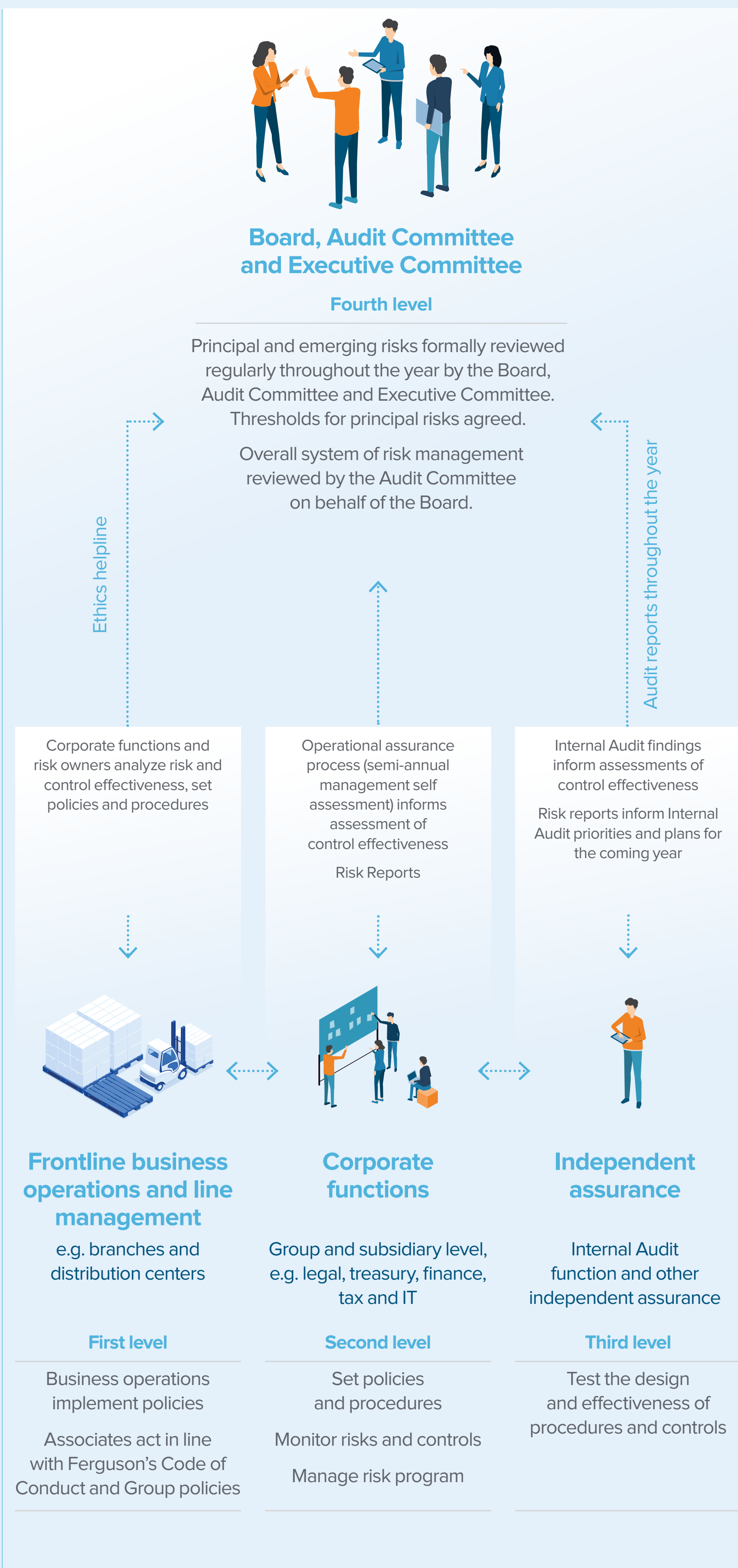
- To reduce our Scope 1 and 2 emissions by 35 per cent per mUSD of revenue by 2026 (versus a 2019/20 baseline).
- To manage our Scope 3 emissions through supplier engagement, acknowledging that the outcome is not within our control.
- To help our customers meet their own carbon reduction goals through sustainable products.

The impact of climate change continues to put pressure on water resources in North America and Ferguson is committed to utilizing its products, resources, expertise and relationships to be part of the solution. Waterworks supports the water infrastructure upgrades in municipal utility districts and uses ultrasonic leak detection technology to help municipalities protect their water supply. We also offer geotextile and stormwater solutions that improve water quality for communities across the country. We augment our industry and customers' sustainable product needs and support their conservation efforts. Water is core to our business and who we are as a company – it's how we make a meaningful difference in the communities we serve.

Principal risks and their management

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 frontline operations, via corporate functions and independent assurance.



Risk analysis during the year

2020/21 risk and control assessments

Throughout the year, Ferguson regularly reviews its principal and emerging risks.

In January and July 2021, the Board provided its perspective on risks relating to the Group's strategy for 2021 and beyond. The Board's assessment on principal and emerging risks was informed by assessment of risk for business groups and functions throughout 2020/21 to produce an updated 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 finalized with the Executive Committee in January and June 2021. The principal and emerging risks were then reported to and reviewed by the Board in July 2021. Principal risks include those that would materially threaten the Group's business model, its future performance, solvency or liquidity and reputation.

Throughout the year, members of the Board, Audit Committee and Executive Committee received updates as noted below on the Group's principal risks. In addition these updates included analysis of how the COVID-19 pandemic amplified or accelerated the threat posed by certain of these risks and the steps taken to mitigate any potential impacts.

Risk	Updates provided
A New competitors and technology	Formal update provided to the Board in January 2021. Related risks considered by the Board in January and July 2021 and by the Executive team.
B Market conditions C Pressure on margins	Monthly performance reviews with CEO and CFO. CEO update to the Board at each Board meeting.
D Information technology	Reports on the status of the Group's information technology strategy and operational risks were provided regularly 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	The status of the Group's ethics and compliance activities was reported to the Board and Audit Committee throughout the year.
G Talent management and retention	The Board, supported by the Nominations and Audit Committees, has received detailed updates throughout the year.

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 2024 is appropriate as this aligns to the Group's planning horizon. Furthermore, the Group's principal risks are ongoing in nature and could materialize 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 17 to 21. Strategic plans have been prepared by customer group leadership 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 Committee.

The Board and Executive Committee have regular reporting and review processes in place in order to closely monitor the ongoing operational and financial performance of the Group. During the year 2020/21 these processes included the ongoing review of the impact of the COVID-19 pandemic on the Group and its stakeholders.

Consideration has also been given to the strength of the Group's balance sheet and its credit facilities. During the year ended July 2021 the following updates occurred:

- Extended existing $500 million bilateral bank facility to a maturity date of April 2022. This facility was entered into in April 2020, around the onset of the COVID-19 pandemic in the Group's key operating markets, in order to provide additional committed liquidity. The facility has not been drawn since it was entered into.
- Utilized and completed the first one-year extension in the $1,100 million revolving credit facility, taking the maturity to March 2026.
- Extended the existing $600 million securitization facility to May 2024 from its original maturity date of December 2021.

As detailed in the Financial review on pages 34 to 37, the Group currently has $4,728 million of committed facilities, of which $2,200 million were undrawn at July 31, 2021. In addition to this, the Group had cash and cash equivalents less bank overdrafts of $1,152 million as at July 31, 2021. Fuller details around the Group's financing facilities are contained within note 22 of the notes to the consolidated financial statements. During the year ended July 31, 2021 the Ferguson plc long-term credit ratings remained unchanged at BBB+ and Baa2 with Standard & Poor's and Moody's respectively.

Principal risks and their management continued

Assessment of viability

While 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. The scenarios considered included the potential impacts which may result from the ongoing COVID-19 pandemic, particularly a fall in revenue driven by (i) project cancelation or pull forward of demand in the Group's end markets and/or (ii) reduced availability of product resulting from supply chain disruption and margin pressure driven by potential future deflation.

Scenario modeled	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. The revenue reductions were deemed large enough to cover any disruption caused by disruption to IT systems and the associated impact these would have on revenue. A reduction of 20% was modeled for year one with a further reduction of 10% in year two. These reductions resulted in the Group ending the 3 year period within our guided 1-2x adjusted net debt to EBITDA ratio.	New competitors and technology Market conditions Talent management and retention Information technology
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. A reduction of 2% was modelled. These reductions resulted in the Group ending the 3 year period within our guided 1-2x adjusted net debt to EBITDA ratio.	Pressure on margins
Scenario 3 **Large, one-off operational expense** We considered the impact of any potential legal or regulatory fines or required large, one-off expenditures. A one-off operational expense of $1.0bn was modelled in year one. This expense resulted in the Group ending the 3 year period within our guided 1-2x adjusted net debt to EBITDA ratio.	Information technology Health and safety Regulations

An additional scenario was modeled to ascertain what level would be needed in each scenario to breach the Group's 3.5x adjusted net debt to EBITDA covenant. The reductions in revenue, margin and size of one-off operational expense were significantly higher than those shown in the above scenarios.

While linked to the Group's principal risks, 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 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, the suspension of ordinary dividends and share repurchases, 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.

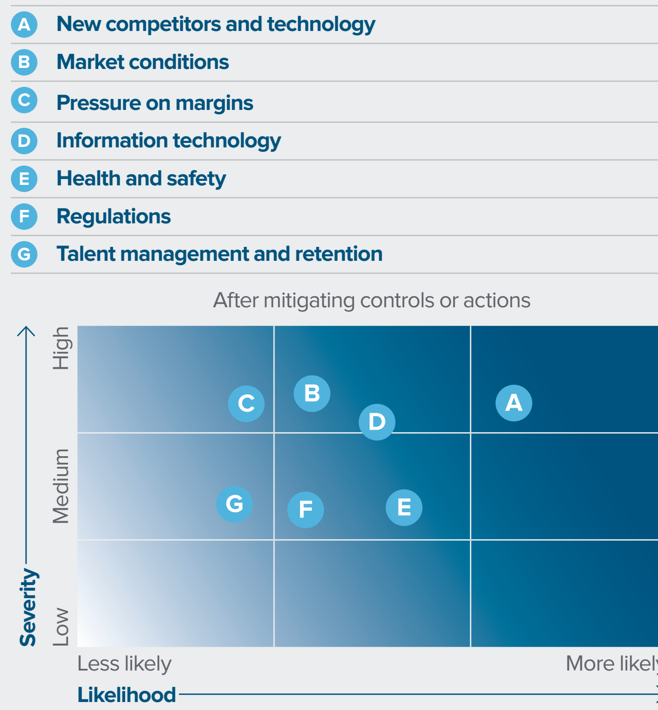
Viability statement

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 114.

UK withdrawal from the European Union

Given the disposal of Wolseley UK in January 2021, Brexit has no material financial or operational impact on the Group.

Principal risks heat map
(after mitigating controls and actions)



The materialization 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 summarized 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 program, 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, emerging risks were identified and assessed by the Group's management and key stakeholders to determine the impact of such risks to the business. These emerging risks were reviewed with the Board throughout the year. 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 emerging risk is ensuring we meet new regulatory requirements and shareholder expectations on disclosure of ESG matters, including anticipated Securities & Exchange Commission rulemaking related to climate change. We also continue to closely monitor physical, transition and regulatory risks related to climate change, which are considered in our risk management process. Based on these processes and the actions being taken to manage climate risk, our review and impact assessments have concluded that this remains an emerging rather than a principal risk. Subject matter experts from the business reviewed the SASB Climate Risk Technical Bulletin issued in 2021. We have developed mitigation to better prepare the business for any relevant physical, transition or regulatory risks related to climate change, as well as a roadmap to reduce carbon emissions for internal operations and integrate climate considerations into business strategies. As more climate change research becomes available, we will continue to monitor the risks and opportunities relevant to our business.

Other key emerging risks identified are geo-political uncertainty that could impact our competitiveness, maintaining our Company culture during transition of key roles to the USA, and potential share price and shareholder base volatility related to our intended relocation of our primary listing to the USA. 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, labor related risks and certain financial risks. A summary of financial risks and their management is provided on page 37.

Risks to the execution of our operational strategies

A New competitors and technology

Inherent risk level: **High** Trend: **No change**

Definition and impact

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

Competitor consolidation could cause the industries in which we operate to become more competitive based on business models, technology or strategy.

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 continued to extend its network in the start-up community, increasing early visibility to new competitors and potential disruption. Partnerships and investments were made in a range of technologies and companies to improve our customers' business processes. We also continue to invest in industry-focused venture capital funds.

In addition, Ferguson continues delivery of its omnichannel strategy to meet constantly changing customer demands and emerging digital needs as the rate of customer adoption of e-commerce tools continues to increase.

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. Competitor consolidation and development of new business models in our marketplace is closely evaluated.

B Market conditions

Inherent risk level: **High** Trend: **No change**

Definition and impact

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

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

Further information on the market trends can be found on pages 22, 23, 38, 39 and 46.

The Group is closely monitoring for general market change impacts in the short and medium term that may result from changes in customer behavior, product availability constraints and supply disruption caused by the COVID-19 pandemic, and for current geo-political risks.

Changes during the year

This risk is unchanged during the year notwithstanding certain unique dynamics driven by the COVID-19 operating environment and reopening of the US economy as the market experienced reduced product availability, supply chain disruption and price increases resulting from longer-term impacts of the COVID-19 pandemic.

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 53 and 54.

We have also maintained higher inventory during the year utilizing our strong balance sheet to protect our customers and provide higher availability.

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 evolution 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.

The Group is monitoring for any business disruption due to a resurgence of COVID-19 and remains prepared to implement appropriate mitigation strategies.

Principal risks and their management continued

C Pressure on margins

Inherent risk level: **High** Trend: **No change**

Definition and impact

The Group's ability to maintain attractive profit margins can be affected by a range of factors, including some that are beyond the Group's control. 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 and availability of commodities or goods purchased, inflationary pressures, product mix, 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 is unchanged during the year notwithstanding certain unique dynamics driven by the COVID-19 operating environment and reopening of the US economy.
Product price inflation and cost increases arising from supply and transportation challenges were more than offset by strong market growth, an ability to pass through price inflation and cost controls.

While we have benefited from price inflation in the short term we continue to monitor for signs of moderation or deflation, which would present risk that we may not be able to totally mitigate.

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

Ongoing gross margin was 60 basis points ahead of last year with growth driven principally by strong demand and our ability to manage price inflation.

Mitigation

The Group's strategy for tackling this issue remains unchanged. This includes: continuous improvements in customer service, product availability and inventory management; strict pricing controls managed with proper data and insight; and effective maintenance and management of vendor rebate programs.
Revenues from e-commerce, own brand, and other growth sectors continue to increase.
The Group has made acquisitions to drive further growth and expanded capabilities in 2020/21 – refer to pages 18, 160 and 161 for more information on acquisitions during the year.

The performance of each customer group 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")

Inherent risk level: **High** Trend: **Higher**

Definition and impact

The Group has a clearly defined global technology strategy and roadmap. Technology systems and data are fundamental to the future growth and success of the Group. IT risks are categorized 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 organizational change of management necessary to adopt and apply new business processes.

Operational risks include business disruption resulting from system failures, fraud, criminal activity, or potential cybersecurity incidents. This includes security threats and/or failures in the ability of the organization to operate, recover and restore operations after such disruptions. While cybersecurity incidents encountered to date have resulted in minimal impact, notwithstanding increased reliance on hybrid and distributed work arrangements for many of our associates that have the flexibility to work remotely or in the office, this risk continues to persist and evolve.

Changes during the year

Under the leadership of the Chief Information Officer, the Group has continued to make progress in implementing the technology strategy and roadmap, including progressing significant upgrades to its enterprise-wide resource planning systems and other enterprise-wide IT resources. IT strategic risks are higher due to the breadth of the roadmap and are being closely monitored as we implement the global technology strategy and roadmap (see page 31). Those risks include the potential for schedule delays, cost overruns, functionality deferrals and change management disruptions to business operations.

Operational risk to IT also remains high, particularly as it relates to system failures, fraud, criminal activity, or potential cybersecurity incidents.

IT General Controls continue to be independently tested by Internal Audit and findings are reported to the Audit Committee. In addition, a team was established to provide an independent review on the status and risk to delivery of the strategic roadmap.

Briefings on the status of the Group's IT strategic plan, and its implementation have been regularly provided to the Board, the Audit Committee and the Executive Committee throughout the year.

Regular Board, Audit Committee and Executive Committee updates on the status and execution of operational IT functions, including, but not limited to cybersecurity, are in place and delivered regularly throughout the year.

Mitigation

Business leadership continues to execute a comprehensive change management program designed to transition current business practices and norms to adopt new business capabilities.

Business Technology and Omnichannel Centers of Excellence are in place to drive organizational discipline around the prioritization of business projects to foster alignment with Ferguson's strategic framework.

Management continues to execute an annually refined roadmap of investments in process, resource and technical defense necessary to continuously address and strengthen enterprise defenses against emerging cybersecurity threats; extending such enhancements to the overall control environment to all critical Group systems (see page 81).

Group-level compliance processes and insurance coverage, including data protection and cybersecurity liability, are in place.

Disaster recovery systems, secondary data centers, cloud redundancy and resiliency platforms, resources and processes have been implemented to support the recovery of business critical systems in the event of a major disaster or cybersecurity event. Testing of critical infrastructure and application systems is in place and has been consistently executed across the Group.

Principal risks and their management continued

E Health and safety

Inherent risk level: **Medium** Trend: **No Change**

Definition and impact

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

Certain products that we sell could pose health and safety risks.

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

The Group continues to take prudent steps to mitigate the risk and reduce any potential impact to health and safety.

Changes during the year

The Group's strategic plan remains focused on the following: elimination and control of risks causing injuries and incidents; improving our safety culture; continuous education for our associates on safety, health and environmental risks and best practices. We took appropriate steps to monitor and mitigate the potential impact of the COVID-19 pandemic on our associates and customers.

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 continue to improve the overall performance of the Group – see page 48 for more information.

Mitigation

Safety is a core value driver in everything we do. Our leaders have specific roles to play and are required to actively engage with our associates in creating 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. We have strengthened our training programs that include vehicle and driver safety to reinforce our commitment to continual improvement. Branches are audited against these standards and businesses continue to implement fundamental changes to transform our culture. For more detail see page 48.

We continue to implement protocols to protect the health and safety of our associates and customers related to the COVID-19 pandemic and have introduced an incentive program to encourage the vaccination of our associates.

F Regulations

Inherent risk level: **Medium** Trend: **Higher**

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, privacy and data protection of user data, labor 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

As a result of the recent registration of the Group's shares in the United States, we are subject to additional reporting requirements of the Securities Exchange Act of 1934 (as amended), the Sarbanes-Oxley Act of 2002, the listing requirements of the New York Stock Exchange, and other applicable securities rules and regulations.

Following the adoption of the California Consumer Privacy Act ("CCPA"), the procedures and controls implemented by the relevant businesses within the Group to comply with the CCPA were reviewed and improvement measures put in place. As additional privacy laws are enacted we continue to implement procedures and controls across the business to comply with all applicable laws.

Mitigation

The Group monitors the law across its markets to minimize the effects of changes and maintain compliance with all applicable laws.

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

Mandatory training on the Group's Code of Conduct was deployed to all associates during the year. The Code of Conduct sets out the Group's values and commitment to strict compliance with the various laws and regulations that apply wherever the Group operates. Briefings and awareness training on key compliance topics and requirements, trade compliance and anti-bribery / anti-corruption were also undertaken.

Further information on the Group's ethics and compliance program can be found on pages 29 and 51.

G Talent management and retention

Inherent risk level: **Medium** Trend: **No Change**

Definition and impact

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

Furthermore, as the Group continues to execute a number of strategic change programs including corporate migration, it is important that existing skillsets and talent are retained and that associates remain engaged through recognition, training, and communication.

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

Changes during the year

There has been no material change in the level of associate turnover during the year, however, due to the tight labor market time to backfill positions could be extended.

Bill Brundage was appointed as Chief Financial Officer in November 2020 and Victoria Morrissey was appointed as Chief Marketing Officer in May 2021.

Talent management procedures were reviewed, our global engagement survey was relaunched, and an inclusion and diversity framework was launched during the year (see pages 28 and 29 for further information).

Associate meetings with our Employee Engagement Director of the Board were held and feedback was reported back to the Board.

Mitigation

All of the Group's businesses have established performance management and succession planning procedures.

Reward packages for associates are designed to be market competitive and to attract and retain the best talent.

A robust individual development planning process for high-potential successors from the talent review process is aligned with our organizational strategy.

The Group continues to invest in associate development, engagement, and inclusion and diversity programs.

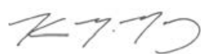
Non-financial information statement

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. 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 (see page 68) and sets out the required information below:

- Environmental matters (including the impact of the Company's business on the environment) on pages 47 to 51.
- The Company's employees on pages 28 to 29 and 47 to 51.
- Social matters on pages 47 to 51.
- Respect for human rights on pages 28 to 29 and 47 to 51.
- Anti-corruption and anti-bribery matters on pages 28 to 29 and 47 to 51 and 81.

Policies relating to the above matters are available to all associates in a centralized location through the Company's intranet. Where appropriate, the Board or relevant Committee of the Board is provided with updates on these matters during the year. The Non-Financial Reporting Directive also requires references to a description of the Group's business model (pages 26 to 27), principal risks, including those relating to the matters identified above (on pages 52 to 59), and key performance indicators (on pages 24 to 25).

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



Kevin Murphy
Group Chief Executive
September 28, 2021

Governance

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Governance overview

Dear Shareholder

I am pleased to present the Company's corporate governance report for the financial year ended July 31, 2021.

This has been a year of significant change for the Company with the disposal of Wolseley UK, the additional US listing of shares on the New York Stock Exchange ("NYSE"), the preparations for the implementation of the Sarbanes-Oxley Act of 2002 ("SOX") and the adoption of the US GAAP basis of accounting for periods beginning on and after August 1, 2021. I provide further detail on each of these changes along with our other achievements for the year, in my statement on pages 14 to 16.

As noted in my statement on page 16, this year we have significantly reshaped the Board to support our strategy. During the year, Mike Powell stepped down as Group Chief Financial Officer and was succeeded by Bill Brundage. Additionally, three new Non Executive Directors, Kelly Baker, Brian May and Suzanne Wood joined the Board during the year. These changes have enhanced the diversity of the Board and have continued to strengthen the profile of the Board to ensure we have the right balance of skills and experience to support the business and its strategic direction over the long term. I am also pleased to report that our new Non Executive Directors have integrated well, contributing fully to Board and Committee discussions and helping us to provide support and constructive challenge to management. Tessa Bamford will step down as a Non Executive Director at the 2021 AGM. Tessa has made a significant contribution to the Board over the last 10 years, and we wish her well for the future. Further information on the Board appointments made during the year and succession can be found in the Nominations Committee report on pages 72 and 73.

At Ferguson, we are committed to fostering an effective governance framework, such as through our policies and procedures, that supports the Group's core values and which underpins our ability to set the overall strategic direction of the Group. During the year, we enhanced our governance processes to reflect our additional US listing of shares on the NYSE. This included enhancing disclosure controls and procedures, updating our terms of reference for certain Board Committees and adopting Corporate Governance Guidelines. Copies of our terms of reference and Corporate Governance Guidelines can be found at **www.fergusonplc.com.**

The restrictions on travel as a result of the COVID-19 pandemic during the year meant that we held all our Board and Committee meetings either by video conference or in the UK, with UK-based Directors attending in person and all other Directors attending virtually. I am pleased that we were able to hold our meetings with the same cadence as usual, adjusting meeting times to account for different time zones, where required. We were also able to utilize technology appropriately to ensure a good level of engagement during meetings and ensure that the Board maintained its governance focus.

During the year, we remained committed to stakeholder engagement. While our 2020 AGM was held as a closed meeting due to restrictions imposed by the UK Government at that time, shareholders were able to submit questions to the Board in advance of the AGM. We look forward to meeting in person with our shareholders again, once it is safe and permissible to do so.

Environmental, social and governance ("ESG") touches everything we do at Ferguson and our goal is for Ferguson to be a socially and environmentally responsible organization, with strong governance at the core of how we operate. During the year we introduced a new ESG framework and more information on this can be found on pages 21 and 47.

Throughout the financial year ended July 31, 2021, the Company has been in compliance with the provisions set out in the 2018 UK Corporate Governance Code (the "Code").

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 signposts below direct you to further detail.

Finally, I would like to take this opportunity to thank our shareholders for their continuing support. The 2021 Annual General Meeting will be held on December 2, 2021. Please see the 2021 Notice of AGM for further details.

Geoff Drabble
Chairman
September 28, 2021

Core principles

Board leadership and company purpose
> Pages 62 to 67

Division of responsibilities
> Pages 68 to 69

Composition, succession and evaluation
> Pages 70 to 74

Audit, risk and internal control
> Pages 75 to 81

Remuneration
> Pages 82 to 112

Board leadership and company purpose

Board of Directors

1. Geoff Drabble

2. Kevin Murphy

3. Bill Brundage

4. Kelly Baker

5. Tessa Bamford

6. Cathy Halligan

7. Brian May

8. Alan Murray

9. Tom Schmitt

10. Nadia Shouraboura

11. Jacky Simmonds

12. Suzanne Wood

Biographies of each Board member are set out on pages 63 and 64.

2020/21 Board and Committee meeting attendance (eligibility)

					Committees
		Board	Audit	Rem[1]	Nom
Chairman	Geoff Drabble[1 2]	6 (6)		4 (5)	5 (5)
Executive Directors	Kevin Murphy	6 (6)			
	Bill Brundage[3]	5 (5)			
Non Executive Directors	Kelly Baker[4]	2 (2)		1 (1)	1 (1)
	Tessa Bamford[2]	6 (6)	6 (6)	1 (1)	5 (5)
	Cathy Halligan[1]	6 (6)	6 (6)	5 (6)	5 (5)
	Brian May[5]	4 (4)	4 (4)		3 (3)
	Alan Murray[1]	6 (6)	6 (6)	5 (6)	5 (5)
	Tom Schmitt[6]	6 (6)	1 (1)	6 (6)	5 (5)
	Nadia Shouraboura[2 6]	6 (6)	1 (1)	1 (1)	5 (5)
	Jacky Simmonds[6]	6 (6)	1 (1)	6 (6)	5 (5)
	Suzanne Wood[5]	4 (4)	4 (4)		3 (3)
Directors who left during the year	Mike Powell[7]	1 (1)			

1. There was one unscheduled Remuneration Committee meeting during the year. This meeting was required in order for the Remuneration Committee to consider the remuneration for an externally appointed member of the Executive Committee. Due to the meeting being called at short notice, Geoff Drabble, Cathy Halligan and Alan Murray were unable to attend this meeting due to unavoidable scheduling conflicts. All members received copies of the meeting documents, irrespective of whether they attended the meeting.
2. Due to changes in the composition of the Remuneration Committee, Geoff Drabble became a member and Tessa Bamford and Nadia Shouraboura ceased to be members of the Remuneration Committee with effect from October 1, 2020.
3. Bill Brundage was appointed as Group Chief Financial Officer with effect from November 1, 2020.
4. Kelly Baker was appointed as Non Executive Director with effect from May 1, 2021. Kelly became a member of the Nominations and Remuneration Committees with effect from May 20, 2021.
5. Brian May and Suzanne Wood were appointed as Non Executive Directors with effect from January 1, 2021.
6. Due to changes in the composition of the Audit Committee, Tom Schmitt, Nadia Shouraboura and Jacky Simmonds ceased to be members of the Audit Committee with effect from October 1, 2020.
7. Mike Powell stepped down as Group Chief Financial Officer on October 31, 2020.

The Major Announcements Committee ("MAC") meets as required and was not required to meet during the year. Geoff Drabble, Tessa Bamford, Brian May and Jacky Simmonds are members of the MAC. In addition, Kevin Murphy, Group Chief Executive, Ian Graham, Group General Counsel, and Brian Lantz, Vice President IR and Communications, currently attend meetings but are not members of the MAC.

In 2019/20 the Board formed a special purpose Committee to enable certain delegated matters to be dealt with quickly and efficiently during the COVID-19 pandemic. This Committee remained in operation during the year. Geoff Drabble, Kevin Murphy, Bill Brundage, Tessa Bamford, Brian May, Alan Murray and Jacky Simmonds are members of the Committee. The Committee met twice during the year and all members attended both meetings with the exception of Alan Murray and Jacky Simmonds who, due to the short notice nature of these meetings, were unable to attend one meeting due to unavoidable scheduling conflicts.

Appointments and other Board and Committee members

Each Board member listed on pages 63 and 64 served throughout the financial year ended July 31, 2021 with the exceptions of Bill Brundage, Brian May, Suzanne Wood and Kelly Baker. Bill Brundage was appointed with effect from November 1, 2020, Brian May and Suzanne Wood were appointed with effect from January 1, 2021 and Kelly Baker was appointed with effect from May 1, 2021.

Mike Powell served as Group Chief Financial Officer, Chair of the Disclosure and Treasury Committees and member of the Executive and Major Announcement Committees until he stepped down from the Board on October 31, 2020.

Why you should vote to re-elect your Board

In accordance with the Code, all Directors will stand for election or re-election at the 2021 Annual General Meeting ("AGM"), with the exception of Tessa Bamford who will step down from the Board at the AGM. Further details on the AGM can be found on page 182 and at **www.fergusonplc.com**.

In line with the findings of the externally-facilitated Board and Committee effectiveness reviews, further details of which can be found on page 71, 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. As such, the Board believes that the election and re-election of each Director is in the best interests of the Company.

Key to Board and Committee Membership

- A Audit
- D Disclosure
- E Executive
- N Nominations
- M Major Announcements
- R Remuneration
- T Treasury
- E Employee Engagement Director
- S Senior Independent Director
- Committee Chair

1. Geoff Drabble

Chairman

Appointed Chairman: November 2019

Appointed to the Board: May 2019 (as a Non Executive Director)

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:
Chairman at DS Smith Plc and Non Executive Director of Howden Joinery Group Plc.

2. Kevin Murphy

Group Chief Executive

Appointed Group CEO: November 2019

Appointed to the Board: August 2017 (as Chief Executive Officer, USA)

Key strengths and experience:
Culture champion with strong executive leadership skills

Deep Group and industry knowledge

Strategic operational experience

Kevin has significant experience in strategic development and delivering operational performance improvements. Kevin joined Ferguson in 1999 as an operations manager following the acquisition of his family's business, Midwest Pipe and Supply. Prior to his appointment as Group CEO he held a number of leadership positions in the Group's Waterworks division. He was Chief Operating Officer of Ferguson Enterprises from 2007 to 2017 and Chief Executive Officer, USA from 2017 until his appointment as Group Chief Executive in 2019. Since Kevin's appointment to the Board in 2017, the business has generated strong, profitable growth and continued to take market share under his leadership.

Other principal appointments:
None.

3. Bill Brundage

Group Chief Financial Officer

Appointed: November 2020

Key strengths and experience:
Considerable financial management and operational experience

Significant Group and industry knowledge

Bill is a certified public accountant with extensive Group experience. Bill joined Ferguson in 2003 as manager of finance and was promoted to Corporate Controller two years later. In 2008, he was promoted to Vice President of Finance, a position he held until his promotion to Senior Vice President of finance in 2016. Bill was then appointed as CFO for Ferguson Enterprises, the US business, in 2017. Previously, Bill spent five years at PricewaterhouseCoopers in the US as a senior associate.

Other principal appointments:
None.

4. Kelly Baker

Independent Non Executive Director

Appointed: May 2021

Key strengths and experience:
Extensive human resources and operational experience

Wide-ranging international business and functional experience

Kelly has led the people, organizational and cultural development across a number of US-based, global public companies. Kelly spent over 20 years with General Mills Inc., in a variety of roles including Vice President ("VP") of HR US Retail and Marketing, VP of HR Corporate Groups and VP of Diversity and Inclusion. Between 2016 and 2017, Kelly served as Executive Vice President and Chief Human Resources Officer at Patterson Companies Inc. Kelly also served as Executive Vice President and Chief Human Resources Officer of Pentair plc from 2017 to 2021.

Other principal appointments:
Executive Vice President and Chief Human Resources Officer of Thrivent Financial for Lutherans

5. Tessa Bamford

Independent Non Executive Director (stepping down on December 2, 2021)

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 US 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. She is currently a Partner at Spencer Stuart, a leading global search and leadership consulting firm.

Other principal appointments:
Partner at Spencer Stuart.

6. 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 and a Non Executive Director of FLIR Systems, Inc. from 2014 to 2021.

Other principal appointments:
Non Executive Director of Driven Brands, Inc. and Ulta Beauty, Inc.

Board leadership and company purpose continued

7. Brian May

Independent Non Executive Director

Appointed: January 2021

Key strengths and experience:
Considerable financial and operational experience

Extensive industry expertise

Brian is a chartered accountant. He qualified with KPMG and has since spent 27 years with Bunzl plc. During his career at Bunzl plc, he held a number of roles across the Treasury and Internal Audit functions and was Divisional Finance Director of Bunzl's UK, Europe and Australasia division for nine years. He then served as CFO of Bunzl plc for 14 years until his retirement in late 2019. From 2012 to 2021 Brian served as a Non Executive Director of United Utilities Group PLC.

Other principal appointments:
Non Executive Director of ConvaTec Group plc

8. Alan Murray

Independent Non Executive Director

Appointed: January 2013

Key strengths and experience:
Considerable international operational and financial 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 O-I Glass, Inc.

9. 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.

10. 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:
Non Executive Director of Mobile TeleSystems Public Joint Stock Company and Ocado Group plc and member of the Supervisory Board of X5 Retail Group N.V.

11. 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 VEON ltd, 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:
Chief People Officer of Experian plc.

12. Suzanne Wood

Independent Non Executive Director

Appointed: January 2021

Key strengths and experience:
Significant financial and operational knowledge

Extensive public company experience

Suzanne is a chartered accountant and an experienced CFO. She started her career with PriceWaterhouse LLP and it has since encompassed CFO roles at two US publicly listed companies, Oakwood Homes Corporation and Tultex Corporation. Suzanne most recently served as CFO of Ashtead Group plc for six years after having joined Ashtead in 2003 as CFO of Sunbelt Rentals, Ashtead's largest operating brand in the USA.

Other principal appointments:
Senior Vice President and Chief Financial Officer of Vulcan Materials Company and Non Executive Director of RELX PLC.

Graham Middlemiss

Group Company Secretary

Graham was appointed Company Secretary of Ferguson plc on August 1, 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 then UK business and was Group Deputy Company Secretary from November 2012 to July 2015.

Leadership

The Board's primary role is to ensure Ferguson's long-term, sustainable success by setting the Group's strategic direction, ensuring that strategy is aligned with its purpose and culture and to promote and protect our interests for the benefit of all our stakeholders. The Company's governance framework supports the Board in the delivery of the Group's strategy and long-term sustainable success in various ways, as detailed below. Our Non Executive Directors play an essential role in this by holding the Executive team to account, ensuring that appropriate progress implementing strategy is being made and that their behaviors and decisions are supportive of the Group's culture and values.

The Board held six scheduled meetings during 2020/21. Board and Committee meetings were scheduled over two- or three-day periods with meetings structured to allow open discussion. UK-based Directors attended meetings in person where COVID-19 regulations allowed and it was safe to do so, with other Directors attending virtually. Where physical attendance was not permitted, meetings were held virtually. Individual Director attendance at Board and Committee meetings during the year is set out on page 62.

It is important that the Board has a strong culture of open debate where all Directors are actively encouraged to challenge existing assumptions and to raise difficult questions. The Board undertakes a formal review of its performance and that of its Committees each year. Further information on the 2021 review and actions taken to address areas for enhancement identified in the 2020 review are set out on page 71.

The Board has a rolling agenda program which ensures that items relating to strategy, performance and governance are covered in its meetings. The balance of time spent by the Board on 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.

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, for each meeting. This ensures that all relevant matters are prioritized, given sufficient time and focus, and are put forward for discussion at the appropriate time. Each 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. Details of the Board's main areas of focus during the year are set out on page 66.

In advance of each set of meetings, papers and relevant information are delivered so that each Director is provided with the necessary resources to fulfill their duties. The information is published via a secure web portal which also provides access to a library of 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. Directors, if necessary, may take independent professional advice at the Company's expense in furtherance of their duties. Any Director may request that the Group Company Secretary arrange such advice. This is in addition to the direct access that every Director has to the Group Company Secretary for his advice and services.

Our governance framework is defined by standard-setting documents including the schedule of matters reserved for the Board (a summary of which can be found at **www.fergusonplc.com**), Committee terms of reference, the Ferguson Code of Conduct, our Corporate Governance Guidelines (which were required by the rules of the New York Stock Exchange ("NYSE") and which were approved by the Board and became effective on the date of the additional US listing on the NYSE) and our policies and procedures. These documents formally describe our approach to decision-making and ascribe responsibility in a way that provides clarity for our leadership teams and enables them to act with freedom and confidence when performing their duties. They also set a common set of standards around behavior that are aligned with our culture and support the Board in ensuring that the Group continues to comply with its legal obligations.

In order to ensure that our governance framework is effective it is also important that we ensure that there is a "speak up" culture throughout the Group, and that associates feel able to raise concerns in confidence and have a touch-point for ethical dilemmas. This supports ethical decision-making, helps to mitigate against the risk of serious incidents and breaches of our Code of Conduct and policies and helps drive our purpose by producing better experiences for our customers. Further information on the operation of our ethics helpline is included in the Audit Committee report on page 81.

It is among the Board's core responsibilities to determine the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and to ensure the Group maintains 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 including principal and emerging risks. More details of the principal and emerging risks are set out in the principal risks and their management section on pages 52 to 59. The effectiveness of the Group's risk management and internal control systems is reviewed through the work of the Audit Committee and is described on pages 80 and 81. The Directors' assessment of the Group's longer-term viability and the viability statement are set out on page 54.

Company purpose

Our corporate purpose is to "act as a trusted supplier and partner to our customers, providing innovative solutions to make their projects more successful". Our purpose defines our actions and is embedded in all we do. The Board sets the strategy for the Group to align with our purpose. During the year, the Board receives updates on progress with strategy and performance. The Board also receives updates on customers, customer related matters (including customer service level scores) and on the ways in which technology is being used to improve service. Our vision, mission and values are a reminder of our purpose and how we expect to fulfill it. They apply to all of our operations and are applicable to every role and function throughout the Group. Further information on our vision, mission and values is provided on page 20.

Ferguson's culture is built on our values and ensuring that every associate throughout the business understands the purpose of the Company and how they contribute to it. The Board uses a variety of sources to monitor cultural indicators that are provided to them during the year, including business-specific reports from the Group Chief Executive and other senior management, feedback from employee engagement surveys, ethics helpline reports, the performance of the Group's health and safety program, updates on the Group's compliance with relevant legal and regulatory requirements, Internal Audit reports, feedback from the Employee Engagement Director on his Beyond the Boardroom meetings with associates and progress in the Group's inclusion and diversity program. Further information on how we engage with our associates can be found on pages 32 and 33. Our associates are our most important asset and having the best associates in our industry is a key part of our culture. During the year we have maintained our focus on associate development. We have continued to invest in our Talent Management model in the USA, developing our leaders through the completion of specific development activities. For further information regarding associate development, please see pages 28 and 29.

Board leadership and company purpose continued

The Board's focus during the year

Principal activities in 2020/21	Further information
Strategy	
Approved the submission of an application for an additional US listing of shares on the New York Stock Exchange and received regular progress updates	See page 16
Approved a proposal to adopt the US GAAP basis of accounting for the Group for periods beginning on and after August 1, 2021	See page 16
Approved the appointment of the new Group Chief Financial Officer	
Received an update on the Group's strategy	See pages 38 to 46
Received reports from the Group Chief Executive on progress with strategy and performance	
Approved the $400 million share buy back program	See page 113
Approved the disposal of Wolseley UK	See page 16
Received regular updates regarding the Group's technology strategy	See page 31
Reviewed and approved business acquisition and capital investment proposals and conducted regular post-investment reviews	See pages 160 and 161
Annual budget reviewed and approved	
Performance	
Received regular reports from the Group Chief Financial Officer on financial performance	See pages 34 to 37
Actively monitored the impact of the COVID-19 pandemic on the Group's performance, including receiving regular business updates from the Group Chief Executive	See pages 14, 15 and 34 to 37
Received regular briefings from the Group Chief Executive on health and safety, markets and trading, category management and product strategy and acquisitions	See pages 38 to 46
Reviewed and approved Full Year and Half Year Results and other announcements	See **www.fergusonplc.com**
Received regular updates on investor relations including detailed feedback from shareholders following investor meetings	
Environment, Social, Governance	
Reviewed and approved the Group's ESG framework and new five-year carbon reduction objectives	See pages 21, 47 and 49 to 51
Reviewed the results of the Board and Committee effectiveness review	See page 71
Reviewed and approved the Group's Modern Slavery Act Statement	See page 51
Reports on health and safety performance reviewed at every meeting	See page 48
Received reports on Non Executive Directors' tenure, succession planning and approved the appointment of three new Non Executive Directors	See pages 72 to 73
Regularly reviewed the Group's principal risks and risk appetite	See pages 52 to 59
Approved various policies throughout the year	
Received briefings on the Group's People Strategy including employee engagement, talent review and inclusion and diversity	
Approved Group insurance arrangements	

How the Board engages with stakeholders

The Board considers that its key stakeholders are associates, customers, investors, suppliers and the community. In compliance with the Code, we set out, on pages 32 and 33 of the Strategic report, our principal stakeholders and how and why we engage with them, as well as responses to that engagement.

Under section 172 of the UK Companies Act 2006, directors have a duty to promote the success of their company for the benefit of their members while having due regard of the likely consequences of any decision in the long term, 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, which we have now promoted through our ESG framework and this is detailed on pages 21 and 47. The Company is Jersey incorporated and, therefore, is not required to comply with this legislation. However, the Board recognizes that effective engagement with stakeholders at Board level and throughout the business is essential to enable us to promote the long-term success of the Group for the benefit of all stakeholders. As a result, stakeholder considerations are integral to Board discussions and decisions. Our section 172 statement is set out on page 32.

How does the Board hear the stakeholder voice?

Stakeholder	
Associates	Our associates are our most important asset and having the best associates in our industry is a key part of Ferguson's culture. We have a dedicated Employee Engagement Director, Alan Murray, who hosts meetings with our associates during the year to further understand their thoughts and opinions. During 2020/21 these meetings took place virtually due to the COVID-19 pandemic. Alan provides feedback from these discussions to the Board on a regular basis which provides the Board with additional insight of the views and concerns of associates in their discussions and decision-making. Further information regarding interaction with associates is given on pages 28 to 29 and 32 to 33.
Customers	The Board receives information about customers in Board reports and presentations and during strategy updates. See pages 32 and 33 for further information on interaction with customers.
Investors	The Board engages with investors in a variety of ways. The Group Chief Executive and the Group Chief Financial Officer meet regularly with the Company's institutional investors to provide updates on the Group's strategy and its results. During 2020/21 these meetings took place virtually due to the COVID-19 pandemic. The Chairman also makes himself available to meet with investors as required. During the year, Directors engaged with several shareholders and proxy adviser bodies who it identified as having voted against the 2020 Directors' Remuneration Report. Further details can be found on page 83. The Chair of the Remuneration Committee leads consultations with major investors when the Company's Remuneration Policy is under review. The 2020 AGM was held as a closed meeting due to COVID-19 restrictions. However, all shareholders were given the opportunity to submit questions to the Board in advance of the meeting. For further information regarding interaction with investors, please see pages 32 and 33.
Suppliers	We engage with our suppliers through our specialist teams and business leaders. The Board recognizes that our suppliers provide us with the products and services we need to deliver our strategy. The Board receives material updates from management on the Group's supply chain. See pages 32 and 33 for further information on interaction with suppliers.
Community	Community engagement takes place locally through our operating businesses. The Board appreciates that fostering links with these communities contributes to the long-term success of those businesses boosting local employment and business opportunities. The Board received updates during the year on community investment through the Ferguson Cares program and the Sustainability program. The Board also approved the Group's new environmental targets. For further information on interaction with the community and environment, please see pages 32 and 33.

Below are examples of how the Board has had regard to the interests of its key stakeholders when making certain decisions during 2020/21.

Wolseley UK disposal

During the year, the Board had considered the potential demerger of the Group's UK business, Wolseley UK ("WUK"). It was anticipated that the demerger would enable WUK to focus exclusively on customers in the UK market and enable Ferguson to be wholly focused on serving customers in North America. However, in September 2020, it was announced that as a result of the uncertain economic environment at that time, the Board was assessing other separation options in addition to the demerger. In considering the potential demerger and other possible options, the Board took into account the length of time that a demerger process may take and the potential impact on the Company's investors and other stakeholders. For example, the uncertainty surrounding the timing and process and the future of the UK business for associates, customers and suppliers. Following in-depth reviews and discussions, the Board decided to sell WUK to the global private investment firm Clayton, Dubilier & Rice. Following the sale of WUK, the UK defined benefit pension scheme was retained within the Group and the Company made a contribution of $40 million to maintain a strong overall funding position. The Company also paid a special dividend to shareholders. Further details can be found on page 16.

Resuming our M&A program

During the year we resumed our focused M&A program, funding selective bolt-on acquisitions to improve our market leadership positions or expand the capabilities of our existing business models. Of seven acquisitions during the year, five required Board approval. The Board took into account the Company's stakeholders, for example the impact on customers, suppliers and associates. Having considered the relevant stakeholder groups, the Board considered that approving certain acquisitions during the year would be in the best interests of the Company. Further information on M&A activity during the year can be found on page 18.

2021 AGM

The 2021 AGM will be held at the offices of Freshfields Bruckhaus Deringer, 100 Bishopsgate, London, EC2P 2SR, United Kingdom on December 2, 2021 at 12.30pm (UK time). Please consult the 2021 Notice of AGM and **www.fergusonplc.com** for details regarding the 2021 AGM, including any COVID-19 specific details.

Division of responsibilities

Board and Committees of the Board

Committees of the Board support the Board in the fulfillment of its duties and take strategic decisions of a substantive nature.

The effective working of the Board is crucial to the long-term prospects and strategic aims of the Group. 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, along with those of the Non Executive Directors and Employee Engagement Director, is set out on the following page.

Ferguson plc has a premium listing on the London Stock Exchange and is also listed on the New York Stock Exchange. The Company is therefore subject to the Listing Rules of the UK Listing Authority as well as the listing requirements of the New York Stock Exchange and the US federal securities laws. 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 Board

- Responsible for establishing the Group's purpose 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
- Responsible for the functions specified by DTR 7.1.3R. The membership of the Audit Committee is detailed on page 75.

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

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

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

A **special purpose committee** was in operation during the year, please see page 62 for further details.

Other Committees

Implementing strategic decisions and executive or administrative matters:

Executive Committee

- Drives business performance and operational improvements
- Ensures that the corporate culture and values set by the Board are implemented across the Group, that the behaviors expected from associates are clearly communicated and that actual behaviors are aligned with the culture and values
- Develops and recommends to the Board the Group strategy 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 Rules and Disclosure Guidance and Transparency Rules of the UK Listing Authority and EU Market Abuse Regulation (as it forms part of UK law pursuant to the European Union (Withdrawal) Act 2018)
- Assists in the design, implementation and periodic evaluation of the Company's disclosure controls and procedures

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

A number of other administrative committees were in operation during the year. These include committees which were formed to deal with matters relating to the disposal of the UK business, the additional US listing of shares on the New York Stock Exchange and technology developments.

Board roles

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 Group, implementing strategy and objectives agreed by the Board
- Management and development of the Group's operations and business models
- Works closely with the Group Chief Financial Officer to ensure prudent financial controls
- Develops and implements 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

Non Executive Directors

- Provide effective and constructive challenge to the Board and scrutinize the performance of management
- Review Group financial information and ensure effective systems of governance, risk management and internal controls are in place
- Determine executive remuneration and succession planning

Employee Engagement Director

- Enhances communication channels between associates and the boardroom
- Hosts meetings with associates throughout year
- Provides updates to the Board following these meetings regarding the views and concerns of associates so that these can be discussed and considered

Composition, succession and evaluation

Composition

As at the date of this report, the Board comprises 12 Directors: the Chairman, the Group Chief Executive, the Group Chief Financial Officer and nine independent Non Executive Directors. Fifty per cent of the Directors are female. The biographies of the Directors (set out on pages 63 and 64) demonstrate that the Board possesses strong and diverse experience that is relevant to the sector in which the Group operates and aligned with its strategy.

Independence of Non Executive Directors

Each of the Non Executive Directors are determined by the Board to be independent for the purposes of the Code and the Chairman was determined to be independent on appointment, in line with the Code. The Non Executive Directors and Chairman are also free of any relationship which could materially interfere with the exercise of their independent judgment and 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. The composition of the Board also complies with the independence rules of the NYSE.

The Code indicates several factors that should be considered when determining their independence, including length of tenure. Each Non Executive Director has served for six years or less with the exception of Tessa Bamford, Alan Murray and Jacky Simmonds. As required by the Code, Tessa and Jacky's reappointments in March 2021 for further terms were subject to a particularly rigorous review that carefully considered the need for progressive refreshing of the Board. The tenure terms of Non Executive Directors are transitioning towards one-year terms to reflect the current vote for re-election at the AGM. Over time it is expected that the terms will be co-ordinated with the timing of the AGM. During the year Tessa Bamford's term was extended to the date of the 2021 AGM, Jacky Simmonds' term was extended by one year and Nadia Shouraboura's term was extended to the date of the 2022 AGM.

The Board is mindful that non executive director tenure that exceeds nine years is listed by the Code as a circumstance that might impair, or appear to impair a non executive director's independence. Last year we explained that Tessa Bamford, who was first appointed to the Board in March 2011, had her tenure extended to the 2021 AGM and why this was done. Tessa has informed the Board that she will step down from the Board at the 2021 AGM. Alan Murray was appointed to the Board in January 2013. The Board has agreed to extend Alan's tenure until the 2022 AGM. Alan has an in-depth knowledge of the business and the industry and has continually made exceptional contributions to the Board and its Committees since his appointment. The Board considered that it was in the best interests of the Company to extend Alan's tenure after taking account of the significant and ongoing Company projects and the fact that there have been and would be significant changes to the Board composition (with the appointment of four new Directors, including a new Group CFO, during the year and another long-serving Director standing down at this year's AGM). The Board believes that it will benefit from Alan's continued membership of the Board and its Committees not only because of his experience and skillset but also the continuity and corporate knowledge his presence will bring. Although Alan's tenure will exceed nine years in 2022, the Board continues to regard him as independent. Alan's independence was subject to a thorough review by the Nominations Committee prior to its recommendation to the Board that he be reappointed for a further term as a Non Executive Director.

During this review the Nominations Committee discussed a wide range of factors, noting that Alan continued to demonstrate the high level of independence expected of a Non Executive Director, and recognized the excellent commitment he had shown to the Board and its Committees. The Nominations Committee also noted that Alan had not served concurrently with any current Executive Director for longer than four years, and in the case of the current Group CFO for less than one year.

External appointments during the year

In November 2020, Cathy Halligan joined Driven Brands, Inc. as a non executive director. In addition, as announced on August 24, 2021, Nadia Shouraboura was appointed as a non executive director of Ocado Group plc on September 1, 2021. The Board considered and approved both Cathy's and Nadia's appointments in advance having been satisfied that the time commitment for the roles would not affect their ability to devote sufficient time to their duties as Directors of the Company.

Induction

Upon appointment, all new Directors are provided with a comprehensive induction program 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 program is structured to reflect best practice and includes the provision of current and historical information about the Company and Group, 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. We aim to limit the amount of information provided as reading material during an induction process. All new Directors are provided with access to our electronic Board paper system which provides easy and immediate access to a number of key documents.

During the year, Bill Brundage, Kelly Baker, Brian May and Suzanne Wood undertook an induction process following their appointments as Group Chief Financial Officer and Non Executive Directors, respectively.

"I felt that the onboarding process was comprehensive and I found the one on one meetings very helpful. I was also particularly impressed by the virtual tours that were provided. I received a virtual tour of the Ferguson headquarters, a distribution center and a showroom. I thought that virtual tours were an excellent way of introducing new Board members to the business. I would rate the process very highly despite the physical restrictions imposed by COVID-19."

Brian May
Independent Non Executive Director

During these inductions Kelly, Brian and Suzanne met with a number of senior executives, the Company's advisers and operationally focused associates in the business. They also had a virtual tour of certain areas of the business. Bill's induction was focused on briefings relating to his new role as Group Chief Financial Officer, given his already extensive knowledge of the business. As a result of the COVID-19 pandemic, these inductions were conducted virtually. However, it is intended that each of the new Directors will meet with associates, in person, during site visits when it is safe and permissible to do so.

Development of the Board

All Directors are provided opportunities for further development and training and, during the year, each Director has the opportunity to discuss development with the Chairman. The Board and its Committees receive regular updates on governance, legal and regulatory matters relevant to the Group's operating environment and receive 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 2019/20 effectiveness review, the Board identified increased opportunities to develop the Board composition to reflect the Group's ongoing business and potential future listing location, improving the agendas for Board meetings and evolving the Committees and their structure and composition and the creation of new Committees to facilitate more in-depth oversight in appropriate areas. During the year the Board approved the appointment of a new Group Chief Financial Officer and three Non Executive Directors. The format of Board agendas was amended to further improve the flow of Board meetings and agenda items were classified under the headings environmental, social or governance. The Board updated the composition of the Audit and Remuneration Committees and new ad hoc committees were created to focus on technology developments, the additional listing of the Company's shares on the NYSE and the disposal of the UK business. Details of the 2020/21 review are provided in the "Evaluation of performance section" on this page.

Succession

The Nominations Committee keeps the composition of the Board and its Committees under regular review to ensure that they maintain an appropriate balance of skills, experience, independence, knowledge and diversity to support the successful execution of the Group's long-term strategy. Further details on the Nominations Committee's work on Board succession planning and Non Executive Director recruitment is provided on pages 72 and 73.

Evaluation of performance

The Board undertakes a formal review of its performance and that of its Committees each year, with an external evaluation every three years. It is expected that the Board and Committee effectiveness review in 2021/22 will be internally facilitated.

During the year ended July 31, 2021 the Company engaged the services of Lintstock Limited ("Lintstock"), a London-based corporate advisory firm that provides objective and independent counsel to leading European companies, to conduct an externally facilitated Board and Committee effectiveness review which included feedback on individual Board members. Lintstock supplies software and services to the Group Company Secretariat for Board evaluation questionnaires and for the management of insider lists but has no other connections with the Company or individual Directors.

This year's Board and Committee effectiveness review included individual Director interviews conducted by Lintstock, who also observed the Board and Committee meetings held in May 2021. The review covered areas such as the composition and diversity of the Board, how effectively members worked together, how the Board provided appropriate strategic oversight and the management and effectiveness of meetings. A partner from Lintstock presented their report and facilitated a discussion of the outcome of the review. During this discussion, Lintstock commented that they had witnessed good diversity of thought and open and engaged debate when observing Board and Committee meetings. Overall, the results of the review were positive and recognized that the Board navigated the challenges associated with COVID-19 well, in parallel with a number of initiatives including the sale of the UK business and the additional listing of shares on the NYSE. The results of the 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 2020/21 review, the Directors remain satisfied that the Board and each of the Committees of the Board are operating effectively.

Key areas of focus for continued improvement identified in the 2020/21 review were:

- Continuing to develop and articulate the Group's business strategy following the disposal of the UK business and the additional listing of shares on the NYSE.
- Re-engaging via face to face meetings with business leaders and stakeholders and continuing to undertake deep dives into the Group's customer groups.
- Continuing to integrate the new members of the Board and returning to in-person meetings and site visits, once COVID-19 restrictions allow.
- Maintaining the Board's focus on key operational and strategic initiatives.

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 had been very effective in his role, particularly during a period of significant change. He made himself available and communicated well with the Non Executive Directors. The Chairman's relationship with the Executive Directors struck an appropriate balance between support and constructive challenge.

Individual Non Executive Director effectiveness review

In addition to the effectiveness review undertaken by Lintstock, 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. The Chairman and the Board continue to consider each of the Directors to be effective and to demonstrate commitment to his or her role.

Composition, succession and evaluation continued

Nominations Committee

Geoff Drabble
Nominations Committee Chair

Nominations Committee members

Membership	Meetings attended (eligibility)
Geoff Drabble (Chair)	5 (5)
Kelly Baker	1 (1)
Tessa Bamford	5 (5)
Cathy Halligan	5 (5)
Brian May	3 (3)
Alan Murray	5 (5)
Tom Schmitt	5 (5)
Nadia Shouraboura	5 (5)
Jacky Simmonds	5 (5)
Suzanne Wood	3 (3)

Nominations Committee overview

- Kelly Baker, Brian May and Suzanne Wood joined the Committee during the year.
- As at the date of this report, the Committee is made up of nine Non Executive Directors who are determined by the Board to be independent for the purposes of the Code and the Chairman who was determined to be independent on appointment, in line with the Code. Details of membership and attendance are set out in the table above.
- The Committee met five times during the year.
- The Group Chief Executive, Group General Counsel and Group Chief Human Resources Officer attended Committee meetings.

An overview of the Committee's areas of responsibility is set out on page 68 and the Committee's Terms of Reference are available at **www.fergusonplc.com**.

Dear Shareholder

I am pleased to present the report of the Nominations Committee for 2020/21.

Board changes and succession planning

Continued focus on Board succession planning is a key priority for the Committee. Ensuring that the Board has the appropriate mix of skills and experience is vital to the Company's long-term success and this report will set out how we have continued to refresh and develop the Board during the year.

Last year I was delighted to report on Bill Brundage's appointment to the Board as our new Group Chief Financial Officer. On his appointment on November 1, 2020, Bill had been with the business in a variety of executive positions for over 17 years and was one of the key architects of Ferguson's transformation into one of the largest value added distribution businesses in the US, and we were pleased that our succession planning resulted in us having such a high caliber internal successor for the role. We were also fortunate to be able to identify and recommend that the Board appoint Kelly Baker, Brian May and Suzanne Wood as three new Non Executive Directors during the year. All have made excellent starts and the Board has already benefited from their wide industry, international and functional experience. I am very pleased to have been able to welcome Bill, Kelly, Brian and Suzanne to the Board this year. All these appointments followed formal, rigorous and transparent recruitment processes and further information on our approach to Board composition and succession planning is set out on page 73.

Tessa Bamford will step down as a Director at this year's Annual General Meeting. The Board has benefited from Tessa's extensive experience and knowledge of Ferguson, together with her broad business knowledge and boardroom experience. We are grateful for Tessa's excellent contribution as a highly valued Board member, particularly during a period of significant change over recent years, and we wish her well for the future.

Committee effectiveness

This year, the review of the effectiveness of the Committee was conducted by Lintstock who undertook a survey of Committee members and attendees and conducted follow-up interviews that used the answers to the survey questions as a framework. The results of which were presented and discussed. The work of the Committee was highly rated and the processes for recent appointments to the Board were seen as thorough with good progress having been made on strengthening the Board's financial expertise and diversity. The review emphasized the importance of continuing to maintain and develop internal succession plans for Executive Director roles after the recent successful promotion of internal candidates to the roles of Group Chief Executive and Group Chief Financial Officer. The Committee's priorities for 2021/22 are:

- To continue to develop and refresh long-term succession plans for senior executive roles.
- To continue to evaluate the evolution of Board composition to reflect developments in the Group's business and corporate structure.
- To maintain focus on diversity and inclusion.

I hope you find the information on the following pages about the work of the Committee helpful and informative.

Geoff Drabble
Nominations Committee Chairman
September 28, 2021

Board composition and succession planning

During the 2019/20 Board and Committee effectiveness review process, an opportunity was identified to enhance the succession plans for Executive and Non Executive Directors. The Committee is pleased that following his appointment in November 2020, Bill Brundage has settled well into his role as our Group Chief Financial Officer. The Board has benefited from Bill's broad experience and strong leadership capabilities and this will ensure that the Group continues to drive improved operational performance and capitalizes on the significant opportunities to generate sustainable profitable growth.

The Committee reviewed the composition of the Board during the year and agreed that the balance of skills and experience on the Board would be enhanced by the appointment of further Non Executive Directors. Brian May, Suzanne Wood and Kelly Baker were identified as outstanding candidates and recommended for appointment to the Board. Brian and Suzanne were appointed with effect from January 1, 2021 and Kelly was appointed with effect from May 1, 2021. Brian brings considerable financial, operational and industry expertise and Suzanne has extensive financial, operational and public company experience. Both Brian and Suzanne have impressive track records of value creation and have served on boards of large or international publicly-listed companies with significant operations in the US. Their industry knowledge and experience in running large-scale distribution businesses in the US will serve Ferguson and its shareholders exceptionally well in the future. Kelly has extensive human resources and operational experience and is currently Executive Vice President and Chief Human Resources Officer of Thrivent Financial for Lutherans and we are already benefiting from her valuable insight and specialist skills. Brian, Suzanne and Kelly have completed their inductions and settled in well, adding great value to Board discussions. The Committee continues to recognize the importance of balancing and refreshing the Board while also maintaining continuity. In that context, the extension of the tenures of Tessa Bamford to the 2021 AGM, Nadia Shouraboura to the 2022 AGM and Jacky Simmonds for a further one-year term was also an important part of the business of the Committee this year. More details can be found on page 70. A further key focus for the year following the 2019/20 Board and Committee effectiveness review process was to monitor and keep under review the composition of Board Committees. As detailed in the 2020 Annual Report and Accounts, during the year, the Board updated the composition of the Audit and Remuneration Committees and created new ad hoc committees to focus on technology developments, the additional listing of the Company's shares on a major US stock exchange and the exit of the UK business.

Korn Ferry was appointed to lead the search for the new Group CFO and three Non Executive Directors. The Committee reviewed the expertise and experience requirements for each role so that candidates put forward met the expectations of the Committee and the demands of the roles, and for the Group Chief Financial Officer role took account of both internal and external candidates and external benchmarking. Key elements of the appointment process for each appointment included the appointment of qualified recruitment consultants, developing a specification for candidates, reflecting the importance of diversity, selecting a longlist of candidates, selecting a shortlist of candidates and holding interviews and finally recommending preferred candidates to the Board. Each process was rigorous and transparent with Directors being given ample opportunity to review and interview candidates, and the Committee held detailed discussions before recommending candidates for appointment.

External search advisers

External search advisers Korn Ferry were engaged to assist the Nominations Committee with the recruitment of new Non Executive Directors appointed in 2020/21. During the year, Korn Ferry were engaged in relation to the recruitment of Kelly Baker, Brian May and Suzanne Wood. As mentioned last year, Korn Ferry were also engaged to assist the Committee with the recruitment of a new Group Chief Financial Officer. Korn Ferry does not have any other connections with the Company or individual Directors, 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 of the belief that the optimal way of recruiting for these positions is to use targeted recruitment based on the skills and experience required.

Succession planning and development of a diverse pipeline

In addition to its work on Board composition and succession planning the Committee also considers the composition, skills and experience of, and the succession plans for, the Group's senior executives and the pipeline of talent coming up through the business. The Committee and the Board take great interest in the development of the Group's senior leaders and talent pipeline. Senior and other leaders regularly present or report to the Board and its Committees on their specific areas of responsibility and major projects. This direct engagement and exposure is extremely valuable to the Committee in identifying and developing the talent pipeline for senior leadership positions.

The Committee is also committed to supporting the Group's growth as an inclusive and diverse organization. The Committee is proud that we continue to meet our stated objectives in terms of Board gender diversity and only engaging executive search firms committed to presenting diverse slates of candidates for consideration. This year we also met our objective in terms of Board ethnic diversity, as set out on page 74. We also recognize that, although we are making progress in terms of diversity in senior leadership positions and in the talent pipeline, we have more work to do in these areas. Further information on our approach to diversity is set out on pages 28 and 29 and our progress against the objectives set in our Board Diversity Policy is detailed on page 74.

Inclusion and diversity policy

Good business is about great people and our associates are the driving force behind our Group. They are consistently focused on providing best-in-class customer service and developing our business by making sure that our customers' projects are better because they choose to work with Ferguson. This is the essence of what makes Ferguson a great Group and runs right to the heart of our strategy and it is why recruiting passionate diverse people and providing excellent development opportunities is one of our core values.

We are committed to developing a diverse workforce that matches our customer base and an inclusive working environment in all the communities where the Group has a presence. We believe this will support the delivery of our strategic objectives by ensuring that we are able to attract the very best talent in our industry. In addition, we believe that the range of perspectives provided by a diverse and inclusive organization 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 organization and associates are encouraged to reach their full potential, irrespective of race, color, 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.

Composition, succession and evaluation continued

During the year, the Committee continued to monitor and review the progress of the Group's inclusion and diversity program. Further information on the Group's approach to diversity and details of our current gender diversity statistics are set out on pages 28 and 29. Although we still have work to do in improving our pipeline for female talent to senior executive positions, we are pleased to report that at Board-level we continue to satisfy the gender diversity recommendations set out in the Hampton-Alexander Review. The Committee also welcomes the Parker Review "Beyond One by 21" recommendation that all FTSE 100 boards should have at least one director from an ethnic minority background by 2021 and is able to report that with effect from May 1, 2021 the Company has been in compliance with this recommendation.

The Committee is also cognizant of the benefit of promoting diversity in its widest sense when undertaking its work. We maintain 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 on this page.

We know that diversity is more than gender. Therefore, the Committee and the Board also take into account wider diversity including race, color, religion, age, sexual orientation, marital status, disability and we are committed to making progress with regards to diversity. During the year the Executive Committee and our most senior leaders participated in a number of highly interactive inclusion and diversity experiences. Unconscious bias training was conducted with leaders and people managers in the USA, UK and Canada. We also rolled-out an on-demand version, available to all associates. Additionally, in the USA we established three Business Resource Groups ("BRG"): African American, Women's and LGBTQ+ to provide support, connection and affiliation across these groups. Similarly in Canada we launched both a Women's and LGBTQ+ BRG. Further information on the actions we have taken during the year in relation to inclusion and diversity can be found on pages 28 and 29.

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

Objective[1]	Status	Progress in 2020/21
To maintain a minimum of 40 per cent female representation on the Board.	Achieved	50 per cent of the Board is female.
To achieve and maintain at least one person from an ethnic minority background on the Board by 2021.	Achieved	There is one ethnic minority female on the Board.
To achieve a minimum 25 per cent female representation among senior management by 2025.[2]	Ongoing	20 per cent of senior management are female (2019/20: 20 per cent). 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. We have established Inclusion and Diversity Councils and BRGs in the US and Canada to promote inclusion and drive our initiatives. In addition, a mentoring program is being piloted and we are creating a development program for female associates.
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	During the year Spencer Stuart was engaged in relation to searches for several key senior management positions. Korn Ferry was engaged in relation to the appointment of three Non Executive Directors and a senior management position. Both firms were engaged in coordination with the Nominations Committee and are signatories to the Voluntary Code of Conduct.

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, color, religion, gender, age, sexual orientation, marital status, disability or any other characteristic that makes them unique.
2. Defined as the Executive Committee and their direct reports that are included in the Company's report to the annual Hampton-Alexander Review.

Geoff Drabble
on behalf of the Nominations Committee
September 28, 2021

Audit, risk and internal control

Audit Committee

Alan Murray
Audit Committee Chair

Audit Committee members

Membership	Meetings attended (eligibility)
Alan Murray[1] (Chair)	6 (6)
Tessa Bamford	6 (6)
Cathy Halligan	6 (6)
Brian May[1]	4 (4)
Suzanne Wood[1]	4 (4)
Members who stepped down during the year	
Tom Schmitt[2]	1 (1)
Nadia Shouraboura[2]	1 (1)
Jacky Simmonds[2]	1 (1)

1. Qualified accountant.
2. Ceased to be members of the Committee on October 1, 2020 when changes to the composition of the Committee became effective as announced on September 29, 2020.

Audit Committee overview

– During the year, Brian May and Suzanne Wood joined the Committee.

– As at the date of this report, the Committee is made up of five Non Executive Directors who are determined to be independent for the purposes of the Code. Details of membership and attendance are set out in the table above.

– Other attendees at meetings included the Chairman, Group Chief Executive ("Group CEO"), Group Chief Financial Officer ("Group CFO"), 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, relevant financial experience and financial literacy.

– Private sessions for Committee members are held when necessary 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 privately with the Committee regularly.

An overview of the Committee's areas of responsibility is set out on page 68 and the Committee's Terms of Reference are available at **www.fergusonplc.com**

Dear Shareholder

I am pleased to present this report on the work of the Audit Committee during the financial year ended July 31, 2021.

It is my view that the Committee plays a key role in the Company's governance framework and its primary purpose is to act independently and with integrity to provide oversight of the Group's financial reporting procedures and internal control framework as well as monitoring the effectiveness, performance, objectivity and independence of our internal and external auditors.

This year has been another busy year for the Committee. As a result of the recent additional listing of ordinary shares on the New York Stock Exchange ("NYSE") in the US, in addition to Jersey and UK laws and regulations, we are now also subject to the reporting requirements of the Securities Exchange Act of 1934 (as amended), the Sarbanes-Oxley Act of 2002 ("SOX"), the listing requirements of the NYSE, and other applicable securities rules and regulations. In the lead up to and following the listing on the NYSE, the Committee has overseen the changes that have been and will be made to the Group's control environment and financial reporting. The Committee recommended to the Board that for periods beginning on and after August 1, 2021 the Company adopt the US GAAP basis of accounting, which was announced on March 16, 2021. In addition, the Committee has closely monitored the preparations for compliance with the requirements of SOX. I am pleased with the progress the Group has made with regard to these initiatives.

While the Committee has overseen these changes, it has continued to focus during the year 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 judgments made by management and the assumptions and estimates that underpin those judgments. We received regular reports from Deloitte on various matters and continued to oversee their effectiveness and independence. 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 considered all matters raised through the Group's ethics helpline.

The Committee keeps a close eye on future developments both externally and within the Group that could have a significant impact on our operations. During the year we discussed the BEIS paper on "Restoring trust in audit and corporate governance" and continued to review proposed changes to the UK audit market and our responsibilities as a UK and US listed Company.

The Committee continued to take into account how it should operate efficiently in light of the COVID-19 pandemic. All meetings went ahead as scheduled, with members and attendees attending either in person, where it was safe and permissible to do so, or virtually. The Committee also reviewed external and internal audit plans to ensure that Deloitte and Internal Audit maintained the expected high level of rigor, reflected understanding of the impact of COVID-19 and were able to work safely and in compliance with relevant laws and guidance.

During the year, the Company received correspondence from the FRC in January 2021 from the FRC's Audit Quality Review ("AQR") team regarding the audit of the Company's 2018/19 financial statements and in March 2021 from the FRC's Corporate Reporting Review ("CRR") team regarding the Company's corporate reporting for 2019/20. Further detail regarding these reviews can be found on pages 79 and 78, respectively.

Audit, risk and internal control continued

This year, the Committee's effectiveness review was externally facilitated, as detailed further down this page. The review found that the Committee is, overall, highly effective. It also identified areas in which we can strengthen our performance. These are reflected in the Committee's priorities for 2021/22, set out below:

- Continue to monitor the resourcing, planning and execution of the SOX compliance framework implementation, US GAAP reporting and other reporting requirements required as a result of the Company's additional listing on the NYSE.
- Reviewing ways in which the Group's control environment can continue to develop and be further enhanced.
- Continued review of cyber and other IT security risks.

I hope you find the information on the following pages useful and informative.

Alan Murray
Chair of the Audit Committee
September 28, 2021

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 enhances the efficiency of its time.

In order to ensure that appropriate information is provided and that meetings have optimal focus, the Committee Chair holds meetings with senior management, Internal Audit and Deloitte prior to and following Committee meetings on a periodic basis. Information is delivered to Committee members in accordance with the process detailed for the delivery of information to the Board described on page 65.

Committee composition

The Nominations Committee and the Board keep the composition of the Committee under regular review. All members of the Committee are Non Executive Directors and are determined to be independent for the purposes of the Code, and this is reviewed on an ongoing basis. The Committee's composition also complies with the independence rules of the New York Stock Exchange ("NYSE"). Although the Board has determined that Tessa Bamford is an independent Board Director for the purpose of the Code, Tessa does not meet one of the strict technical independence criteria for audit committees under the rules of the NYSE. However, in accordance with these rules, Tessa may remain as a member of the Audit Committee for 12 months from the date of the Company's additional listing of shares on the NYSE. Between them, the members of the Committee possess significant operational, commercial (including e-commerce), financial, marketing and listed company skills and expertise gained in large international businesses, which are relevant to a leading value added distribution company listed on the London Stock Exchange and the NYSE.

Alan Murray, Brian May and Suzanne Wood possess recent and relevant financial knowledge and are considered to be audit committee financial experts. They hold professional qualifications in accountancy and are currently or have previously served as the Chief Financial Officer or Finance Director of large publicly quoted or international businesses. All members of the Committee are considered to be financially literate.

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 summarized in their biographies on pages 63 and 64.

Committee effectiveness

This year, the Committee's effectiveness review was conducted by Lintstock who undertook a survey of Committee members and attendees and conducted follow-up interviews that used the answers to the survey questions as a framework. Overall, the Committee was rated as highly effective and had benefited from the experience brought by its new members. The review identified a few opportunities for further improvement and these are reflected in the Committee's 2021/22 priorities which are detailed at the top of this page.

Last year's effectiveness review highlighted three areas of focus for the Committee. Further information on the focus areas, along with the actions taken to address them, are detailed in the table below.

2020/21 area of focus	What the Committee has done
Continued oversight of the Group's control environment and risk management processes.	– Received updates on the Company's control framework and project to prepare for compliance with the requirements of SOX at every meeting. – Reviewed reports on the Company's operational assurance process as well as risk reports. – Received an update from the Chief Information Officer on information security and cyber risk.
Transition of responsibilities from the outgoing Group CFO to his successor.	– Ensured that there was a smooth and successful handover of responsibilities from the outgoing Group CFO to the incoming Group CFO. – The Chair of the Committee also spent time with the incoming CFO to ensure that he was properly briefed on the requirements and expectations of the Committee.
Oversight of actions related to the additional US listing, including preparations for compliance with SOX and ensuring that reports and information received by the Committee are developed to reflect the evolution towards additional governance requirements while retaining appropriate clarity and succinctness.	– Received an update on the project to prepare for compliance with the requirements of SOX at every meeting. – The Committee's terms of reference were updated during the year for consistency with US governance requirements. – Where required, additional reports and information were provided to the Committee and governance practices were developed to comply with US governance requirements.

Principal areas of focus

The Committee has a rolling program of agenda items to ensure that relevant matters are properly considered. Some of the key items which were discussed by the Committee during 2020/21 are summarized below.

Principal areas of focus during 2020/21	Further information
Financial statements	
Reviewed management's work in conducting a robust assessment of such risks as would threaten the future performance or liquidity of the Group, including its resilience to the threats of viability posed by certain of those risks in severe but plausible scenarios.	See pages 53 and 54*
Received and discussed reports and presentations from management regarding the Group's Full and Half Year Results prior to their announcement.	See **www.fergusonplc.com**
Reviewed 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 78
Conducted a fair, balanced and understandable review of the 2020 Annual Report and Accounts.	See page 79**
Internal control environment	
Received reports on the Group's internal controls on a regular basis. Updates on the testing of these controls were regularly provided as part of Internal Audit reports.	
Reviewed reports that identified significant existing and emerging risks facing the Group.	See pages 52 to 59
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 pages 80 and 81
Received regular reports detailing matters reported through the Group's international confidential telephone reporting lines and secure website reporting facility, including a summary of investigations into matters raised and details of any corrective action taken.	See page 81
Received regular updates on the Group's internal control framework, including the project to prepare for compliance with the requirements of SOX.	See page 75
Received regular updates on the US GAAP reporting project and agreed to recommend to the Board that the Group adopt the US GAAP basis of accounting for periods beginning on and after August 1, 2021.	See page 75
Received detailed bi-annual reports on the Group-wide application of the Group's current financial control framework.	
Internal Audit	
Received reports from the Group Head of Internal Audit on the function's work at every meeting.	See pages 80 and 81
Met privately with the Group Head of Internal Audit on a regular 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, where applicable, details of the engagement of Deloitte for any non-audit work at each Committee meeting.	See pages 79 and 80
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 165 to 171
Met privately with senior representatives from Deloitte on a regular basis.	
Considered the timing for tendering for the external audit.	
Legal and governance	
Received regular updates on major matters, including those relating to litigation, compliance investigations and employment matters involving senior leaders.	
Audit Committee effectiveness	
Held a private session for Audit Committee members at each meeting and participated in and reviewed the results of the formal annual review of the Committee's effectiveness.	See page 76

* The information provided on pages 53 and 54 relates to the 2021 viability statement, which was carried out after the end of the financial year ended July 31, 2021. For further information on the 2020 viability statement, which was reviewed by the Committee during the year, please see pages 54 and 55 in the Ferguson plc Annual Report 2020.

** The information provided on page 79 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 July 31, 2021. For further information on the review of the 2020 Annual Report please see page 78 in the Ferguson plc Annual Report 2020.

Financial reporting and significant financial judgments

The Committee considered the significant judgments and estimates below, as well as the ones described in note 1 to the consolidated financial statements, in the context of the 2020/21 financial statements. These were discussed and reviewed with management and the external auditors and the Committee challenged judgments 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 that report. The information contained in the table below should be considered together with the independent auditor's report on pages 165 to 171 and the accounting policies disclosed in the notes to the financial statements as referenced in the table.

Item	Description	Audit Committee review and conclusions
Disposal of Wolseley UK (new one-off item)	The Committee reviewed the accounting for the disposal of Wolseley UK including a review of the impairment loss and loss on disposal calculation and the non-cash recycling of foreign exchange in reserves. The review included information about the proceeds received, the assets disposed of, any associated disposal costs and the judgments taken in relation to the recycling of foreign exchange in reserves. The review considered the classification between impairment loss and loss on disposal and the associated disclosure. For further information, please see note 28 of the consolidated financial statements on page 162.	Following the review and consideration of the external audit findings, the Committee concluded that the disposal of the UK business had been properly reflected in the consolidated financial statements.
Inventory valuation (recurring item)	Judgment 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 inventory counts.	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. Following its review, which included consideration of the external audit findings, the Committee concluded that a $181 million provision for obsolete and slow-moving inventory was consistently calculated on a prudent basis, appropriate and fairly stated in the consolidated financial statements.
Completeness of supplier rebates (recurring item)	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 judgment. However, for tiered rebates, judgments are required to forecast the expected level of volumes purchased to determine the appropriate rate at which a rebate is earned.	The Committee's review covered the processes and controls in place during the year and the level of adherence to the Group's accounting policies and procedures. 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 $399 million rebate receivable as at July 31, 2021 were prudent but appropriate and properly reflected in the consolidated financial statements.

In March 2021, the Company received a letter from the FRC's CRR team in relation to its regular review and assessment of the quality of corporate reporting in the UK[1]. The review related to the Company's corporate reporting for the 2020 Annual Report and Accounts and the letter raised no questions or queries and noted a few matters for the Company to consider where disclosure enhancements could benefit users of the financial statements. We have considered these matters in the preparation of the 2021 Annual Report and Accounts and improved the disclosures where appropriate.

1. We note the inherent limitations of the FRC's review. The FRC stated that the scope of its review was based on the Company's 2020 Annual Report and Accounts and was conducted by FRC staff who have an understanding of the relevant legal and accounting framework. The review did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's review only covered specific disclosures and does not provide assurance that the Company's 2020 Annual Report and Accounts are correct in all material respects.

Fair, balanced and understandable assessment

Overview	Assessment process	Conclusion
At the request of the Board, the Committee assessed whether the content of the 2021 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.	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.	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.

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 detailed reports on their work and conclusions on the financial statements, critical accounting judgments and estimates and the internal control environment.

The terms, areas of responsibility and scope of Deloitte's 2020/21 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 2020/21 external audit plan has been successfully completed and their independent auditor's report can be found on pages 165 to 171.

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 the CFO of each operating business, the Committee Chair, Group CFO, and the Chief Information Officer as well as the Group Finance, Internal Audit, Treasury and Tax teams. The results of the survey which are reported to the Committee, 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 relating to 2019/20 was rated lower than in the prior year principally as a result of a more complex operating environment which was exacerbated by the impact of the pandemic. Opportunities to further enhance their service were discussed and agreed with the Committee. Although there had been a decline in the overall performance rating, the Committee was satisfied that Deloitte continues to provide an effective audit service and was particularly pleased with the open, transparent and constructive way in which Deloitte engaged in the process and collaborated with the Company to enhance their service.

The FRC's AQR team selected to review the audit of the Group's 2018/19 financial statements and the review was concluded in January 2021[1]. This review related to the quality of the audit of the 2018/19 financial statements undertaken by Deloitte. Deloitte kept the Company up to date as the review progressed and the Chair of the Audit Committee received a full copy of the findings of the AQR team. Some matters were identified as requiring improvement. Given the timescales involved in the review, these matters were not concluded upon and therefore not reported in our 2019/20 Annual Report and Accounts, but the findings were addressed in the audit of the Group's 2019/20 financial statements. Having considered the results of the review, the actions taken and improvements made by Deloitte to address the areas identified, as well as our review of the effectiveness of the audit in 2020/21, the Committee has concluded that they are satisfied with the quality and effectiveness of the external audit.

Independence and objectivity

The Group 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 auditor cannot be engaged to perform are provided at **www.fergusonplc.com**. Deloitte and the Company monitored the level of fees for non-audit services throughout the year to ensure compliance with the EU PIE 70 per cent cap. For further details, see page 80.

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.

1. We note the inherent limitations of the FRC's review. The FRC stated that the scope of its review was based on the Group's 2019 Annual Report and Accounts and was conducted by FRC staff who have an understanding of the relevant legal and accounting framework. The review did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's review only covered specific disclosures and does not provide assurance that the Group's 2019 Annual Report and Accounts are correct in all material respects.

Audit, risk and internal control continued

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 Audit Committee is required before the Company's external auditor is appointed to undertake non-audit work. The Audit Committee Chair has delegated authority to pre-approve the non-audit services on a case-by-case basis, provided the Committee Chair reports the pre-approvals to the Audit Committee at its next scheduled meeting. The external auditor will not be appointed to provide non-audit services where the Committee Chair or the Committee considers it might impair their independence or objectivity in carrying out the audit. The Committee reviews any new non-audit engagement at each meeting.

Audit and non-audit fees

Audit fees in the year of $7.4 million (2020: $4.2 million) were higher than last year primarily due to the additional US listing and associated change of regulatory environment impacting on the audit, in particular the requirement to provide audit opinions under both PCAOB and ISA standards, with an enhanced focus on assessing relevant controls.

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 July 31, 2021 were 43 per cent (2020: 83 per cent). A proportion of these fees were not required by law or regulation and were subject to the 70 per cent EU PIE cap. The Group was in compliance with the EU PIE cap in both the current and prior year. Further disclosure of the non-audit fees incurred during the year ended July 31, 2021, can be found in note 4 to the consolidated financial statements on page 136. Non-audit services related to the Group's change to US GAAP, registration with the SEC, implementation of a Sarbanes-Oxley Act compliance framework and the Half Year review. 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 and audit tender process

The Committee reviews and makes recommendations to the Board with regard to the reappointment of the external auditor. In doing so, the Committee takes into account auditor independence and audit partner rotation. The lead audit partner is required to rotate every five years and other key audit partners are required to rotate every seven years. Andrew Bond was appointed as lead audit partner in 2020 and as such the current 2020/21 year-end audit represents his first as lead audit partner. He has been involved in the audit for six years and, of these, has acted as a key audit partner for four years. Therefore, a new lead audit partner will be put in place following the 2021/22 audit (his fifth year as a key audit partner and seventh year involved with the audit).

Deloitte was appointed as the Group's external auditor for the 2015/16 audit following a formal tender process and their reappointment was approved by shareholders at the 2020 AGM. During the year, the Committee reviewed the arrangements with the current external auditor and considered whether it was appropriate to initiate a tender process. The Committee noted the significant period of change that the Group was, and would be, going through, such as the change to the Company's listing structure, the adoption of the US GAAP basis of accounting and the implementation of a SOX control environment and concluded that given the knowledge and standard of services provided by Deloitte that it would be in the best interests of the Company and its stakeholders for Deloitte to continue as auditor. It is the Committee's present intention to initiate a competitive tender process for the external auditor in 2024 for the 2024/25 audit. However, the Committee will keep this matter under review and may reconsider the tender timetable and process if appropriate. Following the recommendation of the Audit Committee, the Board recommends that Deloitte be reappointed as the external auditor for the financial year ending July 31, 2022 at the 2021 AGM.

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.

Internal control environment and risk management

While 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 summarized below and on the following page.

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 operations 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. The Head of Group Internal Audit seeks approval by the Committee for any changes to the scope or plan during the year. 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.

The Head of Group Internal Audit maintains an internal quality assurance and improvement program covering all aspects of the internal audit activities to evaluate the conformance of these activities with the International Standards for the Professional Practice of Internal Auditing. During a periodic assessment, the Head of Group Internal Audit assesses whether the purpose, authority, and responsibilities of the Internal Audit function continue to accomplish its objectives as reflected in its Charter. The results of this periodic assessment are presented to senior management and the Audit Committee on an annual basis. At least every five years, an independent quality assessment of the Internal Audit function is conducted and the results are shared with the Audit Committee. The last independent quality assessment was conducted in 2018/19. The Committee undertook a review of the effectiveness of the Internal Audit function during the year. The function was highly rated overall and was considered to be well run.

Risk management

The Committee receives bi-annual reports on the Group's operational assurance process, as well as risk reports on a regular basis throughout the year. These reports summarize significant risks and include assessment of these risks from the Executive Committee and senior management. Risks relating to material acquisitions 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. In addition, these reports include an analysis of how COVID-19 amplified or accelerated the onset of certain risks and the steps taken to mitigate any potential impacts.

During the year, the Committee reviewed the effectiveness of the Group's overall risk management program, including the procedures for risk identification, assessment, mitigation, monitoring and reporting and was satisfied with their effectiveness. The Committee will continue to monitor the effectiveness of the Group's risk management program.

The Committee also reviewed management's work in preparing the Company's viability statement, which can be found on page 54, at its meeting in September 2021.

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 Group is exposed.

In relation to the financial reporting process, at the business level, line management is required to implement 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, as well as the Group'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.

While the Committee is of the view that the Group has a well-designed and effective system of internal control, the additional listing in the US means the Group's internal control environment is exposed to a different regulatory regime. Preparations for the requirements under SOX continued throughout the year and improvements have been made. Despite this, further opportunities were identified to strengthen the Group's control environment. The level of detail in the documentation of control procedures, controls over information used in the controls and retention of evidence to support the controls operation are key focus areas for management. The Group is also addressing certain control findings over information technology general controls in the areas of Access Security and Change Management. The Group enhanced its disclosure controls and procedures by establishing a more robust management Disclosure Committee as well as enhancements to its control sub-certification process aimed at identifying knowledge of any material weakness or significant deficiencies, internal control breakdowns, significant or unusual transactions and other items as applicable.

Internal reporting and anti-retaliation, anti-fraud and anti-bribery and corruption programs

In line with its internal reporting and anti-retaliation policy, the Group operates international telephone reporting lines and a secure website reporting platform, which are operated on its behalf by an independent third party. The reporting lines and secure website allow associates an option to remain anonymous. The internal reporting and anti-retaliation policy encourages associates to raise concerns and disclose information they believe shows misconduct or a breach of ethical conduct. All matters reported are investigated and reported to the Committee, together with details of any corrective action taken.

The Group has an anti-fraud and anti-bribery and corruption policy and program in place. All associates are required to comply with the policy and compliance is monitored by Legal Compliance and Risk and Internal Audit. The Committee receives reports on non-compliance with this policy during the year, reviews reports that provide details of fraud losses and considers, discusses or satisfies itself with management's response/actions to control improvements, where applicable.

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

Alan Murray
Chair of the Audit Committee
September 28, 2021

Directors' Remuneration Report

Remuneration Committee

Jacky Simmonds
Remuneration Committee Chair

Remuneration Committee members

Membership	Meetings attended (eligibility)
Jacky Simmonds (Chair)	6 (6)
Kelly Baker[1]	1 (1)
Geoff Drabble[2]	4 (5)
Cathy Halligan[2]	5 (6)
Alan Murray[2]	5 (6)
Tom Schmitt	6 (6)
Members who stepped down during the year	
Tessa Bamford[3]	1 (1)
Nadia Shouraboura[3]	1 (1)

1. Kelly Baker was appointed to the Committee on May 20, 2021 and attended all meetings which she was eligible to attend in the year.
2. An additional unscheduled Committee meeting was held on March 26, 2021 which Geoff Drabble, Cathy Halligan and Alan Murray were unable to attend due to unavoidable scheduling conflicts. All members received copies of the meeting documents, irrespective of whether they attended the meeting.
3. Tessa Bamford and Nadia Shouraboura attended all meetings which they were eligible to attend prior to stepping down from the Committee on October 1, 2020.

Remuneration Committee overview

- Jacky Simmonds has served as Chair of the Committee since August 1, 2014.
- Geoff Drabble and Kelly Baker joined the Committee on October 1, 2020 and May 20, 2021, respectively. Tessa Bamford and Nadia Shouraboura stepped down from the Committee on October 1, 2020.
- As at the date of this report, the Committee is made up of five independent Non Executive Directors and the Chairman. The Committee met six times during the year, including one additional unscheduled meeting to consider the remuneration for an externally appointed member of the Executive Committee. Details of membership and attendance are set out in the table above.
- Other attendees at meetings include the Group Chief Executive, Chief Human Resources Officer, Group General Counsel, Group Company Secretary, Group Head of Reward and the Committee's appointed remuneration advisers.
- The Committee meets with its appointed remuneration advisers without the presence of management on a periodic basis.

An overview of the Committee's area of responsibility is set out on page 68 and the Committee's Terms of Reference are available at **www.fergusonplc.com**

Dear fellow Shareholder

I am pleased to present, on behalf of the Remuneration Committee, the report on Directors' remuneration. I would like to start this year's report by thanking all our 31,000 associates for their continued commitment and contribution to overcoming the many unprecedented challenges the COVID-19 pandemic has presented over the past year. From the very beginning of the COVID-19 pandemic our priority was to protect our people and our business, and I am proud that despite these challenges we have had another strong year of business performance.

Our people

Prioritizing the health and wellbeing of our associates has had a committed focus and we continued to review and enhance several of our people policies in 2020/21 to ensure that we could support our associates as they dealt with the challenges, both personal and professional, of the COVID-19 pandemic. This included:

- enhancing our sick pay policy ensuring that any associate who contracted COVID-19 was paid in full; and
- providing mental health and wellbeing support directly to all our associates through a range of media, including webinars and online material.

During the year under review, we evolved further the financial recognition of our associates' valued contribution. This included:

- discretionary payments totaling $4,500 each for our hourly paid associates in the USA (for those people not already participating in a cash incentive plan); and
- formalizing the short-term incentive opportunity for this population for the 2021/22 financial year onwards.

Following the sale of our UK business in January 2021, we have also taken the opportunity to review our Employee Share Purchase Plan ("ESPP"), which is open to all our North American associates. The current plan design balances the key design aspects of a UK Sharesave scheme and North American qualified plan. At the time of its adoption, this hybrid structure aligned with Ferguson's geographic footprint. However, Ferguson today is a North American business; this, and the additional US listing that happened earlier this year, will enable our North American associates to retain or deal shares in Ferguson more simply in the future. Therefore, we believe it is timely to align our ESPP offering more closely with North American market practice. The adoption of the new ESPP rules will be subject to shareholder approval at the 2021 AGM and, if approved, will apply to all eligible North American associates. This is in line with our aim of facilitating share ownership by our associates.

Employee engagement

The Committee is updated annually on our broader associate compensation structure and policies and we take this into account when reviewing executive compensation at the end of the year. Each year we are provided with a detailed paper covering the remuneration structure and strategy for the Group. We are also updated on policy enhancements and additional programs introduced to support our associates and their wellbeing as noted above. In addition Alan Murray, in his role as Employee Engagement Director, engages directly with associates working in branches, distribution centers, showrooms and administrative positions. Various topics are discussed through the Beyond the Boardroom forum – for further details see page 29. Although this year the sessions were virtual, the level of engagement and insight were not impacted. Feedback from the sessions has resulted in improved communications across the Group and provided the Board and the Committee with a more rounded view of what it is like to work for Ferguson. In a typical year

we would also have the opportunity as a Board to meet with associates during US-based meeting site visits. While this was not possible due to travel restrictions this year, it is hoped that there will be increased opportunities for engagement in the 2021/22 financial year as travel restrictions are relaxed.

Our business

Beyond our financial performance (which is summarized in this letter), the environmental, social and governance ("ESG") agenda continues to be an important influence on our business. We have identified new carbon reduction targets (see page 51), including a target to reduce our Scope 1 and 2 carbon emissions by 35 per cent per mUSD of revenue by 2026 (vs a 2019/20 baseline) and we continue to increase the use of renewable energy across our business. Our ESG priorities extend beyond the environment, recognizing our role in supporting our associates and contributing responsibly to society more generally. Social initiatives are currently focused on diversity and inclusivity, among others the launch of our three new Business Resource Groups; page 29 provides further details of our initiatives in this wide-ranging area.

The Committee also notes the evolving expectation of some investors for ESG performance to be captured in incentives. We are committed to continuing to consider the most effective mechanism for doing so and will engage with shareholders on this subject further at the appropriate time.

Shareholder engagement

During the year we undertook further shareholder consultation as the 2020 Directors' Remuneration Report received marginally less than 80 per cent support. The primary reason identified for this was a concern that the headcount reductions reported for the 2019/20 financial year had not been considered by the Committee in its determination of bonuses awarded to the Executive Directors. We also received further feedback from a small number of shareholders about the absence of a post-employment shareholding requirement, the structure of our bonus deferral arrangements, and our Long Term Incentive Plan ("LTIP") measures.

As noted in our AGM results update announcement to shareholders in June 2021, we took into account all this feedback and the Committee has agreed to:

- increase the in-post shareholding guideline for our Group Chief Executive to five times salary from October 1, 2021;
- introduce a post-employment shareholding requirement for all Executive Directors (as detailed at page 98), to reflect FTSE 100 practice and UK investor expectations;
- take the feedback received in respect of Ferguson's current policy on bonus, Deferred Bonus Policy and LTIP measures into account at our next remuneration policy review and continue to engage with shareholders on these and other aspects of package design; and
- provide greater transparency and clarity to all shareholders around its decision-making processes in respect of key remuneration outcomes, in line with its commitment to align with governance best practice.

I can confirm that we did not take any COVID-19 related government support and did not make any redundancies related to COVID-19 in 2020/21. Also headcount for continuing operations has returned to a broadly similar level to that reported in July 2019.

2020/21 performance and remuneration outcomes

Our Remuneration Policy is built on the principles that executives are only rewarded for delivering strong financial results and that executive pay is aligned with the broader stakeholder experience.

Annual bonus outcomes

Despite the continued impact of COVID-19 on our markets, the strong performance in the USA which we saw towards the end of 2019/20 continued into 2020/21. Canada also saw strong performance in the second half of 2020/21. As a result, both underlying trading profit and cash-to-cash days delivered performance above the maximum level which the Committee had set for the year.

Annual Performance

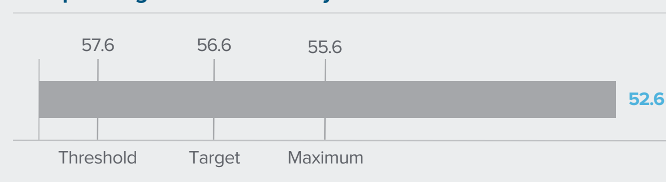
- Strong revenue growth of 14.3 per cent (including 13.0 per cent organic growth).
- Underlying trading profit up $507 million to $2,099 million[1].
- Good cost control.

1. Underlying trading profit for 2019/20 was $1,592 million (restated).

Consistent with prior years, the Committee made some minor adjustments in assessing performance against the bonus targets to better align the incentive outcomes to the underlying performance of the Group. For the bonus, performance is measured at budgeted rates (and excluding from the targets the impact of IFRS 16 and the disposal of the UK business). Further details can be found on pages 92 and 94.

Group underlying trading profit

Group average cash-to-cash days



In keeping with our normal practice, the Committee reviewed the formulaic outcome of the bonus for the 2020/21 financial year in the context of the underlying performance of the Group, particularly as it was mindful that the financial targets had been set and agreed at a time of limited forecasting visibility due to the ongoing COVID-19 pandemic.

We considered a range of reference points to inform this review, including the outcome that would have been warranted had trading profit targets for 2020/21 been based on the same (pre-COVID) growth projections that had informed the setting of the targets for the 2019/20 financial year. On this basis, 2020/21 performance would still have exceeded maximum performance levels.

Taking this into account alongside the positive broader stakeholder experience and underlying business performance over the financial year more generally, the Committee concluded that the business had performed very strongly and proved resilient over the last 12 months, while at the same time prioritizing the welfare of associates. In this context no application of discretion to reduce the annual bonus outcome was considered necessary by the Committee.

The Committee has therefore confirmed bonus payments for the year ended July 31, 2021 of 100 per cent of maximum for both Kevin Murphy and Bill Brundage.

Directors' Remuneration Report continued

LTIP outcomes

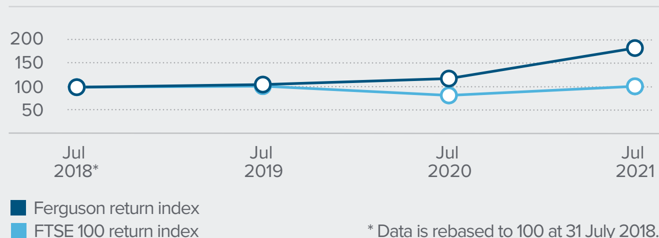
For our 2018 LTIP cycle, the awards were assessed against the performance conditions set at the time of granting the awards in the 2018/19 financial year.

Consistent with prior years, the Committee made some minor adjustments in assessing performance against the LTIP targets to better align the incentive outcomes to the underlying performance of the Group. For the LTIP, the Committee excluded the impact on the performance assessment of exceptional cash flow and IFRS 16 during the performance period. In addition, the base year for EPS was restated for the reclassifcation of the UK business as a discontinued operation. Further details can be found on page 94.

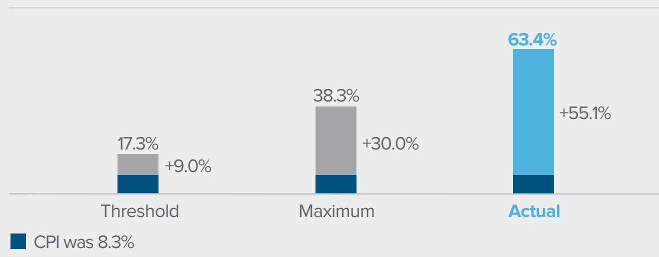
LTIP performance

- 90th percentile total shareholder return.
- Adjusted headline EPS growth 55.1 per cent above US CPI.
- $5.487 billion cumulative adjusted operating cash flow.

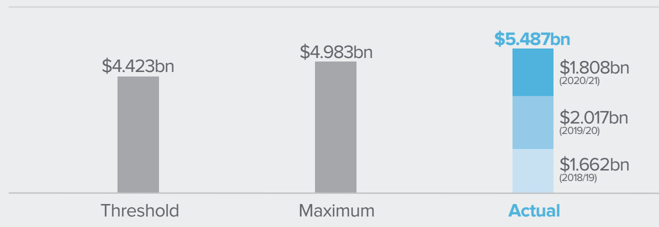
3-year TSR performance vs FTSE 100



Adjusted EPS growth over US inflation (3 years)



Adjusted OpCF (3-year cumulative)



TSR over the three-year performance period was 80.5 per cent and we ranked at the 90th percentile against our comparator group, adjusted headline EPS growth was 55.1 per cent above US CPI and our three-year cumulative adjusted operating cash flow ("OpCF") was $5.487 billion, all three of which exceeded the maximum performance target set and warrant vesting at 100 per cent.

Reviewing this outcome in the same broader context as the bonus, the Committee concluded that the outcome was appropriate in the context of Ferguson's strong performance over the past three years and confirmed the LTIP granted for the performance period (August 1, 2018 – July 31, 2021) will vest at 100 per cent of maximum.

US GAAP – impact on in-flight awards

The move to US GAAP for periods beginning on and after August 1, 2021 will impact how we calculate and report EPS and OpCF going forward. The Committee has reviewed the EPS targets attaching to in-flight (2019/20 and 2020/21) LTIP awards in this context (the OpCF targets remaining unaffected by this change), and concluded that it is appropriate to maintain the degree of stretch of the targets by restating base year EPS by reference to US GAAP. Further details on the in-flight LTIP awards will be provided in the 2021/22 Remuneration report.

Looking ahead to 2021/22

In accordance with our Policy, the Committee undertook an annual review of the Executive Directors' base salaries for the coming year. The Committee awarded a salary increase of 3.0 per cent to Kevin Murphy, in line with the general level of increases awarded to other US based associates in the Group.

Our Group Chief Financial Officer, Bill Brundage, was appointed on November 1, 2020. As we set out in our report last year, Bill's salary on appointment was set below that of the former Group Chief Financial Officer and the level at which we would ordinarily seek to pay a sustained strong performer and experienced incumbent in this role. We also stated our intention to increase Bill's salary on a phased basis over the next two years, subject to continued strong performance, by more than the average increase of the workforce to align with his development in role. This approach, which is consistent with other appointments within Ferguson, is in line with our remuneration policies and practices since 2015.

The Committee reflected on Bill's performance since his appointment, and concluded that this has been very strong to date. He successfully delivered on a significant number of immediate priorities for Ferguson in the year in addition to the normal responsibilities for his role, including our SEC registration in connection with our additional US listing on NYSE, our SOX implementation and US GAAP conversion. In this context, and taking into account the high regard in which he is held both by colleagues and shareholders, the Committee determined that it would be appropriate to award a first increase to Bill's salary, to $645,000 per annum (an increase of 9.3 per cent) from October 1, 2021.

The annual bonus arrangements will continue to operate along the same lines as for the year ended July 31, 2021. However, following the move to US GAAP, Adjusted Operating Profit is now our profit measure. Further details of our bonus arrangement can be found on page 87.

The implementation of the LTIP for the coming year also remains unchanged, with awards subject to TSR, EPS and OpCF (weighted equally, our practice since 2015/16), further details of which can be found on pages 87 and 88. In addition, with the announcement of our planned share buyback, the Committee is conscious of the potential beneficial impact on our EPS performance and, as a result, has raised the performance range required for the EPS element to vest, from CPI+3 per cent to CPI+6 per cent at threshold (for 0 per cent vesting), and from CPI+30 per cent to CPI+33 per cent at maximum. This change offsets the projected EPS tailwind from the buyback, and is intended to ensure the EPS range remains appropriately stretching. Further details of the performance ranges can be found on pages 87.

Finally, as already committed, we will be reviewing the composition of the LTIP measures as part of our next review of the Remuneration Policy ahead of next year's AGM, and will consider all feedback received from our shareholders on this subject.

As I wrote earlier, the Committee has introduced a post-employment shareholding requirement for our Executive Directors, with effect from October 1, 2021, structured as follows:

- Executive Directors will be required to maintain the lower of (i) the level of the in-post shareholding guideline that applies at that date, and (ii) the actual shareholding on departure, for a period of one year following the date of departure and reducing to 50 per cent of this level for a further year; and
- The post-employment requirement will apply to shares vesting from LTIP and DBP awards made in 2021 onwards.

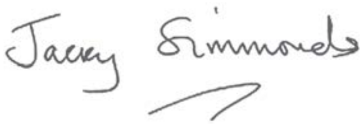
The Committee notes that some UK investors and representative bodies prefer the full holding level to be maintained for two years. However, in developing the structure outlined above, we have been cognizant that post-employment shareholding requirements are not common practice in the USA (our primary market for executive talent); and have sought instead to strike an appropriate balance between these divergent but equally relevant perspectives.

Finally, we have also increased the Group Chief Executive's shareholding requirement to five times salary, effective from October 1, 2021, to take into account the generally higher expectation in the US market.

Concluding remarks

We – along with many other organizations – continue to face the challenges arising from the COVID-19 pandemic. However, our strong performance in 2020/21 places us well to continue to meet them head on. Remuneration remains a valuable tool for appropriately incentivizing and recognizing our associates for their contribution to our strong results. As the external environment will continue to evolve, we remain committed to keeping under review our approach to remuneration, to ensure it continues to align with the experience of all our stakeholders and support driving the business forward.

On behalf of the Committee, I thank you for your continued support.



Jacky Simmonds
Chair of the Remuneration Committee
September 28, 2021

In accordance with Provision 40 of the Code, the Committee keeps the following themes under review when implementing the Policy:

Clarity: The Committee believes the approach to disclosure is transparent, with clear rationale provided for decisions. The Committee remains committed to consulting with shareholders and the Group's workforce on the Policy and its implementation, when appropriate and/or necessary.

Simplicity: The Policy and the Committee's approach to implementation is simple and well understood. The performance measures used in the incentive plans are well aligned to the Group's strategy.

Risk: The Committee has developed remuneration arrangements not to encourage and reward excessive risk taking by setting targets to be stretching and achievable, with discretion to adjust formulaic annual bonus and LTIP outcomes, if required. The Committee also has the discretion to apply malus and clawback to both the annual bonus and LTIP, including in the event of any behavioral risks.

Predictability and proportionality: The Policy details the maximum opportunity levels for each element of remuneration. The alignment of performance measures to strategy, and the approach to setting targets, balances predictability and proportionality by ensuring outcomes do not reward poor performance.

Culture: The Policy is consistent with the Group's culture as well as strategy, therefore driving behaviors that promote the long-term success of the Group for the benefit of all stakeholders.

The Committee believe that the Policy continues to operate as intended and therefore no changes are proposed to the Policy for 2021/22.

Glossary of terms in Directors' Remuneration Report

Term	Definition
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 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, Performance Ordinary Share Plan 2016, Ordinary Share Plan 2019 and Performance Ordinary Share Plan 2019
OpCF	Operating cash flow
Policy	Directors' Remuneration Policy
Remuneration Reporting Regulations or Regulations	The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended
Report	Directors' Remuneration Report
TSR	Total Shareholder Return

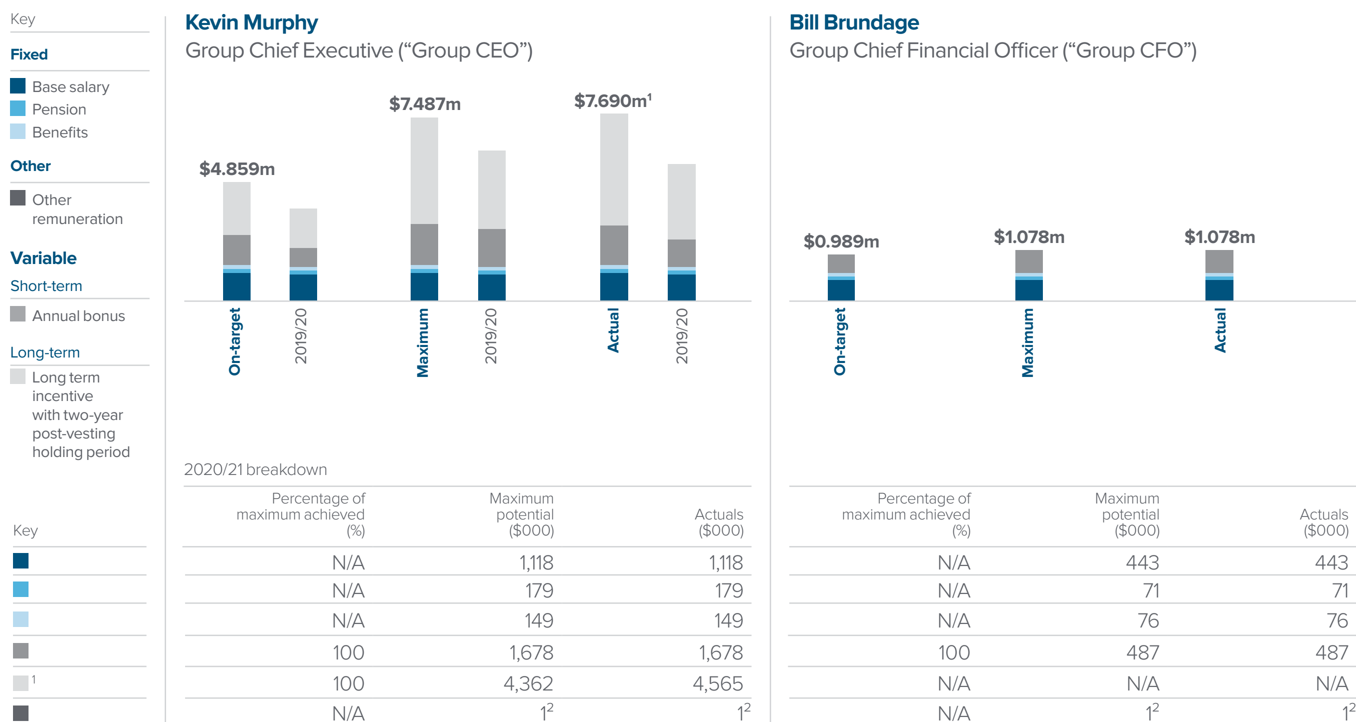
Directors' Remuneration Report continued

Remuneration at a glance

Ferguson remuneration principles

1. 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;
2. To have remuneration packages which comprise salary, short-term bonuses, long term incentives, benefits-in-kind and pension provision; and
3. 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 for Executive Directors 2020/21



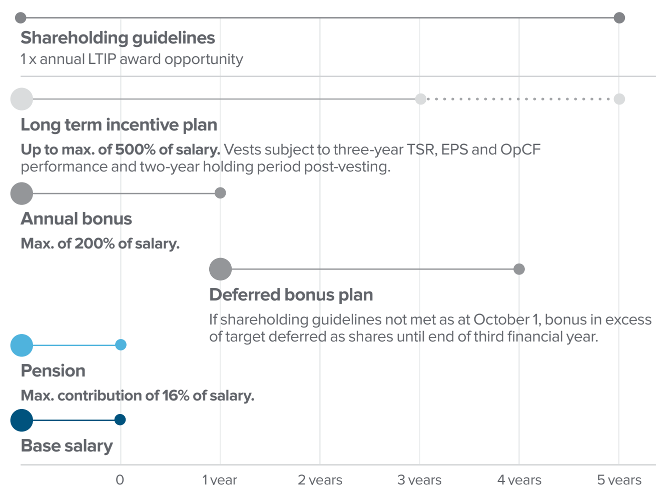
2020/21 breakdown

Key	Kevin Murphy: Percentage of maximum achieved (%)	Kevin Murphy: Maximum potential ($000)	Kevin Murphy: Actuals ($000)	Bill Brundage: Percentage of maximum achieved (%)	Bill Brundage: Maximum potential ($000)	Bill Brundage: Actuals ($000)
Base salary	N/A	1,118	1,118	N/A	443	443
Pension	N/A	179	179	N/A	71	71
Benefits	N/A	149	149	N/A	76	76
Annual bonus	100	1,678	1,678	100	487	487
Long term incentive[1]	100	4,362	4,565	N/A	N/A	N/A
Other remuneration	N/A	1[2]	1[2]	N/A	1[2]	1[2]

1. The Actuals figures for long term incentive plan awards and total remuneration for Kevin Murphy includes the value of dividend equivalents which are not included in the on-target or maximum charts.
2. The Actuals figure for Kevin Murphy and Bill Brundage above include the "other" remuneration relating to the grant of an ESPP award detailed in the single figure table on page 90 and it is included in the charts above.

Remuneration Policy applicable to Executive Directors

Maximum remuneration in accordance with the Policy



Implementation for the year ending July 31, 2022

	Kevin Murphy	Bill Brundage
Shareholding guidelines	500% of salary[1]	250% of salary
LTIP award	350% of salary	250% of salary
Annual bonus at max	150% of salary	110% of salary
Pension contribution	16% of salary	16% of salary
Base salary	$1,156,000	$645,000

1. With effect from October 1, 2021, the Committee determined to increase the shareholding guidelines for Kevin Murphy to an above Policy level of 500% of salary.

Implementation of Policy, year ending July 31, 2022 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, and agreed to increase the base salary level of both Kevin Murphy and Bill Brundage from October 1, 2021.

	Annualized base salary		
	2021/22 ($000)	Effective date of salary change	2020/21 ($000)
K Murphy	**1,156.0** (+3.0% increase)[1]	October 1, 2021	1,122.0
B Brundage[2]	**645.0** (+9.3% increase)[2]	October 1, 2021	590.0

1. The salary increase for Kevin Murphy is in line with the average increase for US based associates (3.0 per cent).
2. The salary for Bill Brundage was set at $590,000 per annum upon appointment as Group Chief Financial Officer on November 1, 2020. Further rationale for the increase awarded from October 1, 2021, is set out on page 84. As noted in the Remuneration Committee Chair's statement, the Committee awarded a salary increase to Bill Brundage that is above the average salary increase for the relevant general workforce in order to move his salary closer to that we would ordinarily seek to pay a sustained strong performer and experienced incumbent in this role. This approach was highlighted in last year's Directors' Remuneration Report and is consistent with the 2019 Policy.

Pension and benefits

Both Executive Directors participate in the defined contribution pension arrangement's of Ferguson Enterprises, LLC and receive a Company contribution of 16 per cent of base salary, in line with the average maximum a US associate could receive in their pension plan. This includes a 401k plan and Ferguson Executive Retirement Plan arrangements. The 401k plan has a normal retirement age of 62, however, in-service withdrawals are possible at 59½. The Ferguson Executive Retirement Plan has a normal retirement age of 55. Only base salary is included in the calculation of the Company pension contributions. Benefits provided to the Executive Directors are detailed in the notes to the Remuneration table on page 90.

Annual bonus

The threshold, target and maximum bonus opportunities for 2021/22 are set out in the table below:

	As % salary		
	Threshold	Target	Maximum
K Murphy	49%	110%	150%
B Brundage	50%	90%	110%

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 adjusted operating 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 2021/22 financial year. 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 behaviors 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 business 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 Board considers that the performance targets for 2021/22 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 2021/22 at the levels set out in the table below:

	LTIP (award value as % of salary)
K Murphy	350%
B Brundage	250%

The extent to which these LTIP awards vest will be dependent on the following performance targets over a three-year performance period, each with a weighting of one-third of the total award opportunity: relative TSR, EPS growth and OpCF.

Relative TSR

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 incentivizes outperformance of the Group relative to other UK listed companies of comparable scale. The TSR performance condition supports the achievement of profit growth, cash generation, maximizing shareholder value and relative outperformance of its peer group.

EPS growth

The EPS[1] element of the award will vest as set out in the table below (comprising one-third of the total award opportunity):

Total margin of EPS growth over US inflation ("CPI") after three years	Percentage of award subject to EPS which will vest[2]
33% and above	100%
Between 6% and 33%	0%-100%
At or below 6%	0%

1. Headline EPS (or US GAAP equivalent) as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
2. Awards will vest on a straight-line basis between 0 per cent and 100 per cent.

For the EPS growth target, 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' forecasts.

Directors' Remuneration Report continued

OpCF

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]
$6.392 billion	100%
Between $5.487 billion and $6.392 billion	25%-100%
$5.487 billion	25%
Below $5.487 billion	0%

1. Cash generated from operations (before interest and tax) as presented in the audited Group cash flow statement in the Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
2. The cumulative three-year figure for adjusted OpCF for the last three years equals $5.487 billion, as set out on page 94.
3. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.

For OpCF generation, the Committee sets the cumulative OpCF target having due regard to the Group's budget and strategic plan every year as well as market expectations and the Group's trading environment.

The OpCF measure is considered appropriate as it encourages long-term generation of cash to fund investment and returns to shareholders.

Illustrations of the Remuneration Policy (2021/22)

The following charts give an illustrative value of the remuneration package that Kevin Murphy and Bill Brundage would receive in accordance with the Policy based on:

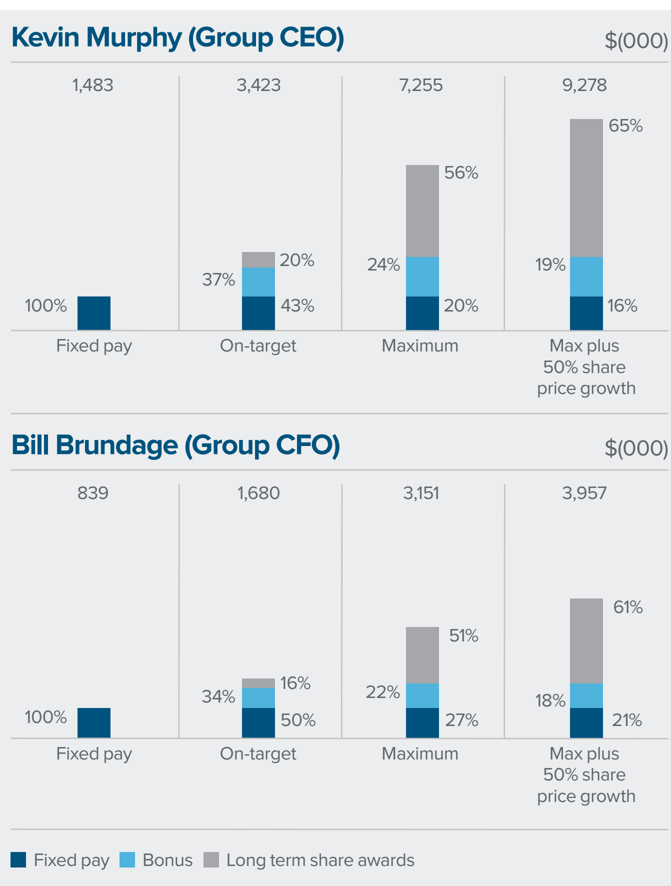
- **Fixed Pay**: (1) 2021/22 base salary, (2) 2020/21 benefits (as set out in the Remuneration table on page 90 and annualized in the case of Bill Brundage), and (3) 2021/22 pension contribution.
- **Variable Pay**: (1) 2021/22 LTIP award and (2) 2021/22 bonus award.

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 Kevin Murphy and Bill Brundage may be eligible nor the dividend equivalent amount payable on the LTIP award as shares.

The assumptions for on-target and maximum performance are applied to the figures provided below.

Annual bonus	LTIP
On-target	
Paid at (as a percentage of base salary): – 110 per cent for Kevin Murphy – 90 per cent for Bill Brundage	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 – 42 per cent for Bill Brundage
Maximum	
Paid at (as a percentage of base salary): – 150 per cent for Kevin Murphy – 110 per cent for Bill Brundage	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 – 250 per cent for Bill Brundage

1. The payment level for performance in line with threshold for the 2021/22 LTIP. Further details are set out on pages 87 and 88.
2. Awards will be granted by reference to a percentage of the Executive Directors' 2021/22 base salary and this table calculates the value of the awards on that basis. These values are used in the scenarios.



Non Executive Directors and Chairman

The Company's policy on the Chairman's remuneration is set by the Committee. The 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 annualized fees for 2021/22 is set out below:

	2021/22 (£000)[1,2]	2020/21 (£000)[2]
Chairman's fee	**423.0**	410.5
Non Executive Director base fee	**73.7**	71.5
Additional fees:		
Senior Independent Director	**21.7**	21.0
Chair of Audit Committee	**21.7**	21.0
Chair of Remuneration Committee	**21.7**	21.0
Employee Engagement Director	**10.5**	10.2

1. All increases to Non Executive Director/Chairman fees were broadly in line with the average salary increase awarded to the relevant general workforce.
2. The Non Executive Directors (including the Chairman) are also eligible to receive 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.

Annual report on remuneration

Report for the year ended July 31, 2021

Information

For the purposes of this Annual report on remuneration:

(1) any estimated share values are determined using a share price of 9,849.1 pence, being the average closing mid-market quotation for Ferguson plc shares for the three-month period ended July 31, 2021.

(2) the remuneration of Kevin Murphy and Bill Brundage 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 July 31, 2021 of $1.3560:£1 (2020: $1.2613:£1).

Remuneration Committee

The Committee met regularly during the year. Details of meetings and attendance are shown in the table on page 82.

Principal areas of focus in 2020/21

Governance

– Engagement with shareholders on the implementation of the 2019 Policy during the year and 2020 AGM vote, and reviewing their feedback on this.
– Review and approval of the 2019/20 Directors' Remuneration Report.
– Annual governance and compliance review including reviewing remuneration structure for the Group and methods for gathering the views of the workforce.
– Annual review of remuneration adviser performance and tender process for US adviser.
– Annual review of terms of reference.
– Externally facilitated review of effectiveness of the Committee.
– Annual review of Directors' shareholdings against applicable shareholding guidelines.
– Approval of new shareholding guidelines effective October 1, 2021.

Reward (including salary and fees review)

– Review of executive pay levels and the Chairman's fee.
– Review and approval of remuneration proposals for Executive Directors and Executive Committee members.
– Analysis of UK and US key reward and compensation practices.
– Approval of remuneration proposal for an externally appointed member of the Executive Committee.

Incentives

– Review and assessment of the impact of (1) additional US listing (2) disposal of Wolseley UK and (3) change of accounting standards to US GAAP on discretionary and all-employee share plans.
– Review of impact of COVID-19 pandemic on incentive arrangements.
– Review and approval of 2019/20 annual bonus outcomes and bonus structure and targets for 2021/22.
– Review and approval of LTIP structure and targets for 2020/21 awards.
– Confirmation of vesting of LTIP and other discretionary share plan awards that vested in 2020/21.
– Review and approval of grant of LTI awards and design of all-employee share plan awards for 2021/22.
– Regular review of performance against targets for outstanding LTIP and other discretionary share awards.

Remuneration Committee effectiveness review

The annual review of the effectiveness of the Committee was conducted by Lintstock who undertook a survey of Committee members and attendees and conducted follow-up interviews that used the answers to the survey questions as a framework. The results of the review highlighted that the Committee was working effectively and that the Committee should develop its understanding of the requirements and impact of the additional US listing on remuneration practices while balancing the requirements of US and UK stakeholders and maintaining UK governance standards.

Advisers to the Committee

During the year, the Committee received advice and/or services from various parties. Details are set out below.

In December 2020 the Committee reviewed the performance of, and advice provided by, its independent remuneration consultant, Mercer Kepler (which is the UK Executive Reward consulting brand of Mercer, part of the MMC group of companies). On January 1, 2021 the lead Mercer Kepler partner moved to a new specialist remuneration consulting firm, Ellason LLP. The Committee appointed Ellason LLP as its independent UK remuneration adviser from that date. The Committee also retained Mercer to provide US remuneration advice and, following a competitive tender process led by the Chair of the Committee, appointed Mercer's US Executive Reward consulting practice in May 2021 as the Committee's US remuneration consultant. Ellason LLP and Mercer are both members of the UK Remuneration Consultants Group, and signatories to its Code of Conduct which governs standards in the areas of transparency, integrity, objectivity, confidentiality, competence and due care.

The Committee has established arrangements to ensure that the advice received from both Ellason LLP and Mercer is independent of advice provided to the Company. Both Ellason LLP and Mercer are appointed by the Committee and their performance, along with the quality and objectivity of their advice, is reviewed on an annual basis. The Chair of the Committee also maintains direct contact with the lead partners.

Ellason LLP and Mercer 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 Ellason LLP and Mercer for the advice provided to the Committee during the year were £29,575 and £103,925, respectively. Fees (including expenses) paid to Ellason LLP and Mercer for other remuneration-related services provided to the Company during the year were £6,350 and £2,975. Neither Ellason LLP or Mercer have any personal connections with any individual Directors of the Company. The Committee is satisfied that the advice received from the remuneration consultants was both objective and independent.

Freshfields Bruckhaus Deringer LLP ("Freshfields") provided legal advice to the Committee during the year in connection with the 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 £23,871. Freshfields was appointed by the Company and also provided other services (including legal, governance and share plan advice) to the Group 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 Group.

The Committee also seeks internal support from the Chief Human Resources Officer, the Group Chief Executive, the Group General Counsel and the Group Company Secretary, together with other senior Group associates 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 July 31, 2021.

		Fixed remuneration				Variable remuneration				
	Year	Salary (000)	Taxable benefits[4] (000)	Pension benefits[5] (000)	Sub total (000)	Bonuses (000)	Value of LTI vesting[6,7,8] (000)	Other[9] (000)	Sub total (000)	**Total remuneration (000)**
Executive Directors										
K Murphy	**2020/21**	**$1,118.3**	**$149.1**	**$178.9**	**$1,446.3**	**$1,677.5**	**$4,564.5**	**$1.4**	**$6,243.4**	**$7,689.7**
	2019/20	$1,062.8	$127.1	$170.0	$1,359.9	$1,141.5	$3,077.5	$1.4	$4,220.4	$5,580.3
B Brundage[1]	**2020/21**	**$442.5**	**$76.2**	**$70.8**	**$589.5**	**$486.8**	**–**	**$1.4**	**$488.2**	**$1,077.7**
	2019/20	–	–	–	–	–	–	–	–	–
Past Director										
M Powell[2]	**2020/21**	**£148.7**	**£4.7**	**£37.2**	**£190.6**	**–**	**–**	**–**	**–**	**£190.6**
	2019/20	£595.0	£18.7	£148.7	£762.4	£471.3	£1,721.1	£2.2	£2,194.6	£2,957.0
Total[3]	**2020/21**	**$1,762.4**	**$231.7**	**$300.1**	**$2,294.2**	**$2,164.3**	**$4,564.5**	**$2.8**	**$6,731.6**	**$9,025.8**
	2019/20	$1,813.3	$150.7	$357.6	$2,321.6	$1,735.9	$5,248.3	$4.2	$6,988.4	$9,310.0

1. Bill Brundage was promoted to Group Chief Financial Officer and an Executive Director on November 1, 2020. During 2020/21, Mr Brundage received nine months' salary, taxable benefits, pension and annual bonus payment in this role. In line with the remuneration reporting regulations, the disclosure in the table above includes all remuneration received by Bill Brundage in connection with his tenure as Chief Financial Officer (but excludes the remuneration (including any vested share plan awards) he received in 2019/20 and three months' of 2020/21 prior to his promotion).
2. Mike Powell stepped down as a Director on October 31, 2020. The values shown for 2020/21 include his pro rated salary, benefits and pension benefits earned up to this date.
3. For the purposes of the total remuneration figures shown for 2020/21 and 2019/20, payments made to Mike Powell in GBP have been converted back into USD using the 12-month average exchange rate for the year ended July 31, 2021 ($1.3560: £1) and the 12-month average exchange rate for the year ended July 31, 2020 ($1.2613: £1).
4. For all Directors, their benefits during the year included private health insurance, car benefit (car allowance and/or car), healthcare benefits. For Kevin Murphy and Bill Brundage their benefits also included life insurance premium contributions.
5. Kevin Murphy and Bill Brundage participate in the defined contribution pension arrangements of Ferguson Enterprises, LLC receiving contributions of 16 per cent of base salary. The cost of employer contributions during the year was $249,728. During the year ended July 31, 2021, Mike Powell received salary supplements in lieu of Group pension scheme membership for the period to October 31, 2020.
6. The 2018/19 LTIP awards will vest overall at 100 per cent in October 2021. For further details on the percentage vesting see page 94.
7. Value shown for 2020/21 represents estimated value of an LTIP award granted in 2018 to Kevin Murphy that will vest in October 2021. The estimate assumes 100 per cent overall vesting of LTIP awards using the three-month average share price noted on page 89 under the heading "Information". No discretion was applied for either share price movements or for formulaic vesting outcomes. Details of a POSP award granted to Bill Brundage in 2018 (before he was promoted and appointed as an Executive Director) are not included in this table (in line with the remuneration reporting regulations) but a summary is set out on page 94 for transparency. An LTIP award granted to Mike Powell in 2018 lapsed on October 31, 2020 when he left the Company. Value shown for 2019/20 represents actual vesting of Kevin Murphy and Mike Powell's awards which vested in October 2020, trued up from the figure disclosed in last year's Annual report on remuneration to reflect the share price of £77.22 on the date of vesting (October 30, 2020).
8. The value of vested shares under the 2018/19 LTIP has increased by £1,361.9 thousand for Kevin Murphy (equivalent to $1,846.7 thousand at the average exchange rate for the year ended July 31, 2021 of $1.3560: £1) since the award date as a result of share price appreciation. The value on the award date has been calculated using the award price of 5,679.0 pence, being the average close price for the 10 dealing days prior to the award date. No discretion was exercised by the Committee as a result of this share price appreciation, which is considered to reflect appropriately the performance of the Group over the performance period.
9. Both Kevin Murphy and Bill Brundage entered into a one-year, all-employee savings contract under the ESPP in the year. The values shown for 2020/21 and 2019/20 represent 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 (Audited)

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

Payments to past Directors (Audited)

No payments have been made to past Directors during the financial year other than those included in the Remuneration tables above, or as noted below and on page 94.

Mike Powell served as Group Chief Financial Officer and as an Executive Director until October 31, 2020. No remuneration payment or any payment for loss of office of the type specified in Section 430(2B) was made to Mr Powell. A DBP award granted on October 18, 2018 vested in full on August 1, 2021. One further DBP award granted on October 17, 2019 will normally vest in August 2022. All other unvested LTIP and ISP awards held by Mr Powell lapsed in full upon his departure from the Company.

John Martin stepped down as Group Chief Executive on November 13, 2019 and remained an associate of the Company until September 3, 2020. As an associate, Mr Martin received £114,846 in salary, benefits and pension payments for the period August 1 to September 3, 2020. Payment made to Mr Martin in relation to the LTIP award granted on October 18, 2018 is disclosed on page 94. The estimated value at vesting is £2,995,430 using the three-month average share price noted on page 89 under the heading "Information".

External directorships

Neither Kevin Murphy or Bill Brundage holds a non executive directorship in a listed company or other significant appointment.

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 July 31, 2021. Non Executive Directors do not participate in variable remuneration arrangements.

Chairman and Non Executive Directors	Fees (£000) 2020/21	Fees (£000) 2019/20	Travel allowance[2] (£000) 2020/21	Travel allowance[2,3] (£000) 2019/20	Taxable benefits[1] (£000) 2020/21	Taxable benefits[1,3] (£000) 2019/20	Total remuneration (£000) 2020/21	Total remuneration (£000) 2019/20
Chairman								
G Drabble	**410.5**	302.2[4]	**–**	5.0	**1.9**	5.8	**412.4**	313.0
Non Executive Directors								
K Baker[5]	**17.9**	–	**–**	–	**–**	–	**17.9**	–
T Bamford	**71.5**	70.0	**–**	5.0	**–**	1.8	**71.5**	76.8
C Halligan	**71.5**	70.0	**–**	20.0	**–**	7.7	**71.5**	97.7
B May[5]	**41.7**	–	**–**	–	**–**	–	**41.7**	–
A Murray	**123.7**	114.2	**–**	15.0	**–**	6.2	**123.7**	135.4
T Schmitt	**71.5**	70.0	**–**	15.0	**–**	8.6	**71.5**	93.6
N Shouraboura	**71.5**	70.0	**–**	10.0	**–**	6.1	**71.5**	86.1
J Simmonds	**92.5**	90.5	**–**	5.0	**0.6**	5.5	**93.1**	101.0
S Wood[5]	**41.7**	–	**–**	–	**–**	–	**41.7**	–
Total remuneration[6]	**1,014.0**	786.9	**–**	75.0	**2.5**	41.7	**1,016.5**	903.6

1. The taxable benefits for the Non Executive Directors (including the Chairman) relate to UK taxable benefits.
2. Non Executive Directors (including the Chairman) are eligible to receive 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. Due to the impact of the COVID-19 pandemic, no intercontinental travel to Board and Committee meetings occurred during the year ended July 31, 2021.
3. Travel allowance and taxable benefit information for 2019/20 was disclosed under taxable benefits in last year's Annual report on remuneration.
4. The fees for Geoff Drabble in 2019/20 reflect that he was a Non Executive Director for part of the financial year before taking over the role of Chairman.
5. Brian May and Suzanne Wood joined the Board on January 1, 2021. Kelly Baker joined the Board on May 1, 2021. The remuneration shown above for each of Brian May, Suzanne Wood and Kelly Baker is for the period from joining the Board to July 31, 2021.
6. For the year ended July 31, 2020, this figure does not include remuneration paid to Gareth Davis (£212,500) and Darren Shapland (£29,800) who stepped down from the Board on January 31, 2020 and November 21, 2019 respectively. The total remuneration reported in the Annual Report and Accounts for the year ended July 31, 2020 for the Chairman and Non Executive Directors was £1,145,900.

Annual report on remuneration continued

Additional disclosures in respect of the Remuneration table (Audited)

Annual bonus

The annual bonuses awarded to Executive Directors for the year ended July 31, 2021 are shown in the Remuneration table on page 90. The Committee reviewed the level of vesting against the wider business performance of the period and determined this level of payment was appropriate; no discretion was applied to the formulaic vesting outcome. The bonuses are calculated as follows:

		Target performance				Actual performance (as % of salary)			
Director	Measure[2]	Threshold	Target	Maximum	Actual performance	Threshold	Target	Maximum	Maximum opportunity (% of salary)
K Murphy									
	Group underlying trading profit	$1,456m	$1,583m	$1,709m	$2,096m[3]			90.0%	90.0%
	Group average cash-to-cash days[4]	57.6	56.6	55.6	52.6			30.0%	30.0%
	Personal deliverables[5,7]	1/5	3/5	5/5	5/5			30.0%	30.0%
					Total achieved			**150.0%**	150.0%
B Brundage[1]									
	Group underlying trading profit	$1,456m	$1,583m	$1,709m	$2,096m[3]			66.0%	66.0%
	Group average cash-to-cash days[4]	57.6	56.6	55.6	52.6			22.0%	22.0%
	Personal deliverables[6,7]	1/5	3/5	5/5	5/5			22.0%	22.0%
					Total achieved			**110.0%**	110.0%

1. Bill Brundage was appointed Group Chief Financial Officer on November 1, 2020 and received nine months' annual bonus in this role for the year ended July 31, 2021. As required by the remuneration reporting regulations, the table above includes details of his bonus in respect of the Chief Financial Officer role only. Details for his annual bonus in his previous role as Chief Financial Officer, USA for his service in 2020/21 are not required to be included.
2. Details of the performance measures and how they were set were disclosed in the Group's 2020 Annual Report and Accounts on page 84.
3. Actual Group underlying trading profit of $2,099 million (see note 2 to the consolidated financial statements on page 130) adjusted for the retranslation at Group budgeted foreign exchange rates for the year ended July 31, 2021.
4. Actual Group continuing 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 continuing business adjusted for the retranslation at Group budgeted foreign exchange rates for the year ended July 31, 2021.
5. Kevin Murphy's personal objectives were based on successful additional listing on a US exchange, enhancing and developing the Group's strategic plan and ongoing delivery of the Group's technology strategy.
6. Bill Brundage's personal objectives were based on the delivery of the next phase of the Group's technology strategy and roadmap, successful registration of the 20F and additional listing on a US exchange and the execution of the US organizational design plan.
7. 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 subject to considerations of commercial sensitivity at that time.
8. For the year ended July 31, 2021 neither Mike Powell nor John Martin were entitled to payment of an annual bonus.

Following a review, the Committee considers that Executive Directors' personal objectives for 2019/20 are no longer commercially sensitive and has approved the disclosure below. Personal objectives for 2019/20 for Bill Brundage relate to his previous role (having been appointed to the Board as an Executive Director and promoted to Group Chief Financial Officer on November 1, 2020) and are therefore not disclosed.

Executive Director	Objective	Assessment	Payout of element
Kevin Murphy	– Ensure that the Group has a coordinated enterprise solution for e-commerce.	– Strategy developed and necessary resources made available. Solution successfully deployed to the extent possible due to challenges from the COVID-19 pandemic.	35%
	– Create and prioritize a target list of M&A opportunities.	– Target list completed and presented to the Board. M&A activity delayed due to challenges from the COVID-19 pandemic.	30%
	– Deliver the first stage of the Group's technology strategy and roadmap by July 2020 and on budget.	– First phase of project delivered on schedule and on budget. Later phases of project ongoing.	35%
			Total: 100%
Past Director			
John Martin[1]	– Provide leadership inputs to Wolseley UK leadership team and the UK demerger project team to ensure the successful completion of project in line with agreed timescales.	– Necessary resources put in place for the demerger of the UK business to be implemented in line with agreed timetable.	11%
	– Complete an effective and successful handover to Kevin Murphy into the Group CEO role including: Business, Board, Strategy, Investor and People activities.	– Handover completed; Kevin Murphy appointed CEO on November 19, 2019.	13%
	– Provide the Listing Review Project with guidance and support to ensure the successful conclusion of the project.	– Strategy agreed and necessary resources put in place. Additional US listing delivery on-time for intended effective date.	13%
			Total: 37%
Mike Powell	– Ensure successful completion of UK demerger to agreed timescales or UK exit.	– Necessary resources put in place for demerger or disposal of the UK business to be implemented in line with agreed timetable.	36%
	– Successful completion of Listing Review and creation of a suitable implementation roadmap.	– Strategy agreed and necessary resources put in place. Additional US listing delivery on-time for intended effective date.	30%
	– Put in place agreed plans for transition of Group role functions to the US.	– Transition arrangements and timeline agreed. Orderly transition of roles scheduled through to November 2021.	12%
	– Organize a US capital markets day in 2020 which combines a mix of presentations that give investors and sell side analysts deeper insight into the US business. Include opportunities for attendees to see the business; visits to a branch, a showroom and a logistics hub (ship hub or DC). Success of this objective will be based on feedback from attendees based on independent feedback conducted during / after the event.	– Physical US capital markets day not possible due to travel restrictions related to the COVID-19 pandemic. Online presentations with investors and sell side analysts delivered throughout year and positive feedback received.	14%
			Total: 92%

1. John Martin stepped down as a Director on November 19, 2019.

Annual report on remuneration continued

Long term incentives

The Group disposed of its UK business on January 29, 2021. The results of the UK business have been reclassified to discontinued operations and the prior year comparative results have been restated throughout the consolidated financial statements. Headline earnings per share used to measure the performance conditions is on a continuing operations basis and accordingly the base years have been restated for comparability across the performance periods attaching to the 2018/19, 2019/20 and 2020/21 LTIP awards.

Vested awards

Long term incentives awarded under the LTIP in October 2018 will vest in October 2021. The vesting of those awards is subject to the performance conditions shown in the table that follows. In relation to those awards and consistent with past practice, the Committee reviewed the EPS and OpCF measures and considered it appropriate to adjust for the impact of IFRS 16 (EPS and OpCF) and for exceptional cash flow (OpCF only). Further details and reconciliation to the consolidated financial statements are set out in the footnotes to the 2018/19 awards table below.

LTIP

The performance conditions which applied to the awards made in October 2018 have been measured following the year-end and actual performance achieved is detailed below.

2018/19 awards[1]

	Performance required			
Performance level	% of award vesting	TSR relative to FTSE 100 at date of grant	Total margin of adjusted EPS growth over US inflation after three years ("CPI")[2]	Adjusted OpCF[3]
Below threshold	0%	Below median	Below 9%	Below $4.423 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
Actual performance achieved		90th percentile	63.4%	$5.487 billion
% of award subject to each performance condition vesting		100%	100%	100%
			Total percentage vesting[4]	**100%**

1. Details of the performance measures and how they were set were disclosed in the Company's 2018 Annual Report and Accounts on page 87.
2. Headline earnings per share of 414.3 cents per share in 2017/18 (restated) and 688.1 cents per share in 2020/21 adjusted to remove 11.1 cents in 2020/21 relating to the impact of IFRS 16. The growth in adjusted headline earnings per share from 414.3 cents in 2017/18 to 677.0 cents in 2020/21 was in excess of US inflation ("CPI") for the same period of 8.3 per cent.
3. Cash generated from operations, before interest and tax of $2.093 billion (2019/20: $2.252 billion and 2018/19: $1.609 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 $57 million (2019/20: $113 million and 2018/19: $53 million) of cash flow on exceptional items; and to remove $342 million (2019/20: $348 million and 2018/19: $nil) in relation to the impact of IFRS 16.
4. The Committee reviewed this level of vesting against the wider business performance of the period and determined this level of payment was appropriate; no discretion was applied either for share price movements or to formulaic vesting outcomes.

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]
K Murphy[1]	32,658	100%	32,658	$4,564.5
Past Director				
J Martin	29,027	100%	29,027[2]	£2,995.4

1. In accordance with shareholding guideline requirements, Kevin Murphy will retain vested shares for a holding period of two years from the vesting date.
2. As detailed on page 96 of the Company's 2019 Annual Report and Accounts, time pro rating was applied to John Martin's award to reflect his continuing employment during the vesting period (i.e. to September 3, 2020). His original award was 47,499 nil cost options.
3. Value determined using the share price noted on page 89 under the heading "Information".
4. Dividend equivalents have accrued on the 2018 share awards and will be paid out in cash after vesting of the awards. The value of shares vesting figure above includes a value of the cash payment at 621.20 cents per share. For John Martin, the dividend equivalents cash payment will be paid in sterling at a value of 470.36 pence per share.

Performance Ordinary Share Plan

The Performance Ordinary Share Plan Award of 11,479 conditional shares granted to Bill Brundage (before he was appointed to the Board and not in consideration of his becoming an Executive Director) will normally vest in October 2021. This award is subject to a performance condition which is based on underlying trading profit growth of the Group's USA business over a three-year period ended July 31, 2021. The award will vest at 100 per cent.

Unvested awards

LTIP

The following tables set out the performance conditions and indicative total percentage vesting for unvested awards under the LTIP made in 2019/20 and 2020/21 respectively. For those awards the performance conditions of relative TSR, EPS and OpCF each comprise one-third of the total award opportunity. 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.

The move to US GAAP for periods beginning on and after August 1, 2021 will impact how we calculate and report EPS and OpCF going forward. The Committee has reviewed the EPS targets attaching to in-flight (2019/20 and 2020/21) LTIP awards in this context (the OpCF targets remaining unaffected by this change), and concluded that it is appropriate to maintain the degree of stretch of the targets by restating base year EPS by reference to US GAAP. Further details on these LTIP awards will be provided in the 2021/22 Remuneration report.

2019/20 and 2020/21 awards

		Performance levels and performance required			
Element	Performance measure	Below threshold	Threshold	Between threshold and maximum	Maximum or above
TSR	**TSR relative to FTSE 100 at date of grant**	**Below median**	**At median**	**Between median and upper quartile**	**Upper quartile**
	% of award that would vest[1]	0%	25%	25%–100%	100%
EPS	**Total margin of adjusted EPS growth over US inflation after three years (“CPI”)[2]**	**Below 3%**	**3%**	**Between 3% and 30%**	**30%**
	% of award that would vest[1]	0%	0%	0%–100%	100%
OpCF	**2019/20 Adjusted operating cash flow[3]**	**Below $4.292 billion**	**$4.292 billion**	**Between $4.292 billion and $4.832 billion**	**$4.832 billion**
	2020/21 Adjusted operating cash flow[3]	**Below $4.610 billion**	**$4.610 billion**	**Between $4.610 billion and $5.200 billion**	**$5.200 billion**
	% of award that would vest[1]	0%	25%	25%–100%	100%
Indicative total percentage vesting based on performance as at July 31, 2021					
2019/20 award					**100%**
2020/21 award					**100%**

1. Awards will vest on a straight-line basis between threshold and maximum payout percentages.
2. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
3. Cash generated from operations (before interest and tax) as presented in the audited annual Group cash flow statement in the Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).

Performance Ordinary Share Plan

The Performance Ordinary Share Plan Award of 11,202 conditional shares granted to Bill Brundage (before he was appointed to the Board and not in consideration of his becoming an Executive Director) in October 2019 will normally vest in October 2022. This award is subject to a performance condition which is based on underlying trading profit growth of the Group’s USA business over a three-year period ending July 31, 2022.

Annual report on remuneration continued

Share awards and share options exercised during the year

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

Director	ESPP	LTIP	OSP	POSP	DBP	Total[1,2]
K Murphy	127	30,358	–	–	–	30,485
B Brundage	127	–	3,581	7,018	–	10,726
Past Director						
M Powell	–	21,447	–	–	284	21,731

1. The aggregate gain made on exercise of options by Kevin Murphy, Bill Brundage and Mike Powell was £6,692, £6,692 (both ESPP awards) and £6,246 (DBP award), respectively.
2. The aggregate value of assets received or receivable by Kevin Murphy, Bill Brundage and Mike Powell was £2,363,783, £825,276 and £1,683,544, respectively.

Scheme interests awarded during the financial year (Audited)

Awards were made to Kevin Murphy and Bill Brundage during the financial year and the scheme interests are summarized in the table below. 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 and targets, and their weighting, for awards which were granted during the year, are set out on page 95.

Director	Award	Type of award	Number of shares[1]	Face value[2,3] of award (£000)	Performance criteria period	Threshold performance	Performance conditions
K Murphy	LTIP	Conditional shares	37,900	3,042.6	August 1, 2020 – July 31, 2023	0% of element 25% of element 25% of element	EPS TSR Cumulative OpCF
B Brundage	LTIP	Conditional shares	14,329	1,139.0			

1. Kevin Murphy and Bill Brundage's LTIP awards granted during the financial year were based on a percentage of salary as follows: Kevin Murphy (350 per cent) and Bill Brundage (250 per cent).
2. The share price used to calculate the face value of the LTIP share award granted to Kevin Murphy on October 16, 2020 was 8,028.0 pence. The share price used to calculate the face value of the LTIP share award granted to Bill Brundage on November 2, 2020 was 7,948.6 pence. For both LTIP awards this was the average share price over a 10 dealing day period immediately preceding the dates of grant. Both LTIP Awards were conditional share awards and there is no exercise price. 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 awards over the vesting period 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 scheme interests would be 0.02 per cent calculated as at July 31, 2021.

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.

Director[1,2]	Effective date of appointment	Expiry of current term
Executive Directors		
K Murphy	August 1 , 2017 (as CEO, US) November 19, 2019 (as Group Chief Executive)	
B Brundage	November 1, 2020	
Chairman and Non Executive Directors		
G Drabble	May 22, 2019	May 22, 2022
T Bamford	March 22, 2011	December 2, 2021
K Baker	May 1, 2021	December 2, 2021
C Halligan	January 1, 2019	January 1, 2022
B May	January 1, 2021	December 2, 2021
A Murray	January 1, 2013	December 1, 2022
T Schmitt	February 11, 2019	February 11, 2022
N Shouraboura	July 1, 2017	December 1, 2022
J Simmonds	May 21, 2014	May 21, 2022
S Wood	January 1, 2021	December 2, 2021

1. Details of all Directors can be found on pages 62 to 64. The terms of Non Executive Directors are transitioning towards one-year terms to reflect the current vote for re-election at the AGM. Over time it is expected that the terms will be co-ordinated with the timing of the AGM.
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.

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 and they are also available at the Company's corporate headquarters at Winnersh Triangle, UK.

Statement of shareholder voting

The following table shows the results of the full details of the voting outcome for the Remuneration Report resolution at the AGM on December 3, 2020 and the Remuneration Policy resolution at the AGM on November 21, 2019:

	Date of vote	Votes for	For %	Votes against	Against %	Total	Votes withheld (abstentions)
Remuneration Report	December 3, 2020	130,138,075	78.15	36,394,884	21.85	166,532,959	7,983,971
Remuneration Policy	November 21, 2019	124,039,675	70.29	52,431,270	29.71	176,470,945	1,328,995

In response to the 2020 AGM voting result, and in accordance with the provisions of the Code, the Company provided an update via RNS to the London Stock Exchange on June 1, 2021. Following the AGM, the Board engaged with several shareholders and proxy adviser bodies who it identified as having voted against the resolution.

The key reason identified for voting against the resolution was a concern that the headcount reductions reported for the 2019/2020 financial year had not been considered by the Committee in its determination of bonuses awarded to the Executive Directors. In addition, the Remuneration Committee also received feedback that a small number of shareholders voted against the resolution due to the absence of a post-employment shareholding requirement, the structure of our bonus deferral arrangements, and the measures comprising LTIP scorecard. Having reflected on the feedback received, the Remuneration Committee has agreed:

– To provide greater transparency and clarity to all shareholders (commencing with this 2021 Annual Report and Accounts) around its decision-making processes in respect of key remuneration outcomes, in line with its commitment to align with governance best practice. Details are included in the Remuneration Committee Chair's statement on pages 83 and 84.

– To increase the shareholding requirement for our Group Chief Executive to five times salary from October 1, 2021.

– To introduce a post-employment shareholding requirement from October 1, 2021, to align with standard FTSE 100 practice and UK investor expectations. Details are set out on page 98.

– At the next Remuneration Policy review in 2022, to undertake a review of metrics and take into consideration the feedback received from shareholders in respect of Ferguson's current Deferred Bonus Policy and LTIP measures.

Directors' shareholdings (Audited)

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 July 31, 2021 are set out below. There has been no change in current Directors' interests for the period July 31, 2021 and up to the date of this report.

				Unvested share awards			
				With performance conditions		Without performance conditions	
	Shares beneficially owned as at July 31, 2021	Shareholding guideline (as a multiple of salary fees)[1,2]	Vested (unexercised share awards)[3]	LTIP[4]	POSP[4]	DBP[4]	ESPP[4]
Executive Directors							
K Murphy	**57,692**	3.5	–	114,183	–	–	75
B Brundage	**14,003**	2.5	–	14,329	22,681	–	75
Chairman and Non Executive Directors							
G Drabble	**4,983**	1	–	–	–	–	–
T Bamford	**1,940**	1	–	–	–	–	–
K Baker	**–**	1	–	–	–	–	–
C Halligan	**425**	1	–	–	–	–	–
B May	**–**	1	–	–	–	–	–
A Murray	**2,368**	1	–	–	–	–	–
T Schmitt	**1,350**	1	–	–	–	–	–
N Shouraboura	**–**	1	–	–	–	–	–
J Simmonds	**1,894**	1	–	–	–	–	–
S Wood	**–**	1	–	–	–	–	–
Past Directors							
M Powell[5]	**21,011**	N/A	–	–	–	1,180	–

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 while unvested awards of shares or share options do not. Vested share awards do not count towards the guideline until exercised.
2. As at July 31, 2021, Bill Brundage, Geoff Drabble, Cathy Halligan and Nadia Shouraboura had not met their shareholding guideline targets set for 2020/21. Details of the date when their shareholding guideline targets were set and dates by which they must be met are as follows:

Director	**Date on which target was set**	**Date by which target to be met**
Bill Brundage	November 1, 2020	November 1, 2025
Geoff Drabble	August 1, 2019	November 21, 2024
Cathy Halligan	August 1, 2019	January 1, 2024
Nadia Shouraboura	August 1, 2017	July 1, 2022

Shareholding guideline targets for Kelly Baker, Brian May and Suzanne Wood will be set in October 2021.

3. Details of share awards exercised in the year are detailed in the share awards exercised during the year table on page 96.
4. LTIP and POSP awards are subject to performance conditions, but DBP and ESPP awards are not. LTIP and POSP awards were awarded in the form of conditional share awards. DBP awards were awarded to Mike Powell in the form of nil cost options. Further details of the performance conditions which apply to the LTIP and POSP awards are set out on page 95.
5. The shareholding and awards stated for Mike Powell are given as at the date on which he stepped down from the Board.

Annual report on remuneration continued

Shareholding guidelines

For the year ended July 31, 2021, shareholding guideline targets were first set by reference to the salary or fees of a Director as at October 1 in the financial year following appointment to the Board. Internally, the target is calculated using the average share price for the two months ended October 1 of the financial year in which the appointment was made. For Executive Directors, the guideline level of shareholding is set in line with the Executive Director's annual LTIP award opportunity. Shareholding guideline targets are re-tested annually until met. Once met, the target is re-tested at least annually on October 1 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. During the year, new shareholding guidelines were approved by the Committee effective from October 1, 2021. These included a post-employment shareholding requirement that we have been developing in response to investor feedback (as explained on page 85), and which complies with the recent clarification by the FRC of Provision 36 of the Code. The other main changes include an increase of Group Chief Executive's target to five times salary and a revised annual date for target setting of November 1 (while continuing with review of target for purpose of DBP in early October each year).

Relative importance of spend on pay

The following table sets out the amounts and percentage change in total associate remuneration costs, dividends and returns of capital for the year ended July 31, 2021 compared to the year ended July 31, 2020. Further details on associate remuneration, dividends and the share buy back program can be found in notes 11, 9 and 25 of the consolidated financial statements on pages 140, 139 and 159 respectively.

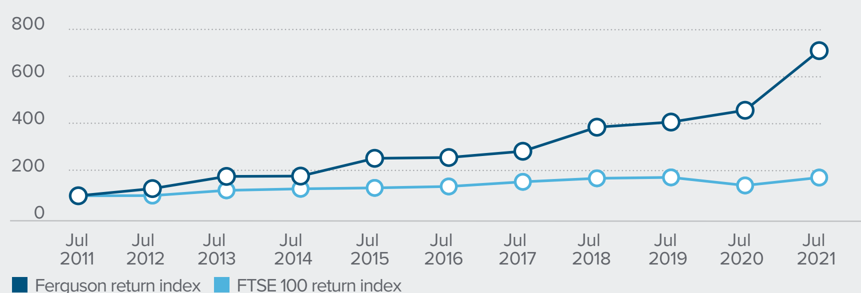
	Year ended July 31, 2021 $m	Year ended July 31, 2020 $m	Percentage change
Total associate remuneration costs	**3,143**	2,891[2]	8.7%
Ordinary dividends[1]	**532**	467	13.9%
Special dividends	**404**	–	–
Share buy back	**400[3]**	451[4]	(11.3)%

1. Reflects dividends paid in relation to the relevant financial year.
2. Restated from $3,137 million as disclosed in the 2020 Annual Report and Accounts, following the disposal of the UK business.
3. A new $400 million share buy back program was announced on March 16, 2021 and was fully completed on July 28, 2021 within the 2020/21 financial year.
4. The figure of $451 million includes (1) $350 million relating to the $500 million share buy back program announced by the Company on June 10, 2019 and (2) $101 million relating to the $500 million share buy back program announced by the Company on February 4, 2020 which was subsequently suspended (as announced on April 15, 2020) to protect the Company's cash position due to the impact of the COVID-19 pandemic on operations.

Ferguson TSR performance and Group Chief Executive remuneration comparison

The graph opposite shows Ferguson's TSR performance against the performance of the FTSE 100 Index over the last 10 years to July 31, 2021. The FTSE 100 Index has been chosen as being a broad equity market index consisting of companies comparable in size and complexity to Ferguson.

The table below shows the total remuneration of the Group Chief Executive[1] for the 10-year period from August 1, 2011 to July 31, 2021.



	Group CEO[1]		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Single figure of total remuneration (000)[1,2]	I Meakins		£5,603	£5,109	£5,890	£3,901	£3,375	£1,768	–	–	–	–
	J Martin		–	–	–	–	–	£3,746	£3,952	£6,076	£592	–
	K Murphy		–	–	–	–	–	–	–	–	£4,424[3]	$7,690
Annual bonus award rates against maximum opportunity	I Meakins		85%	84%	97%	86%	55%	–	–	–	–	–
	J Martin		–	–	–	–	–	97%	95%	85%	23%[4]	–
	K Murphy		–	–	–	–	–	–	–	–	73%	100%
Long term incentive vesting rates against maximum opportunity	I Meakins	LTIP	76%	100%	88%	75%	47%	72%	–	–	–	–
		ESOP	100%	100%	100%	100%	100%	100%	–	–	–	–
	J Martin	LTIP	–	–	–	–	–	72%	82%	96%	–	–
		ESOP	–	–	–	–	–	100%	–	–	–	–
	K Murphy	LTIP	–	–	–	–	–	–	–	–	92%	100%

1. During the 10-year period, Ian Meakins was the Group Chief Executive Officer until his retirement on August 31, 2016. From September 1, 2016, John Martin served as Group Chief Executive until November 19, 2019 when he was succeeded by the current Group Chief Executive, Kevin Murphy. 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 shown for Mr Murphy in the 2019/20 financial year includes three and a half months' pay as Chief Executive Officer, USA.
2. The single figure for all 10 years is calculated on the same basis as that used in the Remuneration table on page 90.
3. The single figure of total remuneration for Kevin Murphy for the year ended July 31, 2020 has been adjusted from the value of £4,023 thousand estimated in that year's report, to reflect the actual vesting date value of the 2017/18 LTIP award and converted into pounds sterling using the 12-month average rate for the year ended July 31, 2020 of $1.2613:£1.
4. The percentage bonus figure for John Martin is reflective of the pro rating applied to his bonus when he stepped down as a Director on November 19, 2019.

Percentage change in remuneration of all Directors' remuneration compared to all associates

As required under the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, the analysis has been expanded to cover each Executive Director and Non Executive Director and this information will continue to build up to display a five-year history.

The legislative requirement is to provide a comparison to associates of the parent company in the Group. Ferguson plc does not have any directly employed associates and there would be no figure to disclose. As in last year's report, the comparator group comprises US-based associates, which the Committee believes to be the most suitable comparator group to accurately reflect the nature of the Group's workforce.

The Committee monitors this information carefully to ensure that there is consistency in fixed pay trend for the Executive Directors and Non Executive Directors compared with the wider workforce.

	% change in salary or fees[1]		% change in benefits[2]		% change in annual bonus[3]	
Executive Directors	**2019/20 to 2020/21**	2018/19 to 2019/20[4]	**2019/20 to 2020/21**	2018/19 to 2019/20[4]	**2019/20 to 2020/21**	2018/19 to 2019/20[4]
K Murphy	**5.2**	9.0	**17.4**	8.2	**46.7**	10.4
B Brundage[5]	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
Chairman and Non Executive Directors						
G Drabble	**35.9**	341.1	**(82.2)**	115.4	**N/A**	N/A
K Baker[5]	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
T Bamford	**2.1**	2.2	**(100.0)**	(31.7)	**N/A**	N/A
C Halligan	**2.1**	2.2	**(100.0)**	177.2	**N/A**	N/A
B May[5]	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
A Murray	**8.4**	37.0	**(100.0)**	69.3	**N/A**	N/A
T Schmitt	**2.1**	2.2	**(100.0)**	135.6	**N/A**	N/A
N Shouraboura	**2.1**	2.2	**(100.0)**	61.4	**N/A**	N/A
J Simmonds	**2.2**	2.3	**(94.6)**	109.7	**N/A**	N/A
S Wood[5]	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
Past Directors[6]						
M Powell	**0.0**	8.2	**0.0**	(0.8)	**(100.0)**	(5.8)
Average for all US-based associates[7]	**4.9**	3.4	**4.9**	(1.7)	**13.2**	2.9

1. For the current year comparison the figure for Kevin Murphy reflects the effective date of the salary increase occurring in October 2020 and the change in role in the prior year; and the figures for Geoff Drabble and Alan Murray continue to reflect changes in role which occurred part way through the prior year.
2. For the current year comparison, the figures for Non Executive Directors do not reflect any change in the benefits offered. As a result of the COVID-19 pandemic, the Chairman and Non Executive Directors did not undertake continental travel so no travel allowance payments were made.
3. Executive Director bonuses are determined by the Executive Director's performance and the performance of the whole of the Ferguson Group; whereas associates' bonuses are based on their performance and the performance of the businesses in the countries in which they work.
4. Explanations of the percentage changes in salary, benefits and bonus for each Director (and the average for all our US-based associates) for the prior year can be found in the 2020 Annual Report.
5. Bill Brundage, Kelly Baker, Brian May and Suzanne Wood were appointed as Directors during 2020/21 and therefore no comparison with the prior year is possible.
6. For the current year comparison, the percentage change in salary for Mike Powell reflects annualized values for 2020/21 remuneration. Note that those Directors who were not a Director at any point during 2020/21 have not been included. The percentage changes in their remuneration for prior years (and in which they were a Director) are disclosed in the 2020 Annual Report.
7. For the current year comparison, the salary figure includes both merit and inflationary increases and the bonus figure includes payments made in 2020/21 to eligible hourly associates.

Annual report on remuneration continued

Group Chief Executive pay ratio

The table below reports the pay ratio for 2020/21 and 2019/20 as required under the Companies (Miscellaneous Reporting) Regulations 2018.

Year	Method	Group Chief Executive[1]	25th percentile ratio	50th percentile ratio	75th percentile ratio
2021	Option A		**103:1**	**48:1**	**26:1**
	Total pay and benefits (£000)	5,670.8	55.3	117.8	214.8
	Salary (£000)	824.7	42.7	72.1	99.3
2020	Option B[2]		**199:1**	**168:1**	**118:1**
	Total pay and benefits (£000)	4,014.8	20.1	23.9	34.0
	Salary (£000)	887.7	19.7	22.6	33.5

1. Converted total pay from USD into GBP at rates of $1.3560:£1 for 2020/21 data, and $1.2613:£1 for 2019/20 data.
2. Not Option A, as disclosed in error last year.

Following the sale of the UK business in January 2021, the Group now has less than 250 associates in the UK and the data above is for the small Group Services Office in the UK. For 2020/21, the Committee has determined that Option A is the most appropriate and robust way to calculate the three ratios.

UK-based associates' pay data as at July 31, 2021 is calculated on the same basis as that of the Group Chief Executive single total figure of remuneration. It was calculated based on actual base pay and benefits (including employer pension contributions), bonus and long term incentives for the 12 monthly payrolls within the full financial year.

The percentile figures are representative of the whole UK-based associate population but do not include all UK-based associates as at July 31, 2021. For part-time UK-based associates, earnings are annualized on a full-time equivalent basis to allow equal comparisons. Joiners and leavers in the year have been excluded from the calculations.

The pay ratio data above reflects the composition of our UK workforce. The primary driver of the pay ratio is the significantly greater variability in Group Chief Executive remuneration, compared to competitive market norms for those associates representing the 25th, 50th and 75th percentiles of our UK workforce on the basis of pay levels, where fixed pay components represent a higher proportion of the package. The Committee considers it appropriate that the variability and degree of performance linkage in remuneration increases with seniority.

Notwithstanding the above, the Group cascades its pay, reward and progression policies in a consistent manner across the whole workforce. The Committee takes into account this analysis in its decision-making in relation to executive remuneration, and also uses it as important context when reviewing the Group's decisions relating to remuneration for the wider associate population. The Committee reviewed the year-on-year change in the pay ratio, and noted that the primary driver of this is the change in composition of the UK associate base (which, since the sale of the UK business in 2021, comprises predominantly management roles in the small Group Services Office). The Committee concluded that the year-on-year fall in the median ratio is due to this difference in reference sample, rather than any revisions to our remuneration policy and practices.

To provide a more meaningful disclosure, representative of the Group, the table below is a voluntary disclosure for 2020/21 applying Option C to the Group's US-based associates.

Year	Method	Group Chief Executive	25th percentile ratio	50th percentile ratio	75th percentile ratio
2021	Option C		**153:1**	**124:1**	**92:1**
	Total pay and benefits ($000)	7,689.7	50.2	62.2	83.8
	Salary ($000)	1,118.3	47.9	46.9	74.7

Further information

Detail of Employee Benefit Trusts

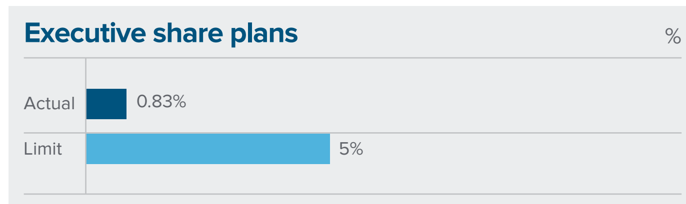
Ferguson has established a Jersey Trust and a US Trust (together, “the Trusts”) in connection with the obligation to satisfy historical and future share awards under the LTI plans and any other associate incentive plans (“share awards”). The trustees of each of the Trusts have waived their rights to receive dividends on any shares held by them. As at July 31, 2021, the US Trust held 748,163 ordinary shares of 10 pence; and the Jersey Trust held 85,026 ordinary shares of 10 pence and $1,289 in cash. The number of shares held by the Trusts represented 0.36 per cent of the Company’s issued share capital at July 31, 2021. No shares were acquired by the Trusts during the year. Further details of shares held by the Trusts can be found at note 25 on page 159 of the consolidated financial statements.

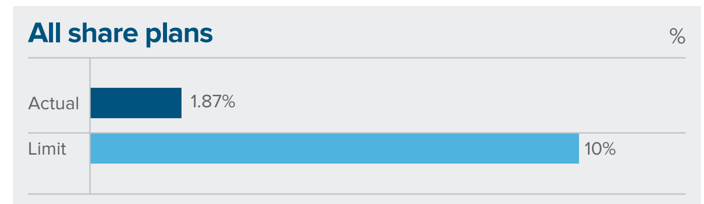
Detail of all-employee share plans

The Company operates two all-employee share plans in which Executive Directors can participate. In Canada and the USA, the ESPP operates as a one-year savings contract plan. In the UK, associates 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 (five per cent in any rolling 10-year period) and all share plans (10 per cent in any rolling 10-year period) as at July 31, 2021, the Company’s headroom was 4.17 per cent and 8.13 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
September 28, 2021

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 Code. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules.

2019 Remuneration Policy – for information only

1. Introduction

For reference this report sets out Ferguson's policy on remuneration that was approved by shareholders at the 2019 AGM on November 21, 2019 and can be found on our website at **www.fergusonplc.com**. The Policy took effect from this date and remains unchanged. Page references contained in the Policy relate to the Ferguson plc 2019 Annual Report and Accounts.

2. Remuneration Policy tables

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-caliber 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.

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 equalization 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.

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

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.

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

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.

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 favorable 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 favored 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.

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.

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

2019 Remuneration Policy continued

2. Remuneration Policy tables continued

Policy table: **Non Executive Directors**

Fees

Purpose and link to strategy

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

Operation and opportunity

- The Chairman is paid a basic fee determined by the Remuneration Committee.
- Non Executive Directors are paid a basic fee. Additional fees are paid for the roles of Senior Independent Director, 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 recognize 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.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

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

Policy table: **Non Executive Directors**

Benefits

Purpose and link to strategy

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

Operation and opportunity

- Non Executive Directors (including the Chairman) do not participate in any incentive plan, nor is any pension payable in respect of their services, and they are not entitled to any benefits, except:
  - they receive assistance with their tax affairs arising from 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.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

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

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.

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 honor 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.

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 organization, 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 while 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 honored 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 counseling costs and disbursements (such as legal costs)) if considered to be appropriate and/or necessary and dependent on the circumstances of departure.

There are no pre-determined contractual provisions for Directors regarding compensation in the event of loss of office except those listed in the table below:

Details of provision	Executive Directors	Chairman and Non Executive Directors
Notice period	– 12 months' notice from the Company. – 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	– If an Executive Director's 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 installments subject to mitigation. – No payment will be made to Executive Directors in the event of gross misconduct.	Fees and expenses accrued up to the termination date only.
Post-termination covenants	– Non-compete and non-solicitation covenants apply 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 judgment 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 recognizes 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. 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.

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 2021 AGM.

Authority to allot shares

At the 2020 AGM, authority was given to the Directors to allot new ordinary shares up to a nominal value of £14,995,678. The Directors intend to propose at the 2021 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 2022 AGM or, if earlier, at the close of business on the date which is 15 months after the date of the 2021 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 2022 AGM or, if earlier, at the close of business on the date which is 15 months after the date of the 2021 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 2020 AGM, authority was given to the Directors to purchase up to 22,493,518 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 2021 AGM.

On March 16 2021, the Company announced a $400 million share repurchase program (the "2021 Buy Back Program"). The purpose of the 2021 Buy Back Program was to reduce the capital of Ferguson plc.

The 2021 Buy Back Program was undertaken between March 22, 2021 and July 28, 2021. During this period, 3,020,368 ordinary shares of 10 pence each had been purchased for a consideration of $400 million representing 1.30 per cent of the issued share capital of the Company as at July 31, 2021. All shares purchased were held in Treasury.

Additional details concerning the 2021 Buy Back Program 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 July 31, 2021 are provided in note 25 to the consolidated financial statements on page 159.

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. As announced on September 28, 2021, the Company intends to commence a $1 billion share repurchase program to be executed over the next 12 months (the "2022 Buy Back Program"). It is intended that a special resolution will be proposed at the 2021 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, as well as the outstanding authority granted at the 2020 AGM to make purchases pursuant to the 2022 Buy Back Program. 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 canceled, 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.

Directors' Report – other disclosures continued

Capitalized interest

The Group does not have capitalized 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 $500 million bank facility dated April 1, 2021, the $600 million US bond issued in June 2020, the $1,100 million multi-currency revolving credit facility agreement dated March 10, 2020, the $750 million US bond issued in October 2018, the $355 million US Private Placement Bonds issued on November 30, 2017, $800 million US Private Placement Bonds issued on September 1, 2015, and the amended $600 million receivables facility agreement originally entered into on July 31, 2013 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 reorganization), 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. In addition, the Audit Committee reviews and approves potential conflicts ahead of transactions being entered into. All Directors have a continuing duty to update any changes. The Board may authorize potential conflicts which can be limited in scope, in accordance with the Company's Articles of Association. These authorizations 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 capitalized interest and dividend waiver can be found on pages 114 and 101 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 May 19, 2021, the following statement, characterized as a profit forecast, was included in the Group's quarter three results for the financial year ending July 31, 2021:

"Based on our latest view of the operating environment we expect to generate Group trading profit in FY2021 (including the impact of IFRS 16) in the range of $2,000 million to $2,100 million."

The actual Group trading profit figure for the period covered by the profit forecast is set out on page 130.

Associates

The Group actively encourages associate involvement in driving our current and future success and places particular importance on keeping associates 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 associates through consultation forums, engagement and pulse surveys.

The Board engages with associates through our dedicated Employee Engagement Director who hosts meetings with our associates during the year and provides feedback from these discussions to the Board. Further information on how the Group and the Board engages with associates, including how the Board has had regard to associate interests when making decisions, can be found on pages 32, 33 and 67. All associates 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-associate 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 28 and 29. The Group also has policies in place relating to the continuation of employment of, and appropriate retraining for, associates 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 associates.

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 all the required terms and conditions within its borrowing facilities with material headroom and no material uncertainties have been identified. The Group continues to conduct ongoing risk assessments, which include the potential impact of the ongoing COVID-19 pandemic on its business operations and liquidity. Consideration has also been given to reverse stress tests, which seek to identify factors that might cause the Group to require further liquidity, and a view can be formed of the probability of those occurring. Having assessed the relevant business risks, including the impact of COVID-19 as discussed in our principal risks on pages 52 to 59, and considered the headroom available under several alternative scenarios as set out in the viability assessment on page 54, 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 Ferguson UK Holdings 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 for the Group in May 2019, 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.

Independent auditors and audit information

In respect of the consolidated financial statements for the financial year ended July 31, 2021, 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") is 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 is 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 2021 Annual General Meeting.

Political donations

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

Restrictions on transfer of shares

There are no restrictions on the voting rights attached to the Company's ordinary shares or on the transfer of securities in the Company. No person holds securities in the Company carrying special rights with regard to control of the Company. During the financial year ended July 31, 2021, 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 and the Long Term Incentive Plan 2019 to Executive Directors. Such awards must be held for a two-year period following vesting during employment. In addition, for any such awards granted after October 1, 2021, Executive Directors must retain a specified amount, on a graduating basis for a two-year period post-employment. 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 authorized 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 page 159.

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.

As a result of the additional US listing of ordinary shares on March 8, 2021, Ferguson's American Depositary Receipt ("ADR") program, previously managed by J.P. Morgan Chase Bank, N.A., was terminated. Existing Ferguson American Depositary Shares ("ADSs") were mandatorily canceled and exchanged for Ferguson ordinary shares.

Substantial shareholdings

As at July 31, 2021, 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 July 31, 2021 and the date of this report.

Name of holder	Percentage of issued voting share capital[2]	Date notification received
BlackRock[3]	9.64%	December 13, 2013
Trian Fund Management, L.P.	5.14%	June 12, 2019
FIL Limited	4.95%	February 15, 2010
Norges Bank	3.61%	October 10, 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 per cent and each 1 per cent threshold thereafter up to 100 per cent. 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.
3. Further to the additional US listing, BlackRock filed a Schedule 13G notification with the SEC on March 10, 2021 indicating beneficial ownership of an aggregate of 23,859,924 ordinary shares, representing 10.6 per cent of the issued voting share capital of the Company.

Directors' Report – other disclosures continued

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 July 31, 2021	15
Disclosures relating to exposure to price, credit, liquidity and cash flow risks	148 to 153
Disclosures relating to financial risk management objectives and policies, including our policy for hedging	148 to 153
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Disclosures concerning greenhouse gas emissions and energy efficiency	49 and 50
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Future developments within the Group	1 to 59
Details of the Group's profit for the year ended July 31, 2021	34
Shares issued during the year	159

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 IFRS as issued by the International Accounting Standards Board 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 judgments 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:

Geoff Drabble, Chairman
Kevin Murphy, Group Chief Executive
Bill Brundage, Group Chief Financial Officer
Alan Murray, Senior Independent Director and Non Executive Director
Kelly Baker, Non Executive Director
Tessa Bamford, Non Executive Director
Cathy Halligan, Non Executive Director
Brian May, Non Executive Director
Tom Schmitt, Non Executive Director
Nadia Shouraboura, Non Executive Director
Jacky Simmonds, Non Executive Director
Suzanne Wood, 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 14 to 116 was approved by the Board and signed on its behalf by:

Graham Middlemiss
Group Company Secretary
September 28, 2021

Financials

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Group income statement

Year ended July 31, 2021

	Notes	2021 Before exceptional items $m	2021 Exceptional items (note 5) $m	2021 Total $m	Restated 2020 Before exceptional items $m	Restated 2020 Exceptional items (note 5) $m	Restated 2020 Total $m
Revenue	3	**22,792**	**–**	**22,792**	19,940	–	19,940
Cost of sales		**(15,812)**	**–**	**(15,812)**	(13,957)	–	(13,957)
Gross profit		**6,980**	**–**	**6,980**	5,983	–	5,983
Operating costs		**(4,935)**	**(11)**	**(4,946)**	(4,437)	(97)	(4,534)
Operating profit	3, 4	**2,045**	**(11)**	**2,034**	1,546	(97)	1,449
Finance costs	6	**(144)**	**(1)**	**(145)**	(147)	–	(147)
Finance income	6	**1**	**–**	**1**	7	–	7
Share of profit/(loss) after tax of associates		**1**	**–**	**1**	(2)	–	(2)
Gain on disposal of interests in associates and other investments		**–**	**–**	**–**	–	7	7
Impairment of interests in associates		**–**	**–**	**–**	(22)	–	(22)
Profit before tax		**1,903**	**(12)**	**1,891**	1,382	(90)	1,292
Tax	7	**(243)**	**2**	**(241)**	(336)	19	(317)
Profit from continuing operations		**1,660**	**(10)**	**1,650**	1,046	(71)	975
Loss from discontinued operations	8	**43**	**(185)**	**(142)**	3	(17)	(14)
Profit for the year attributable to shareholders of the Company		**1,703**	**(195)**	**1,508**	1,049	(88)	961
Earnings per share	10						
Continuing operations and discontinued operations							
Basic earnings per share				**674.7c**			427.5c
Diluted earnings per share				**670.5c**			423.5c
Continuing operations only							
Basic earnings per share				**738.3c**			433.7c
Diluted earnings per share				**733.7c**			429.7c

Alternative performance measures		2021	2020
Underlying trading profit from continuing operations	2, 3	**2,099**	1,592
Adjusted EBITDA from continuing operations	2	**2,266**	1,760
Headline earnings per share	2, 10		
Basic earnings per share		**688.1c**	508.0c
Diluted earnings per share		**683.9c**	503.3c

The Group disposed of its shares in Wolseley UK Limited ("UK business") on January 29, 2021. The UK results have been reclassified to discontinued operations and the prior year comparative results have been restated throughout the consolidated financial statements. See note 8 for further details.

Group statement of comprehensive income

Year ended July 31, 2021

	Notes	2021 $m	Restated 2020 $m
Profit for the year		**1,508**	961
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of overseas operations[1]		**75**	57
Exchange loss on translation of borrowings and derivatives designated as hedges of overseas operations[1]		**(31)**	(31)
Cumulative currency translation differences recycled on disposals[1]		**135**	9
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of retirement benefit plans[2]	24	**107**	(235)
Tax (charge)/credit on items that will not be reclassified to profit or loss[2]	7, 24	**(19)**	44
Other comprehensive income/(expense) for the year		**267**	(156)
Total comprehensive income for the year		**1,775**	805
Total comprehensive income attributable to:			
Continuing operations		**1,770**	789
Discontinued operations		**5**	16
Total comprehensive income for the year attributable to shareholders of the Company		**1,775**	805

1. Impacting the translation reserve.
2. Impacting retained earnings.

Group statement of changes in equity

Year ended July 31, 2021

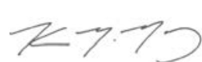
				Reserves				
	Notes	Share capital $m	Share premium $m	Translation reserve $m	Treasury shares $m	Own shares $m	Retained earnings $m	Total equity $m
At July 31, 2019		30	9	(598)	(305)	(102)	5,316	4,350
Adjustment on adoption of IFRS 16		–	–	–	–	–	(187)	(187)
At August 1, 2019		30	9	(598)	(305)	(102)	5,129	4,163
Profit for the year		–	–	–	–	–	961	961
Other comprehensive expense		–	–	35	–	–	(191)	(156)
Total comprehensive income		–	–	35	–	–	770	805
Purchase of own shares by Employee Benefit Trusts	25	–	–	–	–	(26)	–	(26)
Issue of own shares by Employee Benefit Trusts	25	–	–	–	–	40	(40)	–
Credit to equity for share-based payments		–	–	–	–	–	26	26
Tax relating to share-based payments	7	–	–	–	–	–	11	11
Purchase of Treasury shares	25	–	–	–	(292)	–	–	(292)
Disposal of Treasury shares	25	–	–	–	27	–	(16)	11
Dividends paid	9	–	–	–	–	–	(327)	(327)
At July 31, 2020		**30**	**9**	**(563)**	**(570)**	**(88)**	**5,553**	**4,371**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,508**	**1,508**
Other comprehensive income		**–**	**–**	**179**	**–**	**–**	**88**	**267**
Total comprehensive income		**–**	**–**	**179**	**–**	**–**	**1,596**	**1,775**
Reclassification of exchange on translation of overseas operations		**–**	**–**	**(14)**	**–**	**–**	**14**	**–**
Issue of own shares by Employee Benefit Trusts	25	**–**	**–**	**–**	**–**	**30**	**(30)**	**–**
Credit to equity for share-based payments		**–**	**–**	**–**	**–**	**–**	**71**	**71**
Tax relating to share-based payments	7	**–**	**–**	**–**	**–**	**–**	**9**	**9**
Purchase of Treasury shares	25	**–**	**–**	**–**	**(400)**	**–**	**–**	**(400)**
Disposal of Treasury shares	25	**–**	**–**	**–**	**39**	**–**	**(21)**	**18**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**(1,034)**	**(1,034)**
At July 31, 2021		**30**	**9**	**(398)**	**(931)**	**(58)**	**6,158**	**4,810**

Group balance sheet

Year ended July 31, 2021

	Notes	2021 $m	2020 $m
Assets			
Non-current assets			
Intangible assets: goodwill	12	**1,757**	1,721
Intangible assets: other	13	**546**	521
Right of use assets	14	**895**	1,111
Property, plant and equipment	15	**1,305**	1,389
Interests in associates		**5**	4
Other financial assets		**18**	12
Retirement benefit assets	24	**108**	–
Deferred tax assets	16	**303**	216
Trade and other receivables	18	**428**	377
Derivative financial assets	22	**16**	28
		5,381	5,379
Current assets			
Inventories	17	**3,426**	2,880
Trade and other receivables	18	**3,331**	3,042
Current tax receivable		**4**	–
Other financial assets		**–**	9
Derivative financial assets	22	**5**	11
Cash and cash equivalents	19	**1,335**	2,115
Assets held for sale		**3**	20
		8,104	8,077
Total assets		**13,485**	13,456
Liabilities			
Current liabilities			
Trade and other payables	20	**4,022**	3,591
Current tax payable		**303**	293
Borrowings	21	**183**	531
Lease liabilities	14	**263**	281
Provisions	23	**72**	53
		4,843	4,749
Non-current liabilities			
Trade and other payables	20	**342**	338
Borrowings	21	**2,528**	2,635
Lease liabilities	14	**827**	1,074
Deferred tax liabilities	16	**–**	26
Provisions	23	**123**	202
Retirement benefit obligations	24	**12**	61
		3,832	4,336
Total liabilities		**8,675**	9,085
Net assets		**4,810**	4,371
Equity			
Share capital	25	**30**	30
Share premium		**9**	9
Reserves		**4,771**	4,332
Equity attributable to shareholders of the Company		**4,810**	4,371

The accompanying notes are an integral part of these consolidated financial statements. The consolidated financial statements on pages 118 to 164 were approved and authorized for issue by the Board of Directors on September 28, 2021 and were signed on its behalf by:



Kevin Murphy
Group Chief Executive
September 28, 2021

Bill Brundage
Group Chief Financial Officer
September 28, 2021

Group cash flow statement

Year ended July 31, 2021

	Notes	2021 $m	2020 $m
Cash flows from operating activities			
Cash generated from operations	26	**2,093**	2,252
Net interest paid		**(148)**	(159)
Tax paid		**(404)**	(225)
Net cash generated from operating activities		**1,541**	1,868
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	27	**(335)**	(351)
Disposals of businesses (net of cash disposed of)	28	**380**	7
Purchases of property, plant and equipment		**(174)**	(215)
Proceeds from sale of property, plant and equipment and assets held for sale		**35**	13
Purchases of intangible assets		**(72)**	(87)
Acquisition of associates and other investments		**(6)**	(5)
Disposal of interests in associates and other investments		**–**	32
Net cash used in investing activities		**(172)**	(606)
Cash flows from financing activities			
Purchase of own shares by Employee Benefit Trusts	25	**–**	(26)
Purchase of Treasury shares	25	**(400)**	(451)
Proceeds from the sale of Treasury shares	25	**18**	11
Proceeds from loans and derivatives	29	**4**	1,169
Repayments of loans	29	**(375)**	(566)
Lease liability capital payments	29	**(296)**	(295)
Dividends paid to shareholders		**(1,036)**	(327)
Net cash used in financing activities		**(2,085)**	(485)
Net cash (used)/generated		**(716)**	777
Effects of exchange rate changes		**1**	4
Cash, cash equivalents and bank overdrafts at the beginning of the year	29	**1,867**	1,086
Cash, cash equivalents and bank overdrafts at the end of the year	29	**1,152**	1,867

Notes to the consolidated financial statements

Year ended July 31, 2021

1 – Accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, including interpretations issued by the International Accounting Standards Board ("IASB") and its committees.

The Group's subsidiary undertakings are set out on pages 178 and 179.

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 13 Castle Street, St Helier, Jersey, JE1 1ES, Channel Islands.

The consolidated financial statements have been prepared on a going concern basis (see page 114) and under the historical cost convention as modified by the revaluation of financial assets and liabilities measured at fair value.

The Group disposed of its UK business on January 29, 2021. The results of the UK business have been reclassified to discontinued operations and the prior year comparative results have been restated throughout the consolidated financial statements. See note 8 for further details.

Choices permitted by IFRS

The Group has elected to apply hedge accounting to some of its financial instruments.

Accounting developments and changes

The following amendments to existing standards became effective for the year ended July 31, 2021 and have not had a material impact on the Group's consolidated financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IAS 1 and IAS 8 – Definition of Material;
- Amendments to IFRS 3 – Definition of a Business;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (Phase 1); and
- Amendments to IFRS 16 – COVID-19-Related Rent Concessions.

Critical accounting judgments

Impact of COVID-19

Management has exercised judgment in evaluating the impact of the COVID-19 pandemic on the financial statements. In light of the Group's strong performance during the year, management concluded there was no material negative impact of the COVID-19 pandemic on the financial statements and no new sources of estimation uncertainty.

Exceptional items

Note 2 provides the Group's definition of exceptional items. The classification of exceptional items requires significant management judgment to determine the nature and intentions of a transaction. Note 5 provides further details on exceptional items.

Leases

Property leases entered into by the Group typically include extension and termination options to provide operational flexibility to the Group. Management applied significant judgment in determining whether these options were reasonably certain to be exercised when determining the lease term on adoption of IFRS 16. In making this judgment management considered the remaining lease term, future business plans and other relevant economic factors. Specifically in respect to property leases, which represent the majority of the lease liability, a renewal option was determined to be reasonably certain to be exercised when a lease expired within the Group's three-year strategic planning horizon.

Pensions and other post-retirement benefits

The Group operates defined benefit pension plans in the UK and Canada that are accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the consolidated financial statements.

The discount rate used is set with reference to the yield at the valuation date on high-quality corporate bonds that have a maturity approximating to the terms of the pension obligations. Significant judgment is required when selecting the bonds to include. The most significant criteria considered for selection of the bonds include the issue size of the corporate bonds, the quality of the bonds and the identification of outliers which are excluded.

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. Management 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.

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.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

1 – Accounting policies continued

Accounting policies continued

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 using the equity method of accounting.

The financial performance of business operations is 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 unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

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.

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 recognized in other comprehensive income and accumulated in the translation reserve. At July 31, 2021, the translation reserve comprised $213 million in relation to pound sterling entities, $181 million in relation to US dollar entities and $4 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 recognized 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 "Financial Instruments", are recognized 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 recognized 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 recognized 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 recognized in the Group income statement and share of other comprehensive income or expense is recognized 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 fair value of net assets of the investee is recognized 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 recognize any impairment loss with respect to the Group's investment in an associate. Impairment losses recognized are charged to the income statement.

Revenue

The Group's revenues are derived primarily from the sale of a broad range of plumbing and heating products and solutions. The Group's customers predominantly operate within the repair maintenance and improvement sector and are served through a network of branches and distribution centers.

Revenue is the consideration expected to be received in exchange 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.

Revenue from the sale of goods is recognized when the customer obtains control of the goods, which is the point they are delivered to, or collected by, the customer. Revenue from the provision of goods is only recognized 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. Payment terms between the Group and its customers vary by the type of customer, country of sale and the products sold. The Group does not have significant financing components in its contracts and the payment due date is typically shortly after sale.

In some instances, goods are delivered directly to the customer by the supplier. The Group has concluded it is the principal in these transactions as it is primarily responsible to the customer for fulfilling the obligation and has the responsibility for identifying and directing the supplier to deliver the goods to the customer.

1 – Accounting policies continued

Accounting policies continued

Revenue continued

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, in the period in which the related revenue is recorded. Returns can be reliably estimated as historic returns as a percentage of revenue have remained stable over time and the terms and conditions of sale have remained broadly unchanged for several years. Early settlement discounts are known shortly after the sale and can therefore be reliably estimated. The Group also provides customers with assurance-type warranties for some own brand goods that provide assurance the goods comply with agreed-upon specifications and will operate as specified for a set period from the date of sale. Obligations under these warranties are accounted for as provisions.

The Group has no contracts with an expected duration of more than one year.

Cost of sales

Cost of sales includes purchased goods and the cost of bringing inventory to its present location and condition.

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 supplier rebates

The majority of volume-based supplier rebates are determined by reference to guaranteed rates of rebate. These are calculated through a mechanical process with minimal judgment required to determine the amount recorded in the income statement.

A small proportion of volume-based supplier 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, judgment 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 judgment is exercised consistently with historically insignificant true ups at the end of the period.

An amount due in respect of supplier rebates is not recognized 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 recognized 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.

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's CGUs are based on the markets where the business operates and are grouped in line with the management structure.

Goodwill is not amortized 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 higher of fair value less costs to sell and 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 recognized 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 capitalized separately from goodwill and are carried at cost less accumulated amortization and accumulated impairment losses. Amortization 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 amortized 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 recognized separately as an intangible asset and is carried at cost less accumulated amortization and accumulated impairment losses. Costs may include software licenses 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. Amortization 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.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

1 – Accounting policies continued

Accounting policies continued

Leases

The Group enters into leases in the normal course of its business; these principally relate to property for the Group's branches, distribution centers and offices which have varying terms including extension and termination options and periodic rent reviews.

The Group recognizes a right of use asset and a lease liability at the lease commencement date. Non-lease components of a contract are not separated from lease components and instead are accounted for as a single lease component.

Lease liabilities are initially measured at the present value of lease payments using the interest rate implicit in the lease, or if this is not readily available, at the Group's incremental borrowing rate. Lease payments comprise fixed payments, variable payments that depend on an index or rate, payments expected under residual value guarantees and payments under purchase and termination options which are reasonably certain to be exercised. Lease terms are initially determined as the non-cancelable period of a lease adjusted for options to extend or terminate a lease that are reasonably certain to be exercised and management judgment is required in making this determination.

Lease liabilities are subsequently measured at amortized cost using the effective interest method. Lease liabilities are remeasured when there is a change in future lease payments as a result of a rent review or a change in an index or rate, or if there is a significant event which changes the assessment of whether it is reasonably certain that extension or termination options will be exercised.

Right of use assets are carried at cost less accumulated depreciation and impairment losses and any subsequent remeasurement of the lease liability. Initial cost comprises the lease liability adjusted for lease payments at or before the commencement date, lease incentives received, initial direct costs and an estimate of restoration costs. Right of use assets are depreciated on a straight-line basis to the earlier of the end of the useful life of the asset or the end of the lease term and tested for impairment if an indicator exists.

Leases that have a term of 12 months or less and leases for which the underlying asset is of low value are recognized as an expense on a straight-line basis over the lease term.

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 recognized 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 estimated useful lives as follows:

Freehold buildings	20–50 years
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 estimated useful lives of PPE are reviewed and adjusted if appropriate at each balance sheet date. The Group reviews at the balance sheet date whether events or circumstances indicate that the carrying value of its PPE may be impaired. If such circumstances are determined to exist, an estimate of the recoverable amount of the asset, or the appropriate grouping of assets, is compared to its carrying value to determine whether an impairment exists.

Inventories

Inventories, which comprise goods purchased for resale, are stated at the lower of cost and net realizable 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 realizable 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 realizable 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 recognized initially at their transaction price and measured subsequently at amortized 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% is recognized against trade receivables more than 180 days past due because historical experience indicates that these are generally not recoverable. The loss is recognized 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.

1 – Accounting policies continued

Accounting policies continued

Provisions

Provisions for self-insured risks, legal claims and environmental restoration are recognized 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 recognized 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, changes in actuarial assumptions and the return from pension plan assets, excluding amounts recorded in net interest on the net pension plan liability/asset are charged or credited to equity in other comprehensive income in the period in which they arise.

The liability or asset recognized 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 recognized 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 realized or the deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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. Judgment 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 recognizes 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 material and the Group can make a reliable estimate of the outcome of the dispute, management calculates the provision using the most likely amount or the expected value approach, depending on which is most appropriate for the uncertain tax provision. 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.

Share capital

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 canceled, 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 recognizes 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 recognized 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 recognized 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 and 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 and no practice of net settlement with cash balances.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

1 – Accounting policies continued

Accounting policies continued

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 recognized as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfill the criteria for hedge accounting contained in IFRS 9, changes in their fair values are recognized 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 recognized 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 amortized to the income statement 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 recognized directly in other comprehensive income.

When the hedged item is recognized in the financial statements, the accumulated gains and losses recognized in equity are either recycled to the income statement or, if the hedged item results in a non-financial asset, are recognized 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 recognized when the forecast transaction is ultimately recognized 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 recognized initially at the fair value of the consideration received net of transaction costs incurred. Borrowings are subsequently measured at amortized cost with any difference between the initial amount and the maturity amount being recognized in the income statement using the effective interest method.

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.

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. Organic revenue growth is determined as the growth in total reported revenue excluding the growth/decline attributable to currency exchange rate fluctuations, trading days, acquisitions and disposals, divided by the preceding financial year's revenue at the current year's exchange rates.

A calculation of organic revenue growth is provided below:

Revenue	$m	% growth
Restated 2020	19,940	
Impact of exchange rate movements	60	0.3
Restated 2020 at 2021 exchange rates	20,000	
Organic growth	2,594	13.0
Trading days	(92)	(0.5)
Acquisitions	290	1.5
Reported 2021	22,792	14.3

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 management 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 which 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, and the impact of fluctuations in foreign currency exchange rates in relation to pension assets or liabilities held in currencies which are different to that of the functional currency of the entity. These are considered exceptional by nature; 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.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

2 – Alternative performance measures continued

Gross margin

The ratio of gross profit to revenue. Gross margin is used by management for assessing segment performance and is a key performance indicator for the Group (see page 24). A calculation of gross margin is provided below:

	2021			Restated 2020		
	Gross profit $m	**Revenue $m**	**Gross margin %**	Gross profit $m	Revenue $m	Gross margin %
Continuing	**6,980**	**22,792**	**30.6**	5,983	19,940	30.0

Trading profit/underlying trading profit and trading margin/underlying trading margin

Trading profit is defined as operating profit before exceptional items and amortization 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 trading business. Underlying trading profit is defined as trading profit excluding the impact of IFRS 16 and is used as the measure of segment performance.

Trading margin is the ratio of trading profit to revenue and is used to assess profitability. Underlying trading margin is the ratio of underlying trading profit to revenue and is used to assess segment profitability and is a key performance indicator for the Group.

A reconciliation of underlying trading profit and trading profit to statutory operating profit for continuing operations is provided below:

	2021 $m	Restated 2020 $m
Operating profit	**2,034**	1,449
Exceptional items	**11**	97
Amortization of acquired intangible assets	**131**	114
Trading profit	**2,176**	1,660
Impact of IFRS 16	**(77)**	(68)
Underlying trading profit	**2,099**	1,592

2 – Alternative performance measures continued

Trading profit/underlying trading profit and trading margin/underlying trading margin continued

A calculation of trading margin/underlying trading margin is provided below. For information on our reportable segments see note 3.

	2021					
	Revenue $m	**Trading profit/(loss) $m**	**Impact of IFRS 16 $m**	**Underlying trading profit/ (loss) $m**	**Trading margin %**	**Underlying trading margin %**
USA	**21,478**	**2,147**	**(74)**	**2,073**	**10.0**	**9.7**
Canada	**1,314**	**79**	**(3)**	**76**	**6.0**	**5.8**
Central and other costs	**–**	**(50)**	**–**	**(50)**	**–**	**–**
Continuing operations	**22,792**	**2,176**	**(77)**	**2,099**	**9.5**	**9.2**

	Restated 2020					
	Revenue $m	Trading profit/(loss) $m	Impact of IFRS 16 $m	Underlying trading profit/ (loss) $m	Trading margin %	Underlying trading margin %
USA	18,857	1,654	(67)	1,587	8.8	8.4
Canada	1,083	44	(1)	43	4.1	4.0
Central and other costs	–	(38)	–	(38)	–	–
Continuing operations	19,940	1,660	(68)	1,592	8.3	8.0

Adjusted EBITDA

Adjusted EBITDA is operating profit before charges/credits relating to depreciation, amortization, impairment, exceptional items and the impact of IFRS 16. Adjusted EBITDA is used in the net debt to adjusted EBITDA ratio to assess the appropriateness of the Group's financial gearing and excludes IFRS 16 in line with the requirements of the Group's debt covenants. For this reason, adjusted EBITDA refers to Group adjusted EBITDA unless otherwise stated. A reconciliation of statutory operating profit to adjusted EBITDA is provided below:

	2021			Restated 2020		
	Continuing $m	**Discontinued $m**	**Group $m**	Continuing $m	Discontinued $m	Group $m
Operating profit	**2,034**	**(128)**	**1,906**	1,449	(20)	1,429
Exceptional items	**11**	**182**	**193**	97	21	118
Amortization of acquired intangible assets	**131**	**3**	**134**	114	16	130
Trading profit	**2,176**	**57**	**2,233**	1,660	17	1,677
Impact of IFRS 16	**(77)**	**(8)**	**(85)**	(68)	(1)	(69)
Underlying trading profit	**2,099**	**49**	**2,148**	1,592	16	1,608
Depreciation and impairment of property, plant and equipment	**130**	**6**	**136**	139	20	159
Amortization of non-acquired intangible assets	**37**	**2**	**39**	29	6	35
Adjusted EBITDA	**2,266**	**57**	**2,323**	1,760	42	1,802

Effective tax rate

The effective tax rate is the ratio of the adjusted tax charge to adjusted profit before tax and is used as a measure of the tax rate of the underlying business. See reconciliation in note 7.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

2 – Alternative performance measures continued

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 amortization 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 amortization and impairment of acquired intangible assets to improve the comparability between acquired and organically grown operations, as the latter cannot recognize 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 excluding lease liabilities comprises cash and cash equivalents, bank overdrafts, bank and other loans and derivative financial instruments. The Group uses net debt excluding lease liabilities, which excludes lease liabilities under IFRS 16, to be consistent with adjusted EBITDA in line with the requirements of the Group's debt covenants. For this reason the Group uses the term net debt to refer to net debt excluding lease liabilities unless otherwise stated. Net debt is a good indicator of the strength of the Group's balance sheet position and is used by the Group's debt providers. 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, total lease liabilities and accumulated amortization and impairment of goodwill and acquired intangible assets. Return on gross capital employed is a key performance indicator for the Group (see page 25). The calculation of return on gross capital employed is shown below:

	2021 $m	2020 $m
Net debt (note 29)	**1,355**	1,012
Lease liabilities (note 29)	**1,090**	1,355
Accumulated impairment losses of goodwill (note 12)	**37**	140
Accumulated amortization and impairment losses of acquired intangible assets (note 13)[1]	**877**	811
Shareholders' equity	**4,810**	4,371
Gross capital employed	**8,169**	7,689
Average gross capital employed[2]	**7,929**	7,022
Group trading profit[3]	**2,233**	1,677
Return on gross capital employed %	**28.2**	23.9

1. Excludes software.
2. Gross capital employed in 2019 was $6,355 million.
3. Reconciliation provided 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, which is determined to be the Group Chief Executive and the Group Chief Financial Officer, 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 disposed of its UK business Wolseley UK Limited on January 29, 2021. The UK results have been reclassified to discontinued operations and the prior year comparative results have been restated.

Canada does not meet the quantitative thresholds set out in IFRS 8 "Operating Segments" to be separately disclosed, however, is reported as a separate segment as it is the only operation outside of the USA.

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 July 31, 2021 and July 31, 2020 include changes in exchange rates, 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:

	Restated 2020 $m	Exchange $m	Acquisitions $m	Trading days $m	Organic change $m	**2021 $m**
USA	18,857	–	290	(81)	2,412	**21,478**
Canada	1,083	60	–	(11)	182	**1,314**
Continuing operations	19,940	60	290	(92)	2,594	**22,792**

An additional disaggregation of revenue by end market for continuing operations is as follows:

	2021 $m	Restated 2020 $m
Residential	**11,990**	10,087
Commercial	**6,661**	6,116
Civil/Infrastructure	**1,506**	1,315
Industrial	**1,321**	1,339
USA	**21,478**	18,857
Canada	**1,314**	1,083
Continuing operations	**22,792**	19,940

An analysis of the change in underlying trading profit/(loss) (note 2) by reportable segment for continuing operations is as follows:

	Restated 2020 $m	Exchange $m	Acquisitions $m	Trading days $m	Organic change $m	**2021 $m**
USA	1,587	–	19	(18)	485	**2,073**
Canada	43	2	–	(2)	33	**76**
Total reportable segments	1,630	2	19	(20)	518	**2,149**
Central and other costs	(38)	(2)	–	–	(10)	**(50)**
Continuing operations	1,592	–	19	(20)	508	**2,099**

Notes to the consolidated financial statements continued

Year ended July 31, 2021

3 – Segmental analysis continued

Underlying trading profit/(loss) (note 2) is the Group's measure of segment performance. The reconciliation between underlying trading profit/(loss), trading profit/(loss) and operating profit/(loss) by reportable segment for continuing operations is as follows:

	2021						Restated 2020					
	Underlying trading profit/(loss) $m	Impact of IFRS 16 $m	Trading profit/(loss) $m	Exceptional items $m	Amortization of acquired intangible assets $m	Operating profit/(loss) $m	Underlying trading profit/(loss) $m	Impact of IFRS 16 $m	Trading profit/(loss) $m	Exceptional items $m	Amortization of acquired intangible assets $m	Operating profit/(loss) $m
USA	**2,073**	**74**	**2,147**	**9**	**(131)**	**2,025**	1,587	67	1,654	(65)	(113)	1,476
Canada	**76**	**3**	**79**	**2**	**–**	**81**	43	1	44	(7)	(1)	36
Total reportable segments	**2,149**	**77**	**2,226**	**11**	**(131)**	**2,106**	1,630	68	1,698	(72)	(114)	1,512
Central and other costs	**(50)**	**–**	**(50)**	**(22)**	**–**	**(72)**	(38)	–	(38)	(25)	–	(63)
Group	**2,099**	**77**	**2,176**	**(11)**	**(131)**	**2,034**	1,592	68	1,660	(97)	(114)	1,449
Net finance costs						**(144)**						(140)
Share of profit/(loss) after tax of associates						**1**						(2)
Gain on disposal of interests in associates and other investments						**–**						7
Impairment of interests in associates						**–**						(22)
Profit before tax[1]						**1,891**						1,292

1. From continuing operations

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

	2021			Restated 2020		
	Segment assets $m	Segment liabilities $m	Segment net assets/ (liabilities) $m	Segment assets $m	Segment liabilities $m	Segment net assets/ (liabilities) $m
USA	**10,959**	**(5,205)**	**5,754**	9,338	(4,402)	4,936
Canada	**722**	**(328)**	**394**	603	(315)	288
Total reportable segments	**11,681**	**(5,533)**	**6,148**	9,941	(4,717)	5,224
Central and other costs	**140**	**(119)**	**21**	49	(159)	(110)
Discontinued operations	**1**	**(9)**	**(8)**	1,096	(724)	372
Tax assets/(liabilities)	**307**	**(303)**	**4**	216	(319)	(103)
Net cash/(debt)	**1,356**	**(2,711)**	**(1,355)**	2,154	(3,166)	(1,012)
Group assets/(liabilities)	**13,485**	**(8,675)**	**4,810**	13,456	(9,085)	4,371

3 – Segmental analysis continued

Geographical information on non-current assets is set out in the table below. Non-current assets includes goodwill, other intangible assets, right of use assets, property, plant and equipment and interests in associates.

	2021 $m	2020 $m
USA	**4,242**	4,134
Canada	**263**	255
UK	**3**	357
Group	**4,508**	4,746

	2021					Restated 2020				
	Additions to goodwill $m	**Additions to other acquired intangible assets and interests in associates $m**	**Additions to non-acquired intangible assets $m**	**Additions to right of use 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 right of use assets $m	Additions to property, plant and equipment $m
USA	**80**	**164**	**66**	**84**	**165**	66	107	79	86	199
Canada	**–**	**–**	**4**	**8**	**5**	–	–	3	10	2
Total reportable segments	**80**	**164**	**70**	**92**	**170**	66	107	82	96	201
Discontinued operations	**–**	**–**	**2**	**2**	**4**	12	31	5	19	13
Group	**80**	**164**	**72**	**94**	**174**	78	138	87	115	214

	2021					Restated 2020				
	Impairment of goodwill, other acquired intangible assets and interests in associates $m	**Amortization of other acquired intangible assets $m**	**Amortization and impairment of non-acquired intangible assets $m**	**Depreciation and impairment of right of use assets $m**	**Depreciation and impairment of property, plant and equipment $m**	Impairment of goodwill, other acquired intangible assets and interests in associates $m	Amortization of other acquired intangible assets $m	Amortization and impairment of non-acquired intangible assets $m	Depreciation and impairment of right of use assets $m	Depreciation and impairment of property, plant and equipment $m
USA	**–**	**131**	**34**	**224**	**123**	–	113	26	226	131
Canada	**–**	**–**	**2**	**16**	**7**	–	1	2	14	7
Total reportable segments	**–**	**131**	**36**	**240**	**130**	–	114	28	240	138
Central and other costs	**–**	**–**	**1**	**1**	**–**	22	–	1	1	1
Discontinued operations	**–**	**3**	**2**	**13**	**6**	–	16	6	37	20
Group	**–**	**134**	**39**	**254**	**136**	22	130	35	278	159

Notes to the consolidated financial statements continued

Year ended July 31, 2021

4 – Operating profit

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

	Notes	**2021 $m**	Restated 2020 $m
Amortization of acquired intangible assets	13	**131**	114
Amortization of non-acquired intangible assets	13	**37**	29
Depreciation of right of use assets	14	**241**	233
Impairment of right of use assets	14	**–**	8
Depreciation of property, plant and equipment	15	**130**	135
Impairment of property, plant and equipment	15	**–**	4
Amounts included in cost of sales with respect to inventory		**15,637**	13,804
Staff costs	11	**3,143**	2,891
Trade receivables impairment		**(3)**	10

During the year, the Group obtained the following services from the Company's auditor and its associates:

	2021 $m	2020 $m
Fees for the audit of the Company and consolidated financial statements	**3.2**	1.7
Fees for the audit of the Company's subsidiaries pursuant to legislation	**4.2**	2.5
Total audit fees	**7.4**	4.2
Audit related assurance services	**3.2**	2.6
Other assurance services	**–**	0.9
Total non-audit fees	**3.2**	3.5
Total fees payable to the auditor	**10.6**	7.7

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 75 to 81. No services were provided pursuant to contingent fee arrangements.

5 – Exceptional items

Exceptional items credited/(charged) to profit before tax from continuing operations are analyzed by purpose as follows:

	2021 $m	Restated 2020 $m
Business restructuring	**11**	(71)
Other exceptional items	**(22)**	(26)
Total included in operating profit	**(11)**	(97)
Finance costs	**(1)**	–
Gain on disposal of interests in associates and other investments	**–**	7
Total included in profit before tax	**(12)**	(90)

For the year ended July 31, 2021, other exceptional items predominantly relate to the Group's listing in the USA.

During the year, the cash flows relating to exceptional items were $50 million (2020 restated: $97 million) used in respect of operating activities and $nil (2020 restated: $32 million) generated in respect of investing activities.

Discontinued exceptional items and related cash flows are explained in note 8.

6 – Net finance costs

	2021 $m	Restated 2020 $m
Finance income	**1**	7
Interest cost on borrowings	**(101)**	(108)
Unwind of fair value adjustment to senior unsecured loan notes	**2**	5
Lease liability expense	**(44)**	(49)
Net interest (expense)/income on defined benefit obligation (note 24)	**(2)**	3
Valuation gains on financial instruments	**–**	2
Finance costs	**(145)**	(147)
Total net finance costs	**(144)**	(140)

7 – Tax

The tax charge for the year comprises:

	2021 $m	Restated 2020 $m
Current year tax charge	**394**	294
Adjustments to tax charge in respect of prior years	**19**	(16)
Total current tax charge	**413**	278
Deferred tax (credit)/charge: origination and reversal of temporary differences	**(172)**	39
Total tax charge	**241**	317

An exceptional tax credit of $2 million (2020 restated: $19 million) was recorded against exceptional items. The deferred tax credit of $172 million (2020 restated: charge of $39 million) includes a credit of $29 million (2020 restated: $5 million) resulting from changes in tax rates. The deferred tax credit is materially impacted by an accounting method change with respect to accounting for inventory in the USA. This has resulted in a recharacterization of deferred tax liabilities and increased current year tax charge, for a net nil impact. A tax charge of $12 million (2020: credit of $10 million) arises on the profit from discontinued operations. Of this charge, $3 million (2020: credit of $4 million) relates to exceptional items.

Tax on items (charged)/credited to the Group statement of comprehensive income:

	2021 $m	2020 $m
Deferred tax (charge)/credit on remeasurement of retirement benefit plans	**(19)**	44
Total tax on items (charged)/credited to the Group statement of comprehensive income	**(19)**	44

Within the statement of other comprehensive income, there is a tax credit of $8 million (2020: $nil) relating to changes in tax rates.

Tax on items credited to equity:

	2021 $m	2020 $m
Current tax credit on share-based payments	**5**	6
Deferred tax credit on share-based payments	**4**	5
Total tax on items credited to equity	**9**	11

There is no tax charge in the statement of changes in equity which relates to changes in tax rates in the current or prior year.

The Group has made provisions for the liabilities likely to arise from open audits and assessments. At July 31, 2021, the Group has recognized provisions of $138 million (2020: $294 million) in respect of its uncertain tax positions. The total provision has decreased by $156 million in the year primarily due to decreases related to closure of tax authority audits and the expiry of the statute of limitations for a number of open tax years. With respect to the remaining uncertain tax positions, 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.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

7 – Tax continued

						2021
	Adjusted profit/tax[6]		Other profit/tax[7]		Total profit/tax from continuing operations	
Tax reconciliation:	$m	%	$m	%	$m	%
Profit before tax	**2,034**		**(143)**		**1,891**	
Expected tax at weighted average tax rate[1]	**(466)**	**22.9**	**35**	**(24.5)**	**(431)**	**22.8**
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods[2]	**(1)**	**–**	**12**	**(8.4)**	**11**	**(0.6)**
current year (charge)/credit in relation to uncertain tax provisions[3]	**(33)**	**1.7**	**171**	**(119.5)**	**138**	**(7.4)**
tax credits and incentives	**12**	**(0.6)**	**–**	**–**	**12**	**(0.6)**
non-taxable income	**1**	**–**	**17**	**(11.9)**	**18**	**(1.0)**
other[4]	**(9)**	**0.4**	**(9)**	**6.3**	**(18)**	**1.0**
effect of tax rate changes[5]	**–**	**–**	**29**	**(20.3)**	**29**	**(1.5)**
Tax (charge)/credit / effective tax rate	**(496)**	**24.4**	**255**	**(178.3)**	**(241)**	**12.7**

						Restated 2020
	Adjusted profit/tax[6]		Other profit/tax[7]		Total profit/tax from continuing operations	
Tax reconciliation:	$m	%	$m	%	$m	%
Profit before tax	1,512		(220)		1,292	
Expected tax at weighted average tax rate[1]	(327)	21.6	55	(24.9)	(272)	21.0
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods[2]	(9)	0.6	7	(3.2)	(2)	0.2
current year charge in relation to uncertain tax provisions[3]	(33)	2.2	–	–	(33)	2.6
tax credits and incentives	6	(0.4)	–	–	6	(0.5)
non-taxable income	8	(0.5)	–	–	8	(0.6)
other[4]	(21)	1.4	(8)	3.6	(29)	2.2
effect of tax rate changes[5]	–	–	5	(2.3)	5	(0.4)
Tax (charge)/credit / effective tax rate	(376)	24.9	59	(26.8)	(317)	24.5

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 adjusted expected weighted average tax rate is 25.8% (2020: 25.6%) and this is reduced to a post intra-group financing adjusted expected weighted average tax rate of 22.9% (2020: 21.6%) following intra-group financing. The 1.3% increase in the post intra-group financing adjusted expected weighted average tax rate is primarily due to the change in the mix of income generated by jurisdiction.
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 reflects management's assessment of the potential tax liability for the current year in relation to open tax issues and audits.
4. This primarily relates to non-taxable disposal of businesses and to certain expenditure for which no tax relief is available such as disallowable business entertaining costs and legal/professional fees.
5. In 2021, this relates to the change of the corporation tax rate to 25% from the previously enacted 19% in the UK.
6. Adjusted profit means profit before tax, exceptional items, the amortization and impairment of acquired intangible assets and impairment of interests in associates as defined in note 2. Adjusted tax is the tax expense arising on adjusted profit.
7. Other profit or loss is profit or loss from the amortization and impairment of acquired intangible assets, impairment of interests in associates and exceptional items. Other tax is the tax expense or credit arising on the other profit or loss and includes other non-recurring tax items. In 2021, the other credit of $255 million relates primarily to the release of uncertain tax position provisions, exceptional restructuring costs, tax deductible amortization in relation to intangible assets and amortization of loan premium.

8 – Discontinued operations

The Group disposed of the shares in its UK business Wolseley UK Limited on January 29, 2021. In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the disposal group has been presented as a discontinued operation. The assets and liabilities of the UK business were transferred to assets held for sale during the year before being disposed of.

The results from discontinued operations, which have been included in the Group income statement, are set out below:

	2021			Restated 2020		
	Before exceptional items $m	**Exceptional items $m**	**Total $m**	Before exceptional items $m	Exceptional items $m	Total $m
Revenue	**1,138**	**–**	**1,138**	1,879	–	1,879
Cost of sales	**(879)**	**–**	**(879)**	(1,437)	(3)	(1,440)
Gross profit	**259**	**–**	**259**	442	(3)	439
Operating costs:						
loss on disposal of businesses	**–**	**(356)**	**(356)**	–	–	–
other	**(205)**	**174**	**(31)**	(441)	(18)	(459)
Operating costs	**(205)**	**(182)**	**(387)**	(441)	(18)	(459)
Operating loss	**54**	**(182)**	**(128)**	1	(21)	(20)
Finance costs	**(2)**	**–**	**(2)**	(4)	–	(4)
Loss before tax	**52**	**(182)**	**(130)**	(3)	(21)	(24)
Tax	**(9)**	**(3)**	**(12)**	6	4	10
Loss from discontinued operations	**43**	**(185)**	**(142)**	3	(17)	(14)
Basic loss per share			**(63.6)c**			(6.2)c
Diluted loss per share			**(63.2)c**			(6.2)c

The discontinued exceptional loss on disposal of businesses in 2021 comprises a loss on disposal of the UK business of $370 million generated from the recycling of cumulative translation adjustments and a gain on prior year disposals of $14 million.

The discontinued exceptional other operating cost items in 2021 comprises a $63 million impairment of assets held for sale relating to the sale of the UK business, a $235 million gain from the recycling of cumulative translation adjustments following the abandonment of former Group financing companies and a $2 million release relating to UK business restructuring in prior years.

The discontinued exceptional items in 2020 relate predominantly to business restructuring costs incurred in the UK and includes $3 million charged to cost of sales for inventory writedowns.

During the year, discontinued operations generated cash of $32 million (2020: $113 million) in respect of operating activities, generated $390 million (2020: used $54 million) in respect of investing activities, which included $380 million (2020: $7 million) of net cash inflow from the disposals of businesses, and used $19 million (2020: $35 million) in respect of financing activities. Discontinued operations cash flows relating to exceptional items were $7 million (2020: $16 million) used in respect of operating activities and $380 million (2020: $8 million) generated in respect of investing activities.

9 – Dividends

Amounts recognized as distributions to equity shareholders:

	2021 $m	2020 $m
Final dividend for the year ended July 31, 2019: 145.1 cents per share	**–**	327
Final dividend for the year ended July 31, 2020: 208.2 cents per share	**467**	–
Interim dividend for the year ended July 31, 2021: 72.9 cents per share	**163**	–
Special dividend: 180.0 cents per share	**404**	–
Dividends paid	**1,034**	327

Since the end of the financial year, the Directors have proposed a final ordinary dividend of approximately $369 million (166.5 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 July 31, 2021.

Dividends are 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) may be different to that stated above.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

10 – Earnings per share

	2021			Restated 2020		
	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	**1,508**	**674.7**	**670.5**	961	427.5	423.5
Loss from discontinued operations	**142**	**63.6**	**63.2**	14	6.2	6.2
Profit from continuing operations	**1,650**	**738.3**	**733.7**	975	433.7	429.7
Non-recurring tax credit relating to the release of uncertain tax positions	**(174)**	**(77.9)**		–	–	
Non-recurring tax credit relating to changes in tax rates and other adjustments	**(46)**	**(20.6)**		(9)	(4.0)	
Amortization and impairment of acquired intangible assets and impairment of interests in associates (net of tax)	**98**	**43.8**		105	46.7	
Exceptional items (net of tax)	**10**	**4.5**		71	31.6	
Headline profit after tax from continuing operations	**1,538**	**688.1**	**683.9**	1,142	508.0	503.3

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 223.5 million (2020: 224.8 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 224.9 million (2020: 226.9 million).

11 – Employee and key management information

	2021 $m	Restated 2020 $m
Wages and salaries	**2,807**	2,627
Social security costs	**182**	169
Pension costs – defined contribution plans	**74**	68
Pension costs – defined benefit plans (note 24)	**3**	3
Share-based payments	**77**	24
Total staff costs	**3,143**	2,891

The total staff costs, including discontinued operations, was $3,267 million (2020: $3,137 million).

Average number of employees	**2021**	Restated 2020
USA	**27,032**	27,085
Canada	**2,443**	2,473
Central and other	**63**	74
Continuing operations	**29,538**	29,632

The average number of employees, including discontinued operations, was 31,924 (2020: 34,637).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director of the Company.

The aggregate emoluments for all key management are set out in the following table:

Key management personnel compensation (including Directors)	**2021 $m**	2020 $m
Salaries, bonuses and other short-term employee benefits	**16**	16
Post-employment benefits	**2**	1
Share-based payments	**18**	8
Total compensation	**36**	25

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 82 to 112.

12 – Intangible assets – goodwill

	2021 $m	2020 $m
Cost		
At August 1	**1,861**	1,789
Exchange rate adjustment	**15**	8
Acquisitions	**80**	78
Adjustment to fair value on prior year acquisitions	**–**	(14)
Reclassification as held for sale	**(162)**	–
At July 31	**1,794**	1,861
Accumulated impairment losses		
At August 1	**140**	133
Exchange rate adjustment	**3**	7
Reclassification as held for sale	**(106)**	–
At July 31	**37**	140
Net book value at July 31	**1,757**	1,721

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% of the current year goodwill balance). Impairment reviews were performed for each individual CGU during the year ended July 31, 2021.

	2021				2020			
	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[1]				**1,096**				1,038
Waterworks				**192**				183
Rest of USA[1]				**319**				306
USA	**2.2**	**7.5**	**10.3**	**1,607**	2.2	8.1	10.8	1,527
UK	**n/a**	**n/a**	**n/a**	**–**	1.5	7.7	9.4	55
Canada	**2.0**	**8.0**	**10.9**	**150**	1.3	7.8	10.8	139
Total				**1,757**				1,721

1. Due to a reorganization of the reporting structure, the Facilities Supply CGU, previously included within the Rest of USA CGU, has been reallocated to the Blended Branches CGU. 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 reflecting the latest equity market risk factors; and the 30-year long-term growth rate by country, as published by the IMF in April 2021.

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 analysis included an assessment of the break-even point for each of the key assumptions. 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. As a result, management do not believe that the key impairment review assumptions 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 assumptions within the next 12 months.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

13 – Intangible assets – other

	Software $m	Acquired intangible assets: Trade names and brands $m	Acquired intangible assets: Customer relationships $m	Acquired intangible assets: Other $m	Total $m
Cost					
At August 1, 2019	203	192	673	168	1,236
Exchange rate adjustment	5	1	4	–	10
Acquisitions	13	34	101	3	151
Adjustment to fair value on prior year acquisitions	–	4	9	2	15
Additions	87	–	–	–	87
Disposals and transfers	(2)	–	–	–	(2)
At July 31, 2020	**306**	**231**	**787**	**173**	**1,497**
Exchange rate adjustment	**3**	**–**	**3**	**–**	**6**
Acquisitions	**–**	**17**	**132**	**15**	**164**
Additions	**72**	**–**	**–**	**–**	**72**
Disposals and transfers	**(10)**	**–**	**–**	**–**	**(10)**
Reclassification as held for sale	**(66)**	**(18)**	**(65)**	**(1)**	**(150)**
At July 31, 2021	**305**	**230**	**857**	**187**	**1,579**
Accumulated amortization and impairment losses					
At August 1, 2019	136	95	469	113	813
Exchange rate adjustment	2	1	3	–	6
Amortization charge for the year	35	28	85	17	165
Disposals	(8)	–	–	–	(8)
At July 31, 2020	**165**	**124**	**557**	**130**	**976**
Exchange rate adjustment	**2**	**–**	**2**	**–**	**4**
Amortization charge for the year	**39**	**28**	**91**	**15**	**173**
Disposals and transfers	**(12)**	**–**	**–**	**–**	**(12)**
Reclassification as held for sale	**(38)**	**(11)**	**(58)**	**(1)**	**(108)**
At July 31, 2021	**156**	**141**	**592**	**144**	**1,033**
Net book value at July 31, 2021	**149**	**89**	**265**	**43**	**546**
Net book value at July 31, 2020	141	107	230	43	521

At July 31, 2021, customer relationships net book value includes $69 million (2020: $80 million) in relation to the acquisition of Jones Stephens which had a remaining amortization period of seven years (2020: eight years).

The amortization charge for the year includes $5 million (2020: $22 million) in respect of discontinued operations of which $2 million relates to software (2020: $6 million).

14 – Right of use assets and leases

Movements in right of use assets for the year were as follows:

	Land and buildings $m	Plant and machinery $m	Total right of use assets $m
Net book value			
At July 31, 2019	–	–	–
Adjustment on adoption of IFRS 16	940	280	1,220
At August 1, 2019	940	280	1,220
Exchange rate adjustment	8	–	8
Acquisitions	28	2	30
Additions	54	61	115
Disposals and remeasurements	19	(3)	16
Depreciation charge for the year	(191)	(77)	(268)
Impairment charge for the year	(9)	(1)	(10)
At July 31, 2020	**849**	**262**	**1,111**
Exchange rate adjustment	**7**	**1**	**8**
Acquisitions	**12**	**–**	**12**
Additions	**45**	**49**	**94**
Disposals and remeasurements	**66**	**(16)**	**50**
Depreciation charge for the year	**(181)**	**(73)**	**(254)**
Reclassification as held for sale	**(108)**	**(18)**	**(126)**
At July 31, 2021	**690**	**205**	**895**

The depreciation charge for the year includes $13 million (2020: $35 million) and the impairment charge for the year ended July 31, 2020 includes $2 million in respect of discontinued operations.

The Group's land and building leases include leases for branches, distribution centers and offices. Leases in the USA and Canada often include one or more options to extend the lease term and some of the Group's leases include options to terminate early. Certain leases include variable lease payments that are linked to a consumer price index or market rate. The Group's land and building leases have a weighted average remaining lease term at July 31, 2021 of 5.3 years (2020: 5.9 years).

The Group's plant and machinery leases include leases for fleet vehicles, trucks and company cars. These leases have a weighted average remaining lease term at July 31, 2021 of 4.3 years (2020: 4.5 years).

The maturity of lease liabilities at July 31 was as follows:

	2021 $m	2020 $m
Due in less than one year	**298**	325
Due in one to two years	**283**	326
Due in two to three years	**219**	282
Due in three to four years	**156**	211
Due in four to five years	**99**	146
Due in over five years	**148**	218
Total undiscounted lease payments	**1,203**	1,508
Effect of discounting	**(113)**	(153)
Lease liabilities	**1,090**	1,355
Current lease liabilities	**263**	281
Non-current lease liabilities	**827**	1,074
Lease liabilities	**1,090**	1,355

Notes to the consolidated financial statements continued

Year ended July 31, 2021

14 – Right of use assets and leases continued

At July 31, 2021 the Group was committed to future undiscounted lease payments of $nil (2020: $nil) relating to short-term leases.

Amounts charged/(credited) to Group profit from continuing operations during the year were as follows:

	2021 $m	Restated 2020 $m
Depreciation of right of use assets	**241**	233
Impairment of right of use assets	**–**	8
Short-term lease expense	**1**	10
Low value lease expense	**15**	16
Sublease income	**(2)**	(1)
Charged to operating costs	**255**	266
Charged to finance costs	**44**	49
Total amount charged to Group profit from continuing operations	**299**	315

15 – Property, plant and equipment

	Land and buildings					
	Freehold $m	Finance leases $m	Leasehold improvements $m	Plant and machinery $m	Other equipment $m	Total $m
Cost						
At July 31, 2019	1,184	1	498	679	219	2,581
Adjustment on adoption of IFRS 16	–	(1)	–	(2)	(13)	(16)
At August 1, 2019	1,184	–	498	677	206	2,565
Exchange rate adjustment	5	–	5	8	4	22
Acquisitions	15	–	–	4	–	19
Additions	127	–	11	70	6	214
Disposals and transfers	2	–	(17)	(40)	(26)	(81)
Reclassification as held for sale	(30)	–	–	(1)	–	(31)
At July 31, 2020	**1,303**	**–**	**497**	**718**	**190**	**2,708**
Exchange rate adjustment	**3**	**–**	**3**	**4**	**2**	**12**
Acquisitions	**8**	**–**	**1**	**1**	**1**	**11**
Additions	**79**	**–**	**23**	**63**	**9**	**174**
Disposals and transfers	**(4)**	**–**	**(27)**	**(26)**	**(19)**	**(76)**
Reclassification as held for sale	**(70)**	**–**	**(74)**	**(119)**	**(40)**	**(303)**
At July 31, 2021	**1,319**	**–**	**423**	**641**	**143**	**2,526**
Accumulated depreciation and impairment losses						
At July 31, 2019	278	–	338	475	141	1,232
Adjustment on adoption of IFRS 16	–	–	–	(1)	(9)	(10)
At August 1, 2019	278	–	338	474	132	1,222
Exchange rate adjustment	1	–	3	6	3	13
Depreciation charge for the year	36	–	34	62	22	154
Impairment charge for the year	1	–	2	2	–	5
Disposals	–	–	(13)	(36)	(19)	(68)
Reclassification as held for sale	(7)	–	–	–	–	(7)
At July 31, 2020	**309**	**–**	**364**	**508**	**138**	**1,319**
Exchange rate adjustment	**1**	**–**	**2**	**2**	**1**	**6**
Depreciation charge for the year	**36**	**–**	**30**	**56**	**14**	**136**
Disposals and transfers	**(1)**	**–**	**(21)**	**(31)**	**(6)**	**(59)**
Reclassification as held for sale	**(18)**	**–**	**(45)**	**(88)**	**(30)**	**(181)**
At July 31, 2021	**327**	**–**	**330**	**447**	**117**	**1,221**
Net book value at July 31, 2021	**992**	**–**	**93**	**194**	**26**	**1,305**
Net book value at July 31, 2020	994	–	133	210	52	1,389

The depreciation charge for the year includes $6 million (2020: $19 million) and the impairment charge for the year ended July 31, 2020 includes $1 million in respect of discontinued operations.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

16 – 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:

	2021 $m	2020 $m
Deferred tax assets	**303**	216
Deferred tax liabilities	**–**	(26)
	303	190

The following are the major deferred tax assets and liabilities recognized 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**	**Right of use assets $m**	**Lease liabilities $m**	**Retirement benefit obligations $m**	**Inventories $m**	**Tax method changes $m**	**Tax losses $m**	**Trade and other payables $m**	**Other $m**	**Total $m**
At July 31, 2019	(74)	25	31	–	–	40	(114)	–	88	40	72	108
Adjustment on adoption of IFRS 16	–	–	–	(298)	372	–	–	–	–	(5)	–	69
At August 1, 2019	(74)	25	31	(298)	372	40	(114)	–	88	35	72	177
Credit/(charge) to income	3	(2)	(14)	27	(34)	1	5	–	11	(13)	(13)	(29)
Credit to other comprehensive income	–	–	–	–	–	44	–	–	–	–	–	44
Credit to equity	–	5	–	–	–	–	–	–	–	–	–	5
Acquisitions	(12)	–	1	(4)	4	–	–	–	–	–	–	(11)
Exchange rate adjustment	–	–	4	–	–	(1)	–	–	1	–	–	4
At July 31, 2020	**(83)**	**28**	**22**	**(275)**	**342**	**84**	**(109)**	**–**	**100**	**22**	**59**	**190**
Credit/(charge) to income	**3**	**4**	**(5)**	**26**	**(42)**	**(4)**	**(19)**	**98**	**20**	**60**	**20**	**161**
Charge to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(19)**	**–**	**–**	**–**	**–**	**–**	**(19)**
Credit to equity	**–**	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**
Acquisitions	**(16)**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**5**	**–**	**–**	**(10)**
Transferred to held for sale	**6**	**(1)**	**(17)**	**24**	**(25)**	**–**	**–**	**–**	**(17)**	**–**	**1**	**(29)**
Transfers between categories	**–**	**–**	**–**	**–**	**–**	**–**	**195**	**(195)**	**–**	**–**	**–**	**–**
Exchange rate adjustment	**–**	**–**	**5**	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**6**
At July 31, 2021	**(90)**	**35**	**5**	**(225)**	**275**	**62**	**68**	**(97)**	**108**	**82**	**80**	**303**

Legislation has been enacted in the UK to increase the standard rate of UK corporation tax from 19% to 25% with effect from April 2023. Accordingly, the UK deferred tax assets and liabilities have been calculated based on a 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 recognized on the basis that sufficient taxable profits are forecast to be available in the future to enable them to be utilized.

In addition, the Group has unrecognized gross tax losses totaling $404 million (2020: $369 million) that have not been recognized 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 recognized in respect of taxable temporary differences associated with unremitted earnings from the Group's subsidiary undertakings. However, tax may arise on $551 million (2020: $442 million) of temporary differences but the Group is in a position to control the timing of their reversal and it is probable that such differences will not reverse in the foreseeable future.

17 – Inventories

	2021 $m	2020 $m
Goods purchased for resale	**3,607**	3,089
Inventory provisions	**(181)**	(209)
Net inventories	**3,426**	2,880

18 – Trade and other receivables

Current	2021 $m	2020 $m
Trade receivables	**2,803**	2,604
Less: provision for expected credit losses	**(17)**	(36)
Net trade receivables	**2,786**	2,568
Other receivables	**146**	139
Prepayments	**399**	335
	3,331	3,042
Non-current		
Other receivables	**428**	377

Included in prepayments is $344 million (2020: $289 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 aging category is as follows:

At July 31, 2021	**Amounts not yet due $m**	**Less than six months past due $m**	**More than six months past due $m**	**Total $m**
Expected credit loss rate	**0.3%**	**0.5%**	**100%**	
Gross trade receivables	**1,820**	**977**	**6**	**2,803**
Lifetime expected credit losses	**(6)**	**(5)**	**(6)**	**(17)**
Net trade receivables	**1,814**	**972**	**–**	**2,786**

At July 31, 2020	Amounts not yet due $m	Less than six months past due $m	More than six months past due $m	Total $m
Expected credit loss rate	0.6%	1.1%	100%	
Gross trade receivables	1,836	751	17	2,604
Lifetime expected credit losses	(11)	(8)	(17)	(36)
Net trade receivables	1,825	743	–	2,568

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 $9 million (2020: $12 million).

19 – Cash and cash equivalents

	2021 $m	2020 $m
Cash and cash equivalents	**1,335**	2,115

Included in the balance at July 31, 2021 is an amount of $36 million (2020: $248 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 July 31, 2021, cash and cash equivalents included $95 million (2020: $93 million) which is used to collateralize letters of credit on behalf of Ferguson Insurance Limited.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

20 – Trade and other payables

Current	2021 $m	2020 $m
Trade payables	**3,234**	2,855
Tax and social security	**92**	114
Other payables	**104**	115
Accruals and deferred income	**592**	507
	4,022	3,591
Non-current		
Other payables	**342**	338

Trade payables are stated net of $55 million (2020: $50 million) due from suppliers with respect to supplier rebates where an agreement exists that allows these to be net settled.

21 – Borrowings

	2021			2020		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Bank overdrafts	**183**	**–**	**183**	248	–	248
Senior unsecured loan notes	**–**	**2,528**	**2,528**	283	2,635	2,918
Total borrowings	**183**	**2,528**	**2,711**	531	2,635	3,166

At July 31, 2021 total bond debt in the USA was $1,350 million (2020: $1,350 million) which is held at par value.

The carrying value of the USPP senior unsecured loan notes of $1,178 million comprises a par value of $1,155 million and a fair value adjustment of $23 million from the application of hedge accounting (2020: $1,568 million, $1,530 million and $38 million respectively).

The Group applies fair value hedge accounting to debt of $355 million (2020: $355 million), swapping fixed interest rates into floating interest rates using a series of interest rate swaps.

Included in bank overdrafts at July 31, 2021 is an amount of $36 million (2020: $248 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within cash and cash equivalents (note 19). These amounts are subject to a master netting arrangement.

In April 2020, Ferguson Finance plc was approved as an eligible issuer under the Covid Corporate Financing Facility ("CCFF"); all commercial paper issued under the CCFF was fully repaid in June 2020 and as a result there are no balances recognized in the current or prior year. The Group did not utilize the funds that were previously drawn down under the facility and Ferguson Finance plc's CCFF eligibility expired in October 2020. There are no unfulfilled conditions or contingencies associated with the facility.

No bank loans were secured against trade receivables and the trade receivables facility of $600 million was undrawn at July 31, 2021 and July 31, 2020.

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 summarized in note 1.

Non-current loans are repayable as follows:

	2021 $m	2020 $m
Due in one to two years	**250**	–
Due in two to three years	**55**	250
Due in three to four years	**150**	150
Due in four to five years	**400**	150
Due in over five years	**1,673**	2,085
Total	**2,528**	2,635

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:

	2021 $m	2020 $m
Financial assets		
Financial assets at fair value through profit and loss	**353**	307
Financial assets at fair value through other comprehensive income	**18**	12
Financial assets at amortized cost	**3,372**	3,114
Financial liabilities		
Financial liabilities at fair value through profit and loss	**328**	265
Financial liabilities at amortized cost	**7,026**	7,474

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).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's derivatives principally relate to interest rate swaps to manage its exposure to interest rate movements on its borrowings. They are measured at fair value through profit and loss using forward interest curves which are level 2 inputs. The current element of derivative financial assets is $5 million (2020: $11 million) and the non-current element is $16 million (2020: $28 million). Total net derivative financial instruments is an asset of $21 million (2020: $39 million). No transfers between levels occurred during the current or prior year.

The Group's deferred compensation plan comprises a financial asset of $332 million (2020: $268 million) which is measured at fair value through profit and loss using level 1 inputs and a financial liability of $328 million (2020: $265 million) which is measured at fair value through profit and loss using level 2 inputs. The fair value of the liability is calculated with reference to the fair value of the associated asset. The financial asset is all classified as non-current. The current element of the financial liability is $31 million (2020: $13 million) and the non-current element is $297 million (2020: $252 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 in the current year are measured using market derived valuation methods which utilize level 3 unobservable inputs compared to the prior year which utilized 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 current and prior year.

The Group's other financial instruments are measured at amortized cost. Other receivables include an amount of $64 million (2020: $71 million) which has been discounted at a rate of 1.8% (2020: 1.0%) 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 $1,178 million (2020: $1,568 million) and a fair value (level 2) of $1,273 million (2020: $1,671 million), and the bond debt in the USA which had a book value of $1,350 million (2020: $1,350 million) and a fair value (level 1) of $1,538 million (2020: $1,488 million).

Notes to the consolidated financial statements continued

Year ended July 31, 2021

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 July 31, 2021	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		**16**	**–**	**16**	**–**	**16**
Current assets						
Derivative financial assets		**5**	**–**	**5**	**–**	**5**
Cash and cash equivalents	19	**1,335**	**–**	**1,335**	**(36)**	**1,299**
		1,356	**–**	**1,356**	**(36)**	**1,320**
Financial liabilities						
Current liabilities						
Borrowings	21	**183**	**–**	**183**	**(36)**	**147**
Non-current liabilities						
Borrowings	21	**2,528**	**–**	**2,528**	**–**	**2,528**
		2,711	**–**	**2,711**	**(36)**	**2,675**
Closing net debt excluding lease liabilities	29	**(1,355)**	**–**	**(1,355)**	**–**	**(1,355)**

At July 31, 2020	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		28	–	28	–	28
Current assets						
Derivative financial assets		19	(8)	11	–	11
Cash and cash equivalents	19	2,115	–	2,115	(248)	1,867
		2,162	(8)	2,154	(248)	1,906
Financial liabilities						
Current liabilities						
Derivative financial liabilities		8	(8)	–	–	–
Borrowings	21	531	–	531	(248)	283
Non-current liabilities						
Borrowings	21	2,635	–	2,635	–	2,635
		3,174	(8)	3,166	(248)	2,918
Closing net debt excluding lease liabilities	29	(1,012)	–	(1,012)	–	(1,012)

1. The gross amounts of the recognized 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 agreement, or similar arrangement, not included in (3).
5. The net amount after deducting the amounts in (4) from the amounts in (3).

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 these risks which have been consistently applied during the financial years ended July 31, 2021 and July 31, 2020. 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 summarized 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

The capital structure of the Group consists of net debt excluding lease liabilities (disclosed in note 29) and equity of the Group (comprising share capital, share premium and reserves). 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 keep this ratio within one to two times. Of the Group's borrowing facilities, only the US Private Placement debt contains a financial covenant limiting the ratio of net debt to adjusted EBITDA to 3.5:1. All other borrowing facilities and the bond debt in the USA are covenant free. 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 July 31, 2021, the maximum exposure to credit risk was $2,786 million (2020: $2,568 million).

Each of the Group's businesses have established procedures in place to review and collect outstanding receivables. Significant outstanding and overdue balances are regularly reviewed and resulting actions are put in place on a timely basis. 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 expected credit losses. The aging of trade receivables is detailed in note 18.

The Group has cash balances deposited for short periods with financial institutions and enters into certain contracts (such as interest rate swaps) which entitle the Group to receive future cash flows from financial institutions. These transactions give rise to credit risk on amounts due from counterparties with a maximum exposure of $1,163 million (2020: $1,873 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 borrowings (excluding bank overdrafts) and lease liabilities, 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 analyzed by maturity as follows:

				2021				2020
	Trade and other payables $m	**Debt including lease liabilities $m**	**Interest on debt including lease liabilities $m**	**Total $m**	Trade and other payables $m	Debt including lease liabilities $m	Interest on debt including lease liabilities $m	Total $m
Due in less than one year	**3,188**	**263**	**130**	**3,581**	2,889	561	148	3,598
Due in one to two years	**31**	**507**	**116**	**654**	34	291	131	456
Due in two to three years	**25**	**257**	**103**	**385**	20	507	117	644
Due in three to four years	**18**	**295**	**93**	**406**	15	345	103	463
Due in four to five years	**19**	**491**	**79**	**589**	14	286	92	392
Due in over five years	**244**	**1,782**	**207**	**2,233**	211	2,245	285	2,741
Total	**3,525**	**3,595**	**728**	**7,848**	3,183	4,235	876	8,294

Notes to the consolidated financial statements continued

Year ended July 31, 2021

22 – Financial instruments and financial risk management continued

Liquidity risk continued

The Group relies on continued access to funding in order to meet its operating obligations, to support the growth of the business and to make acquisitions when opportunities arise. Its sources of funding include cash flows generated by operations and borrowings from banks and other financial institutions. The Group holds a $1,100 million (2020: $1,100 million) revolving credit facility that matures in March 2026, a $500 million bilateral facility that matures in March 2022 (2020: $500 million), and a $600 million (2020: $600 million) securitization facility that matures in May 2024. This facility is secured against the assets of Ferguson Receivables, LLC, a wholly owned subsidiary of Ferguson Enterprises, LLC. The assets of Ferguson Receivables, LLC can only be used to settle the obligations of Ferguson Receivables, LLC and creditors of Ferguson Receivables, LLC have no recourse to the general credit of Ferguson plc or that of other Group subsidiaries. All facilities were undrawn at July 31, 2021 and July 31, 2020.

The maturity profile of the Group's undrawn facilities is as follows:

	2021 $m	2020 $m
Less than one year	**500**	500
Between one and two years	**–**	600
Between two and three years	**600**	–
Between three and four years	**–**	–
Between four and five years	**1,100**	1,100
After five years	**–**	–
Total	**2,200**	2,200

At July 31, 2021 the Group has total available facilities, excluding bank overdrafts, of $4,728 million (2020: $5,118 million), of which $2,528 million is drawn (note 21) and $2,200 million is undrawn (2020: $2,918 million and $2,200 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 94% (2020 restated: 95%) 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 177. The net effect of currency translation was to increase revenue by $60 million (2020 restated: decrease by $25 million) and the net effect on trading profit was $nil (2020 restated: $nil). These currency effects primarily reflect a movement of the average US dollar exchange rate against Canadian dollars.

Net debt excluding lease liabilities by currency was as follows:

			2021			2020
	Derivatives $m	**Cash and borrowings $m**	**Total $m**	Derivatives $m	Cash and borrowings $m	Total $m
US dollars	**23**	**(1,640)**	**(1,617)**	39	(1,186)	(1,147)
Pounds sterling	**(1)**	**90**	**89**	–	(38)	(38)
Other currencies	**(1)**	**174**	**173**	–	173	173
Total	**21**	**(1,376)**	**(1,355)**	39	(1,051)	(1,012)

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 recognized in the statement of comprehensive income and accumulated in the translation reserve. Gains and losses on those hedging instruments designated as hedges of the net investments in foreign operations are recognized in equity in the statement of comprehensive income and accumulated in the translation reserve to the extent that the hedging relationship is effective.

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 $187 million (2020: $368 million). The loss on translation of those financial instruments into US dollars of $31 million (2020: $31 million) has been taken to the statement of comprehensive income. There was no hedge ineffectiveness in the year.

Interest rate risk

At July 31, 2021, 85% (2020: 83%) of borrowings (excluding bank overdrafts) 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 excluding lease liabilities, after the effect of interest rate swaps, is set out below:

	2021			2020		
	Floating $m	**Fixed $m**	**Total $m**	Floating $m	Fixed $m	Total $m
US dollars	**533**	**(2,150)**	**(1,617)**	1,284	(2,431)	(1,147)
Pounds sterling	**89**	**–**	**89**	(38)	–	(38)
Other currencies	**173**	**–**	**173**	173	–	173
Total	**795**	**(2,150)**	**(1,355)**	1,419	(2,431)	(1,012)

The Group's weighted average cost of net debt is 4.5%. The Group holds issued fixed rate borrowings at July 31, 2021 of $2,505 million comprising bond debt in the USA of $1,350 million and USPP of $1,155 million (2020: $2,786 million, $1,350 million and $1,436 million respectively); these carried a weighted average interest rate of 3.8% fixed for a weighted average duration of 6.6 years (2020: 3.7% for 7.0 years). The Group holds interest rate swap contracts comprising fixed interest receivable on $355 million of notional principal. These are designated as a fair value hedge against $355 million of USPP debt swapping fixed interest for floating. These contracts expire between November 2023 and November 2026 and the fixed interest rates range between 3.3% and 3.5%. At July 31, 2021 there were $nil issued floating rate borrowings, excluding overdrafts. At July 31, 2020 floating borrowings, excluding overdrafts had a weighted average interest rate of 1.7%.

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 1% in the principal floating interest rates to which it is exposed would result in a credit to the income statement of $8 million (2020: $14 million). The Group has estimated that a weakening of the US dollar by 10% against financial instruments denominated in a foreign currency in which the Group does business would result in a charge to the translation reserve of $7 million (2020: $52 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.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

23 – Provisions

	Environmental and legal $m	Ferguson Insurance $m	Restructuring $m	Property provisions $m	Other provisions $m	Total $m
At July 31, 2019	82	77	40	15	51	265
Adjustment on adoption of IFRS 16	–	–	(14)	14	(1)	(1)
At August 1, 2019	82	77	26	29	50	264
Utilized in the year	(4)	(20)	(27)	(1)	(4)	(56)
Changes in discount rate	6	–	–	1	–	7
(Credit)/charge for the year	(1)	18	22	1	(10)	30
Acquisition of businesses	2	–	–	–	–	2
Exchange rate adjustment	1	1	1	3	2	8
At July 31, 2020	**86**	**76**	**22**	**33**	**38**	**255**
Utilized in the year	**(4)**	**(19)**	**(8)**	**(1)**	**(3)**	**(35)**
Changes in discount rate	**(5)**	**–**	**–**	**–**	**–**	**(5)**
Charge/(credit) for the year	**15**	**13**	**(1)**	**–**	**3**	**30**
Reclassification as held for sale	**(8)**	**–**	**(10)**	**(33)**	**(2)**	**(53)**
Exchange rate adjustment	**–**	**–**	**1**	**1**	**1**	**3**
At July 31, 2021	**84**	**70**	**4**	**–**	**37**	**195**

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

At July 31, 2021	Environmental and legal $m	Ferguson Insurance $m	Restructuring $m	Property provisions $m	Other provisions $m	Total $m
Current	**20**	**20**	**2**	**–**	**30**	**72**
Non-current	**64**	**50**	**2**	**–**	**7**	**123**
Total provisions	**84**	**70**	**4**	**–**	**37**	**195**

At July 31, 2020	Environmental and legal $m	Ferguson Insurance $m	Restructuring $m	Property provisions $m	Other provisions $m	Total $m
Current	10	5	10	8	20	53
Non-current	76	71	12	25	18	202
Total provisions	86	76	22	33	38	255

The environmental and legal provision includes $64 million (2020: $72 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 1.8% (2020: 1.0%). This amount has been actuarially determined as at July 31, 2021 based on advice from independent professional advisers. The Group has insurance that covers asbestos litigation payments and settlements and based on review of the insurance carriers and policies in place, the amount of performing insurance cover significantly exceeds the expected future claims. On that basis, it has been determined it is virtually certain the insurance will be recoverable and accordingly an insurance receivable of $64 million (2020: $71 million) has been recorded in other receivables. No material profit or cash flow impact is therefore expected to arise in the foreseeable future in respect of asbestos claims against the Group. Due to the nature of these provisions, the timing of any settlements is uncertain.

Ferguson 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.

Other provisions include warranty costs relating to businesses disposed of and product warranty provisions. The weighted average maturity of these obligations is approximately 1.5 years.

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.

In 2021, prior to the disposal of Wolseley UK Limited, the UK defined benefit plan was transferred to Ferguson UK Holdings Limited.

The last triennial valuation for the UK defined benefit pension plan was done as at April 2019 and the deficit reduction funding payments agreed with the trustees as a result of this have been paid. The next triennial valuation is due in April 2022.

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.

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.

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.

For the UK plan, the buy-in insurance policy represents approximately 28% of the plan assets. For the remaining assets, the strategy is to invest in such a way that the expected cashflows broadly match a high proportion of the plan's expected liability cashflows by investing in predominately income-generating asset classes. 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 is to invest predominantly in 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 is predominately invested in fixed income debt instruments such as corporate and government bonds. Due to the long-term nature of the plan liabilities and the maturity of the plan, the trustees of the pension plan consider the investment allocation appropriate to 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.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

24 – Retirement benefit obligations continued

(ii) Financial impact of plans

As disclosed in the Group balance sheet	**2021 $m**	2020 $m
Non-current asset	**108**	–
Non-current liability	**(12)**	(61)
Net asset/(liability)	**96**	(61)

Analysis of Group balance sheet net asset/(liability)			**2021**			2020
	UK $m	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
Fair value of plan assets	**2,175**	**129**	**2,304**	2,012	110	2,122
Present value of defined benefit obligations	**(2,067)**	**(141)**	**(2,208)**	(2,039)	(144)	(2,183)
Net asset/(liability)	**108**	**(12)**	**96**	(27)	(34)	(61)

Analysis of total expense recognized in the Group income statement	**2021 $m**	2020 $m
Administrative costs	**3**	3
Charged to operating costs (note 11)	**3**	3
Charged/(credited) to finance costs (note 6)	**1**	(3)
Exceptional charges to finance costs (note 5)	**1**	–
Total expense recognized in the Group income statement	**5**	–

Expected employer contributions to the defined benefit plans for the year ending July 31, 2022 are $2 million.

The remeasurement of the defined benefit net asset is included in the Group statement of comprehensive income.

Analysis of amount recognized in the Group statement of comprehensive income	**2021 $m**	2020 $m
The return on plan assets (excluding amounts included in net interest expense)	**34**	96
Actuarial gain/(loss) arising from changes in demographic assumptions	**22**	(62)
Actuarial gain/(loss) arising from changes in financial assumptions	**20**	(211)
Actuarial gain/(loss) arising from experience adjustments	**31**	(58)
Remeasurement of retirement benefit plans	**107**	(235)
Tax (charge)/credit	**(19)**	44
Total amount recognized in the Group statement of comprehensive income	**88**	(191)

The cumulative amount of actuarial losses recognized in the Group statement of comprehensive income is $652 million (2020: $759 million).

24 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

The fair value of plan assets is as follows:

	2021			2020		
	UK $m	Non-UK $m	Total $m	UK $m	Non-UK $m	Total $m
At August 1	**2,012**	**110**	**2,122**	1,788	116	1,904
Interest income	**31**	**3**	**34**	39	3	42
Employers' contributions	**55**	**1**	**56**	15	–	15
Benefit payments	**(68)**	**(9)**	**(77)**	(64)	(9)	(73)
Remeasurement gain:						
Return on plan assets (excluding amounts included in net interest expense)	**18**	**16**	**34**	94	2	96
Exchange rate adjustment	**127**	**8**	**135**	140	(2)	138
At July 31	**2,175**	**129**	**2,304**	2,012	110	2,122
Actual return on plan assets	**49**	**19**	**68**	133	5	138

Employers' contributions included special funding contributions of $53 million (2020: $13 million).

The plan assets were invested in a diversified portfolio comprised of:

		2021			2020		
		UK $m	Non-UK $m	Total $m	UK $m	Non-UK $m	Total $m
Equity type assets	quoted	**–**	**48**	**48**	165	65	230
Government bonds	quoted	**492**	**40**	**532**	566	23	589
Corporate bonds	quoted	**884**	**13**	**897**	385	12	397
Cash		**19**	**1**	**20**	44	–	44
Insurance policies		**602**	**–**	**602**	609	–	609
Securitized fixed income assets		**178**	**–**	**178**	167	–	167
Other		**–**	**27**	**27**	76	10	86
Total fair value of assets		**2,175**	**129**	**2,304**	2,012	110	2,122

The present value of defined benefit obligations is as follows:

	2021			2020		
	UK $m	Non-UK $m	Total $m	UK $m	Non-UK $m	Total $m
At August 1	**2,039**	**144**	**2,183**	1,610	141	1,751
Current service costs (including administrative costs)	**3**	**–**	**3**	3	–	3
Interest cost	**31**	**4**	**35**	35	4	39
Benefit payments	**(68)**	**(9)**	**(77)**	(64)	(9)	(73)
Remeasurement (gain)/loss:						
Actuarial (gain)/loss arising from changes in demographic assumptions	**(22)**	**–**	**(22)**	62	–	62
Actuarial (gain)/loss arising from changes in financial assumptions	**(11)**	**(9)**	**(20)**	202	9	211
Actuarial (gain)/loss arising from experience adjustments	**(31)**	**–**	**(31)**	57	1	58
Exchange rate adjustment	**126**	**11**	**137**	134	(2)	132
At July 31	**2,067**	**141**	**2,208**	2,039	144	2,183

Notes to the consolidated financial statements continued

Year ended July 31, 2021

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:

	2021 $m	2020 $m
Amounts arising from wholly unfunded plans	**3**	3
Amounts arising from plans that are wholly or partly funded	**2,205**	2,180
Total present value of defined benefit obligations	**2,208**	2,183

(iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2021		2020	
	UK %	Non-UK %	UK %	Non-UK %
Discount rate	**1.7**	**2.9**	1.5	2.4
Inflation rate	**3.1**	**2.0**	2.9	2.0
Increase to deferred benefits during deferment	**2.4**	**n/a**	2.1	n/a
Increases to pensions in payment	**3.0**	**2.0**	2.6	2.0
Salary increases	**2.4**	**n/a**	2.1	2.5

The life expectancy assumptions used to estimate defined benefit obligations are:

	2021		2020	
	UK Years	Non-UK Years	UK Years	Non-UK Years
Current pensioners (at age 65) – male	**22**	**22**	22	22
Current pensioners (at age 65) – female	**25**	**25**	25	24
Future pensioners (at age 65) – male	**23**	**23**	23	23
Future pensioners (at age 65) – female	**25**	**26**	26	26

The weighted average duration of the defined benefit obligation is 20.0 years (2020: 21.1 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.

	2021			2020		
	Change	UK $m	Non-UK $m	Change	UK $m	Non-UK $m
Discount rate	**+0.25%**	**85**	**4**	+0.25%	88	5
	(0.25)%	**(89)**	**(5)**	(0.25)%	(96)	(5)
Inflation rate	**+0.25%**	**(77)**	**–**	+0.25%	(85)	–
	(0.25)%	**78**	**3**	(0.25)%	75	4
Life expectancy	**+1 year**	**(70)**	**(5)**	+1 year	(56)	(5)

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 liability.

25 – Share capital

(i) Ordinary shares in issue

	2021		2020	
Allotted and issued shares	**Number of shares**	**Cost $m**	Number of shares	Cost $m
Number/cost of ordinary 10 pence shares in the Company (million)	**232**	**30**	232	30

The authorized share capital of the Company is 500 million ordinary 10 pence shares (2020: 500 million ordinary 10 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.

A summary of the movements in the year is detailed in the following table:

	2021	2020
Number of ordinary 10 pence shares in the Company in issue at August 1 and July 31	**232,171,182**	232,171,182

(ii) Treasury shares

The shares purchased under the Group's buy back programs have been retained in issue as Treasury shares and represent a deduction from equity attributable to shareholders of the Company.

A summary of the movements in Treasury shares in the year is detailed in the following table:

	2021		2020	
	Number of shares	**Cost $m**	Number of shares	Cost $m
Treasury shares held by the Company at August 1	**7,280,222**	**570**	2,036,945	146
Treasury shares purchased under irrevocable commitment from prior year	**–**	**–**	2,139,221	159
		570		305
Treasury shares purchased	**3,020,368**	**400**	3,452,349	292
Disposal of Treasury shares to settle share options	**(437,774)**	**(39)**	(348,293)	(27)
Treasury shares held by the Company at July 31	**9,862,816**	**931**	7,280,222	570

Consideration received in respect of shares transferred to participants in certain long term incentive plans and all-employee plans amounted to $18 million (2020: $11 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:

	2021		2020	
	Number of shares	**Cost $m**	Number of shares	Cost $m
Own shares in the Company at August 1	**1,277,347**	**88**	1,563,778	102
New shares purchased	**–**	**–**	307,345	26
Exercise of share options	**(444,158)**	**(30)**	(593,776)	(40)
Own shares in the Company at July 31	**833,189**	**58**	1,277,347	88

Consideration received in respect of shares transferred to participants in the discretionary share option plans and long term incentive plans amounted to $nil (2020: $nil). At July 31, 2021, the shares held in the trusts had a market value of $117 million (2020: $114 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 July 31, 2021

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:

	2021 $m	2020 $m
Profit for the year attributable to shareholders	**1,508**	961
Net finance costs	**146**	144
Share of (profit)/loss after tax of associates	**(1)**	2
Gain on disposal of interests in associates and other investments	**–**	(7)
Impairment of interests in associates	**–**	22
Tax charge	**253**	307
Loss on disposal and closure of businesses and impairment of assets held for sale	**184**	3
Amortization of acquired intangible assets	**134**	130
Amortization of non-acquired intangible assets	**39**	35
Depreciation and impairment of right of use assets	**254**	278
Depreciation and impairment of property, plant and equipment	**136**	159
Gain on disposal of property, plant and equipment and assets held for sale	**(3)**	(3)
(Increase)/decrease in inventories	**(825)**	19
(Increase)/decrease in trade and other receivables	**(769)**	210
Increase/(decrease) in trade and other payables	**1,023**	(9)
Decrease in provisions and other liabilities	**(57)**	(25)
Share-based payments	**71**	26
Cash generated from operations	**2,093**	2,252

27 – Acquisitions

The Group acquired the following businesses during the year ended July 31, 2021, which are all engaged in the distribution of plumbing and heating products and were acquired to support growth in the USA. All transactions have been accounted for by the acquisition method of accounting.

Name	Date of acquisition	Country of incorporation	Shares/asset deal	Acquired %
Old Dominion Supply, Inc.	October 2020	USA	Shares	100
Atlantic Construction Fabrics, Inc.	November 2020	USA	Assets	100
Nova Wildcat Amerock Holdings, Inc.	January 2021	USA	Shares	100
Clarksville Lighting & Appliance, LLC	January 2021	USA	Assets	100
The Kitchen Showcase, Inc.	June 2021	USA	Assets	100
Moore Industrial Supply	July 2021	USA	Assets	100
Canyon Pipe & Supply, Inc.	July 2021	USA	Assets	100

27 – Acquisitions continued

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

	2021 $m	2020 $m
Intangible assets		
Software	**–**	13
Trade names and brands	**17**	34
Customer relationships	**132**	101
Other	**15**	3
Right of use assets	**12**	30
Property, plant and equipment	**11**	19
Inventories	**51**	58
Trade and other receivables	**45**	62
Cash, cash equivalents and bank overdrafts	**13**	6
Lease liabilities	**(12)**	(30)
Trade and other payables	**(30)**	(28)
Deferred tax	**(10)**	(11)
Provisions	**–**	(2)
Total	**244**	255
Goodwill arising	**80**	78
Consideration	**324**	333
Satisfied by:		
Cash	**299**	321
Deferred consideration	**25**	12
Total consideration	**324**	333

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 judgmental 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 $159 million to revenue, $9 million to trading profit, $10 million loss to the Group's operating profit, $15 million loss to the Group's profit before tax and $17 million loss to the Group's profit after tax for the period between the date of acquisition and the balance sheet date.

If each acquisition had been completed on the first day of the financial year, continuing revenue would have been $22,999 million, continuing trading profit would have been $2,195 million, continuing operating profit would have been $2,044 million, continuing profit before tax would have been $1,895 million and continuing profit after tax would have been $1,653 million.

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

	2021 $m	2020 $m
Purchase consideration	**299**	321
Deferred and contingent consideration in respect of acquisitions from prior years	**49**	36
Cash consideration	**348**	357
Cash, cash equivalents and bank overdrafts acquired	**(13)**	(6)
Net cash outflow in respect of the purchase of businesses	**335**	351

Notes to the consolidated financial statements continued

Year ended July 31, 2021

28 – Disposals

On January 29, 2021, the Group disposed of the shares in its UK business Wolseley UK Limited. There were no other disposals in the year ended July 31, 2021.

The Group recognized a total loss on disposals in the period of $356 million (2020: $nil), which is comprised of a loss on the current period disposal of the UK business of $370 million (2020: $nil) and a gain on prior year disposals of $14 million (2020: $nil). The total loss is reported within discontinued operations.

The loss on current period disposal is as follows:

	2021 $m	2020 $m
Consideration received	**422**	–
Net assets disposed of	**(390)**	–
Disposal costs and provisions	**(32)**	–
Recycling of deferred foreign exchange losses	**(370)**	–
Current period loss on disposal	**(370)**	–

Net assets disposed of were held in assets and liabilities held for sale.

The net inflow of cash in respect of disposals of businesses reported within discontinued operations is as follows:

	2021 $m	2020 $m
Cash consideration received for current period disposals (net of cash disposed of)	**395**	–
Cash consideration received in respect of prior year disposals	**19**	9
Cash paid in respect of prior year disposals	**(2)**	(2)
Disposal costs paid	**(32)**	–
Net cash inflow in respect of disposals of businesses	**380**	7

29 – Reconciliation of opening to closing net debt

	Cash and cash equivalents (note 19) $m	Bank overdrafts (note 21) $m	Total cash, cash equivalents and bank overdrafts $m	Derivative[1] financial instruments (note 22) $m	Loans[1] (note 21) $m	Obligations[1] under finance leases $m	Net debt excluding lease liabilities $m	Lease[1] liabilities (note 14) $m	Net debt including lease liabilities $m
At July 31, 2019	1,133	(47)	1,086	22	(2,297)	(6)	(1,195)	–	(1,195)
Adjustment on adoption of IFRS 16	–	–	–	–	–	6	6	(1,481)	(1,475)
At August 1, 2019	1,133	(47)	1,086	22	(2,297)	–	(1,189)	(1,481)	(2,670)
Cash movements									
Proceeds from loans and derivatives			–	(7)	(1,162)	–	(1,169)	–	(1,169)
Repayments of loans			–	–	566	–	566	–	566
Lease liability capital payments[2]			–	–	–	–	–	295	295
Interest paid on lease liabilities[2]			–	–	–	–	–	53	53
Changes in net debt due to acquisition of businesses			6	–	–	–	6	–	6
Other cash flows			771	–	–	–	771	–	771
Non-cash movements									
Lease liability additions			–	–	–	–	–	(115)	(115)
Changes in lease liabilities due to acquisition of businesses			–	–	–	–	–	(30)	(30)
Discount unwinding on lease liabilities			–	–	–	–	–	(53)	(53)
Fair value and other adjustments			–	28	(20)	–	8	(16)	(8)
Exchange movements			4	(4)	(5)	–	(5)	(8)	(13)
At July 31, 2020	**2,115**	**(248)**	**1,867**	**39**	**(2,918)**	**–**	**(1,012)**	**(1,355)**	**(2,367)**
Cash movements									
Proceeds from loans and derivatives			**–**	**(4)**	**–**	**–**	**(4)**	**–**	**(4)**
Repayments of loans			**–**	**–**	**375**	**–**	**375**	**–**	**375**
Lease liability capital payments[2]			**–**	**–**	**–**	**–**	**–**	**296**	**296**
Interest paid on lease liabilities[2]			**–**	**–**	**–**	**–**	**–**	**46**	**46**
Changes in net debt due to disposal of businesses			**(27)**	**–**	**–**	**–**	**(27)**	**133**	**106**
Changes in net debt due to acquisition of businesses			**13**	**–**	**–**	**–**	**13**	**–**	**13**
Other cash flows			**(702)**	**–**	**–**	**–**	**(702)**	**–**	**(702)**
Non-cash movements									
Lease liability additions			**–**	**–**	**–**	**–**	**–**	**(97)**	**(97)**
Discount unwinding on lease liabilities			**–**	**–**	**–**	**–**	**–**	**(46)**	**(46)**
Changes in lease liabilities due to acquisition of businesses			**–**	**–**	**–**	**–**	**–**	**(12)**	**(12)**
Fair value and other adjustments			**–**	**(13)**	**15**	**–**	**2**	**(44)**	**(42)**
Exchange movements			**1**	**(1)**	**–**	**–**	**–**	**(11)**	**(11)**
At July 31, 2021	**1,335**	**(183)**	**1,152**	**21**	**(2,528)**	**–**	**(1,355)**	**(1,090)**	**(2,445)**

1. Liabilities from financing activities.
2. Total cash outflow in relation to leases including short-term leases, leases of low value assets and sublease income in the year ended July 31, 2021, was $359 million (2020: $377 million).

Notes to the consolidated financial statements continued

Year ended July 31, 2021

30 – Related party transactions

The Group purchases goods and services from companies which are indirect wholly owned subsidiaries of companies which are controlled or significantly influenced by persons who are also Ferguson Non Executive Directors. In the year ended July 31, 2021, the Group purchased goods and services totaling $24 million (2020: $18 million) from and owed $nil (2020: $nil) to these companies. The goods and services are purchased on an arm's-length basis.

The Group made a donation of $2 million (2020: $nil) to a charity which has a Board member who is a related party of the Group. As at July 31, 2021, the Group has committed to donate a further $1 million (2020: $nil) to this charity.

There are no other related party transactions requiring disclosure under IAS 24 "Related Party Disclosures" in the years ended July 31, 2021 and July 31, 2020 other than the compensation of key management personnel which is set out in note 11.

31 – 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 unfavorable 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 crystallize, though it is possible that claims in respect of which no provision has been made could crystallize 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, appropriate provisions have been made in respect of claims relating to businesses disposed of.

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 unfavorable outcome arising from such litigation is not expected to have a material adverse effect on the financial position of the Group.

32 – Events after the reporting period

There are no post-balance sheet events requiring disclosure under IAS 10 "Events after the Reporting Period".

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 July 31, 2021 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 and IFRSs as issued by the International Accounting Standards Board ("IASB");
- 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 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 32; and
- the notes to the Company's financial statements 1 to 15.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union and as issued by the IASB. 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 the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note 4 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of Ferguson plc continued

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: – Inventory existence and valuation.
Materiality	The materiality that we used for the Group financial statements in the current year was $90 million which was determined on the basis of approximately 5% of profit before tax.
Scoping	We have performed a full scope audit at one component, being the USA, and on the consolidation process. We have performed audits of certain specified account balances at another component, Canada, and five head office entities. Our components within the scope of our audit represent 100% of the Group's revenue from continuing operations, 96% of the Group's profit before tax from continuing operations and 100% of the Group's net assets.
Significant changes in our approach	Our approach is consistent with previous year with the exception of: – a change in the scope of our audit work at the Wolseley UK component from an audit of certain specified account balances to analytical procedures due to the disposal of the UK business in the current year and its inclusion within discontinued operations; – the first year adoption and reporting of IFRS 16 is no longer a key audit matter as IFRS 16 has now been fully adopted by the Group; and – relative to the prior year, the level of effort required to audit revenue recognition is lower due to our increased materiality level, our evaluation of the design and implementation of controls and decreased levels of substantive testing, which means that this is no longer a key audit matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls over management's going concern models, including the review of the inputs and assumptions used in those models;
- testing the accuracy of management's models, including agreement to the most recent Board approved budgets and forecasts which included the impact of COVID-19;
- challenging the key assumptions of these forecasts by:
  - reading industry data and other external information and comparing these with management's estimates;
  - comparing forecast revenue with the Group's historical performance, including the impact of COVID-19 on operations in FY20
  - evaluating the historical accuracy of forecasts prepared by management;
- assessing the sensitivity of the headroom and management's forecasts; and
- assessing the sufficiency of the Group's disclosure concerning the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorized for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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.

Inventory existence and valuation

Key audit matter description

The Group had inventories of $3,426 million at July 31, 2021 ($2,880 million as at July 31, 2020), held in numerous distribution centers and branches, and across multiple product lines. Details of its valuation are included in the Audit Committee report on page 78, in the accounting policies in note 1 and in note 15 of the consolidated financial statements.

Management employs a range of inventory counting procedures to record the existence and condition of inventory considering the highly disaggregated nature of the inventory balance across the Group's distribution centers and branch locations, including perpetual cycle counts. This count process is in turn reliant on two core warehouse management systems.

In addition, provisions are made against slow-moving, obsolete and damaged inventories by comparing the level of inventory held to estimated future sales on the basis of historical experience. At July 31, 2021, inventories were net of a provision of $181 million (July 31, 2020: $209 million) which includes provisions for inventory for which no sales have occurred during the past twelve months, special order inventory and excess inventory. The excess provision calculation requires judgement, which increases the risk of possible misstatement.

We identified excess inventory provisions valuation and the existence of perpetual cycle count inventory as a key audit matter. This is due to the inherent uncertainty in estimating the excess inventory provision and higher degree of auditor judgment and effort needed to determine the extent and timing of testing the perpetual cycle count inventory existence.

How the scope of our audit responded to the key audit matter

We have performed the following procedures in respect of this key audit matter:

Existence
- obtained an understanding of the general IT controls associated with the relevant IT systems for inventory, including the system responsible for managing the perpetual cycle count programmes;
- used senior team members to determine the extent and location of inventory counts;
- physically observed management's count procedures over inventory close to the year-end date and performed independent sample count procedures in relation to locations across the Group;
- performed roll-forward procedures from the date of our inventory counts to the year-end date; and
- investigated any variations from our independent counts and considered the impact in the context of the inventory balance as a whole.

Valuation
- obtained an understanding of relevant inventory controls operating across the Group;
- tested management's process in determining the excess inventory provision by recalculating the inventory provision, if any, for a sample of on hand inventory items and inventory provision amounts;
- formed an independent expectation of the excess inventory provision at year-end based on prior year ratios and compared the inventory provision against our expectation; and
- performed a historical look back analysis for a selection of inventory items and considered the impact in the context of the inventory balance as a whole.

Key observations

Our work on the existence of inventory was completed as planned and, after taking into account any count variances observed, we are satisfied that the Group's inventory is not materially misstated.

We identified that certain general IT controls required improvement. These were in the area of Access Security for the primary warehouse management system and in the area of Change Management in relation to information used in the performance of cycle count monitoring controls. These matters were anticipated in determining our initial risk assessment for existence of inventory associated with perpetual cycle count locations.

We consider the Group's provisioning methodology to be conservative 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 July 31, 2021.

Independent auditor's report to the members of Ferguson plc continued

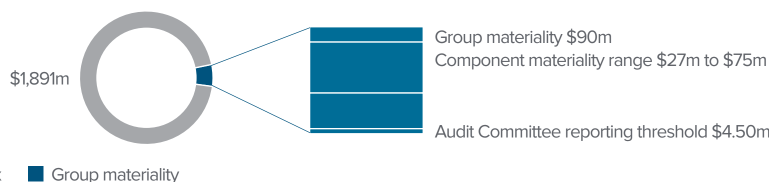
Our application of materiality

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	$90 million (2020: $55 million)	$27 million (2020: $28 million)
Basis for determining materiality	Materiality was determined on the basis of approximately 5% of profit before tax, which is consistent with the prior year.	Materiality was determined on the basis of the Company's net assets. This was then capped at the lowest component materiality.
Rationale for the benchmark applied	Profit before tax is a key metric for users of the financial statements and reflects 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.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	65% (2020: 65%) of Group materiality	65% (2020: 65%) of Company materiality
Basis and rational for determining performance materiality	In determining performance materiality, we considered the following factors: – our cumulative experience from prior year audits; – the level of corrected and uncorrected misstatements identified; – our risk assessment, including our understanding of the entity and its control environment; and – our assessment of the Group's overall control environment in light of COVID-19 and the enhancements being made in preparedness for full SOX adoption in FY22.	

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $4.50 million (2020: $2.75 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

Identification and scoping of components

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 components in the USA and Canada. A full scope audit was performed by local component auditors in the USA, while an audit of specified account balances was performed by local component auditors in Canada and in five head office entities by the Group audit team. In the prior year we also performed an audit of specified account balances on the Wolseley UK component, which was performed by local component auditors in the UK; as the disposal of Wolseley UK was completed during the year, we have changed the scope of our audit work on this component to analytical procedures performed by the Group audit team. The Company is located in the UK and is audited directly by the Group audit team. Our audit work on the components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from $27 million to $75 million (2020: $28 million to $50 million).

Our components within the scope of our audit represent 100% of the Group's revenue from continuing operations (2020: 100%), 96% of the Group's profit before tax from continuing operations (2020: 98%) and 100% of the Group's net assets (2020: 99%).

At the Group-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.

Our consideration of the control environment

The Group operates a range of IT systems which underpin the financial reporting process. These can vary by business and/or by geography. For all of the components that were subject to either a full scope or audit of specified balances, we identified relevant IT systems for the purpose of our audit work. These were typically the principal Enterprise Resource Planning (ERP) systems for each business that govern the general ledger and transactional accounting balances, and in some cases also included ancillary/feeder systems into the main ERP. Our approach was principally designed to inform our risk assessment and, as such, we obtained an understanding of relevant general IT controls using IT specialists. We did not place reliance on certain of the general IT controls that we tested for the purpose of the substantive audit procedures due to the evolving IT control environment.

As the Group's preparations for the requirements under SOX continued through the year, management have focused on the identification and documentation of control procedures throughout the Group, which has led us to obtain an understanding of additional business process controls in the current year to inform our risk assessment. These controls include those addressing significant financial statement line items in the USA and Canada components, including revenue and inventory, as well as head office controls relating to central balances and processes such as pension accounting, consolidation and financial reporting, treasury and the Group's planning and budgeting process.

The Group continues to invest in its IT systems and overall control environment and this includes seeking to remediate control findings where they are identified through its own assurance framework, including Internal Audit, or through the external audit. As outlined in the Internal Control section on page 81 of the Annual Report, in preparedness for full adoption of SOX, the Group is taking opportunities to strengthen its control environment. As part of our controls work in the prior and current year, we identified a number of control deficiencies that management is in the process of remediating, including as noted in the inventory key audit matter above. Where deficiencies have been identified and the remediation activity remained ongoing during the current year we did not seek to place reliance on those relevant IT systems and business process controls for the purpose of our audit.

Working with other auditors

Our oversight of component auditors focused on the planning of their audit work and understanding of their risk assessment process to identify key areas of estimates and judgement, as well as the execution of their audit work. We sent our component teams detailed instructions, reviewed and challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing conference calls and held regular remote communication to interact on any related audit and accounting matters which arose.

As part of our oversight of the component teams, planning meetings were also held with key component audit teams. The purpose of these planning meetings was to determine whether the component teams had a good level of understanding of the Group's businesses, its core strategy and significant risks. 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.

In response to the ongoing COVID-19 pandemic, which inhibited our ability to make component visits, more frequent video calls were held between the Group and component teams and remote access to relevant documents was provided. Given the pandemic, the majority of our audit was performed under a remote working environment. Throughout this time, we increased the frequency of our meetings with the audit team and with management to ensure progress. We were able to perform our procedures without needing to make substantial changes to our planned approach.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Jersey Law, Listing Rules, pension legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- 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 provisions of 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 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.

Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 114;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 54;
- the Directors' statement on fair, balanced and understandable set out on page 79;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 53 to 55;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 80 and 81; and
- the section describing the work of the Audit Committee set out on pages 76 and 77.

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.

Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the members of the Annual General Meeting on November 12, 2015 to audit the financial statements for the year ending July 31, 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending July 31, 2016 to July 31, 2021.

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 those 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.

Andrew Bond
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Recognised Auditor
London, UK
September 28, 2021

Company income statement

Year ended July 31, 2021

	Notes	**2021 $m**	2020 $m
Administrative expenses		**(92)**	(38)
Operating loss		**(92)**	(38)
Income from shares in Group undertakings		**2,100**	14,028
Impairment of investments	3	**–**	(11,276)
Profit on ordinary activities before interest		**2,008**	2,714
Interest receivable and similar income		**19**	17
Interest payable and similar charges		**(1)**	(7)
Profit for the financial year		**2,026**	2,724

There were no recognized gains and losses for 2021 and 2020 other than those presented in the income statement therefore no statement of comprehensive income is presented.

Company statement of changes in equity

Year ended July 31, 2021

	Notes	**Called up share capital $m**	**Share premium $m**	**Treasury shares reserve $m**	**Own shares reserve $m**	**Retained earnings $m**	**Total shareholders' equity $m**
At August 1, 2019		30	9	(305)	–	16,146	15,880
Profit for the year		–	–	–	–	2,724	2,724
Own shares transfer	9	–	–	–	(113)	113	–
Issue of own shares by Employee Benefit Trusts	9	–	–	–	2	(2)	–
Credit to equity for share-based payments	10	–	–	–	–	26	26
Purchase of Treasury shares	8	–	–	(292)	–	–	(292)
Disposal of Treasury shares	8	–	–	27	–	(16)	11
Dividends paid	13	–	–	–	–	(327)	(327)
At July 31, 2020		**30**	**9**	**(570)**	**(111)**	**18,664**	**18,022**
Profit for the year		**–**	**–**	**–**	**–**	**2,026**	**2,026**
Issue of own shares by Employee Benefit Trusts	9	**–**	**–**	**–**	**38**	**(38)**	**–**
Credit to equity for share-based payments	10	**–**	**–**	**–**	**–**	**71**	**71**
Purchase of Treasury shares	8	**–**	**–**	**(400)**	**–**	**–**	**(400)**
Disposal of Treasury shares	8	**–**	**–**	**39**	**–**	**(21)**	**18**
Dividends paid	13	**–**	**–**	**–**	**–**	**(1,034)**	**(1,034)**
At July 31, 2021		**30**	**9**	**(931)**	**(73)**	**19,668**	**18,703**

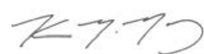
Company balance sheet

Year ended July 31, 2021

	Notes	2021 $m	2020 $m
Fixed assets			
Investments in subsidiaries	3	**18,037**	18,037
		18,037	18,037
Current assets			
Debtors: amounts falling due within one year	4	**657**	5
Cash at bank and in-hand		**9**	1
		666	6
Current liabilities			
Creditors: amounts falling due within one year	5	**–**	(21)
Net current assets/(liabilities)		**666**	(15)
Net assets		**18,703**	18,022
Capital and reserves			
Called up share capital	6	**30**	30
Share premium	7	**9**	9
Treasury shares reserve	8	**(931)**	(570)
Own shares reserve	9	**(73)**	(111)
Retained earnings		**19,668**	18,664
Total shareholders' equity		**18,703**	18,022

The accompanying notes are an integral part of these Company financial statements.

The Company financial statements on pages 172 to 175 were approved by the Board of Directors on September 28, 2021 and were signed on its behalf by:



Kevin Murphy
Group Chief Executive
September 28, 2021

Bill Brundage
Group Chief Financial Officer
September 28, 2021

Notes to the Company financial statements

Year ended July 31, 2021

1 – Corporate information

Ferguson plc (the "Company") was incorporated and registered in Jersey on March 8, 2019 under the Jersey Companies Law as a limited company under the name Alpha JCo Limited with company number 128484. On March 26, 2019 the Company was converted to a public company and changed its name to Ferguson NewCo plc (subsequently changed to Ferguson plc on May 10, 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 13 Castle Street, St Helier, Jersey, JE1 1ES, Channel Islands. The Company is headquartered in the UK.

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.

Note 4 (Operating profit) on page 136, note 9 (Dividends) on page 139, note 25 (Share capital) on page 159 and note 32 (Events after the reporting period) on page 164 of the Ferguson plc consolidated financial statements form part of these financial statements.

Foreign currencies

The financial statements are presented in US dollars which is the functional currency of the Company.

Foreign currency transactions entered into during the year are translated into US dollars at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All currency translation differences are charged or credited to retained earnings.

Investments in subsidiaries

Fixed asset investments are recorded at cost less provision for impairment. The Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

Cash at bank and in-hand

Cash at bank and in-hand includes cash in-hand and deposits held with banks which are readily convertible to known amounts of cash. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent there is no right of offset or intention to net settle with cash balances.

Share capital

The Company has one class of shares, ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where the Company 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 canceled, 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 of the Group under the Group's long term incentive plans and all-employee sharesave plans. The Company recognizes 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 recognized 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 recognized in the Company's financial statements in the period in which the dividends are paid or approved by the shareholders of the Company.

3 – Investments in subsidiaries

Cost	**2021 $m**	2020 $m
At August 1	**18,037**	16,180
Dividend in specie	**–**	13,107
Additions	**–**	4,956
Disposals	**–**	(16,206)
At July 31	**18,037**	18,037
Accumulated impairment losses		
At August 1	**–**	–
Impairment charge for year	**–**	(11,276)
Disposals	**–**	11,276
At July 31	**–**	–
Net book value at July 31	**18,037**	18,037

All of the above investments are in unlisted shares. The Directors believe that the carrying value of the investments at July 31, 2021 is supported by the recoverable amount of their underlying assets.

The Company's direct holdings in material subsidiary undertakings as at July 31, 2021 were as follows:

Company	Country of incorporation	Principal activity	Ordinary shares held %
Ferguson UK Holdings Limited	England and Wales	Investment	100

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed on pages 178 and 179 of the Ferguson plc Annual Report.

4 – Debtors: amounts falling due within one year

	2021 $m	2020 $m
Other debtors	–	1
Amounts owed by Group companies	657	4
Total	657	5

The fair value of amounts included in debtors approximates to book value. Amounts owed by Group companies are interest bearing, carrying an interest rate of 0.2 per cent.

5 – Creditors: amounts falling due within one year

	2021 $m	2020 $m
Other creditors	–	1
Amounts owed to Group companies	–	20
Total	–	21

The fair value of amounts included in creditors approximates to book value.

6 – Called up share capital

Details of the Company's share capital are set out in note 25 on page 159 to the Ferguson plc consolidated financial statements.

7 – Share premium

Details of the Company's share capital are set out in note 25 on page 159 to the Ferguson plc consolidated financial statements.

8 – Treasury shares reserve

Details of Treasury shares are set out in note 25 on page 159 to the Ferguson plc consolidated financial statements.

9 – Own shares reserve

During 2020 shares in the Company held by the Jersey Employee Benefit Trust owned by Ferguson Holdings Limited were transferred into a new Jersey Employee Benefit Trust owned by the Company by way of a deed of resettlement. In addition, the USA Employee Benefit Trust was reassigned from Ferguson Holdings Limited to the Company. The shares were recorded at fair value at the date of the transfer.

The shares held by both of these trusts have been consolidated within the Company's balance sheet as at July 31, 2021 and amount to $73 million (July 31, 2020: $111 million).

A summary of the movements in own shares held in the Employee Benefit Trusts is detailed in the table below:

	Number of shares	Cost $m
Own shares transfer	1,296,447	113
Exercise of share options	(19,100)	(2)
At July 31, 2020	1,277,347	111
Exercise of share options	(444,158)	(38)
At July 31, 2021	833,189	73

10 – Share-based payments

The net profit and loss charge to the Company for equity-settled share-based payments was $nil (2020: $nil). The Company charged the full amount incurred for equity-settled share-based payments of $71 million (2020: $26 million) to its subsidiary undertakings.

11 – Contingent liabilities

Provision is made for the Directors' best estimate of known claims and legal actions in progress. The Company takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

In addition, the Company has given certain banks and lenders authority to transfer at any time any sum outstanding to its credit against or towards satisfaction of its liability to those banks of certain subsidiary undertakings. The Company has also given indemnities and warranties to the purchasers of businesses from the Company and certain Group companies in respect of which no material liabilities are expected to arise.

The Company acts as a guarantor for the Group's UK defined benefit pension plan, which is disclosed in note 24 on pages 155 to 158 to the Ferguson plc consolidated financial statements.

12 – Employees, employee costs and auditor's remuneration

There were no employees or direct employment costs in 2021 or 2020. Other employees of Group companies may be seconded or assigned to the Company in order to fulfill 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.

Fees payable to the auditor for the audit of the Company's financial statements are set out in note 4 on page 136 to the Ferguson plc consolidated financial statements.

13 – Dividends

Details of the Company's dividends are set out in note 9 on page 139 to the Ferguson plc consolidated financial statements.

14 – Related party transactions

The Company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are 100% owned.

15 – Events after the reporting period

Details of events after the reporting period are given in note 32 on page 164 to the Ferguson plc consolidated financial statements.

Five-year summary

	2021 $m	Restated 2020 $m	Restated 2019 $m	Restated 2018 $m	Restated 2017 $m
Revenue					
USA	**21,478**	18,857	18,358	16,670	15,193
Canada and Central Europe	**1,314**	1,083	1,371	1,514	1,543
Continuing operations	**22,792**	19,940	19,729	18,184	16,736
Underlying trading profit[1]					
USA	**2,073**	1,587	1,508	1,406	1,224
Canada and Central Europe	**76**	43	76	83	71
Central and other costs	**(50)**	(38)	(45)	(60)	(54)
Continuing operations	**2,099**	1,592	1,539	1,429	1,241
Impact of IFRS 16	**77**	68	–	–	–
Amortization of acquired intangible assets	**(131)**	(114)	(110)	(65)	(81)
Exceptional items	**(11)**	(97)	(50)	(11)	267
Operating profit	**2,034**	1,449	1,379	1,353	1,427
Net finance costs	**(144)**	(140)	(74)	(53)	(54)
Share of profit/(loss) after tax of associates	**1**	(2)	2	2	(1)
Gain on disposal of interests in associates and other investments	**–**	7	3	–	–
Impairment of interests in associates	**–**	(22)	(9)	(122)	–
Profit before tax	**1,891**	1,292	1,301	1,180	1,372
Tax	**(241)**	(317)	(259)	(343)	(364)
Profit from continuing operations	**1,650**	975	1,042	837	1,008
(Loss)/profit from discontinued operations	**(142)**	(14)	66	430	(88)
Profit for the year attributable to shareholders of the Company	**1,508**	961	1,108	1,267	920
Ordinary dividends	**(630)**	(327)	(449)	(390)	(328)
Special dividends	**(404)**	–	–	(974)	–
Total dividends	**(1,034)**	(327)	(449)	(1,364)	(328)
Net assets employed					
Intangible fixed assets	**2,303**	2,242	2,079	1,716	1,413
Right of use assets	**895**	1,111	–	–	–
Property, plant and equipment	**1,305**	1,389	1,349	1,086	1,068
Other net assets, excluding liquid funds	**2,752**	1,996	2,117	2,336	2,768
	7,255	6,738	5,545	5,138	5,249
Financed by					
Share capital	**30**	30	30	45	45
Share premium	**9**	9	9	67	67
Retained earnings and other reserves	**4,771**	4,332	4,311	3,946	4,431
Equity attributable to shareholders of the Company	**4,810**	4,371	4,350	4,058	4,543
Net debt[1]	**1,355**	1,012	1,195	1,080	706
Lease liabilities	**1,090**	1,355	–	–	–
Net assets employed	**7,255**	6,738	5,545	5,138	5,249

Continuing operations (unless otherwise stated)	**2021**	Restated 2020	Restated 2019	Restated 2018	Restated 2017
Organic revenue growth[1]	**13.0%**	(0.1)%	5.8%	9.4%	6.8%
Gross margin (before exceptional items)	**30.6%**	30.0%	29.9%	29.9%	29.7%
Underlying trading margin[1]	**9.2%**	8.0%	7.8%	7.9%	7.4%
Headline earnings per share[1]	**688.1c**	508.0c	490.5c	414.3c	329.1c
Basic earnings per share from continuing and discontinued operations	**674.7c**	427.5c	481.3c	515.7c	366.1c
Dividends per share (in respect of the financial year)	**239.4c**	208.2c	208.2c	189.3c	156.4c
Special dividend per share	**180.0c**	–	–	400.0c	–
Cover for ordinary dividends	**2.9**	2.4	2.4	2.2	2.1
Return on gross capital employed[1]	**28.2%**	23.9%	26.2%	22.7%	18.6%
Cash generated from operations from continuing and discontinued operations ($m)	**2,093**	2,252	1,609	1,323	1,410
Average number of employees	**29,538**	29,632	30,542	28,230	27,447
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 (million)	**223.5**	224.8	230.2	245.7	251.3
Number of branches at year-end					
Continuing operations	**1,679**	1,652	1,708	1,713	1,668
Discontinued operations	**–**	542	551	567	881
Total branches	**1,679**	2,194	2,259	2,280	2,549
Pounds sterling translation rate					
Income statement	**0.74**	0.79	0.78	0.74	0.79
Balance sheet	**0.72**	0.76	0.82	0.76	0.76
Canadian dollars translation rate					
Income statement	**1.27**	1.35	1.32	1.27	1.32
Balance sheet	**1.25**	1.34	1.32	1.30	1.25

1. Alternative performance measures, see note 2 on pages 129 to 132.

Group companies

The Ferguson Group comprises a large number of companies. This list includes only those subsidiaries owned by the Company at July 31, 2021 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[1,2,3]

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 Insurance Limited	Operating company	Isle of Man
Ferguson UK Holdings Limited	Investment company	England and Wales
Ferguson US Holdings, Inc.	Investment company	USA
Wolseley Canada Inc.	Operating company	Canada
Wolseley Capital, Inc.	Financing company	USA

1. All shareholdings in the above mentioned companies are held by intermediate subsidiary undertakings except Ferguson UK Holdings Limited which is a direct subsidiary undertaking.
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 July 31, 2021. The country of incorporation and the effective percentage of equity owned (if less than 100%) is also detailed below. Unless otherwise noted, the share capital comprises ordinary shares which are indirectly held by Ferguson plc.

Fully owned subsidiaries

Advancechief Limited (England)[(ii)(iii)(2)]
Amerock Holdings, Inc. (USA)[(ix) (1)]
Amerock, LLC (USA)[(x)(1)]
AMRE Supply Canada Inc. (Canada)[(ix)(8)]
British Fittings Company (North Eastern) Limited (England)[(ii)(viii)(xiv)(2)]
British Fittings Group Limited (England)[(ii)(viii)(xiv)(2)]
British Fittings Limited (England)[(ii)(iii)(2)]
Build.com, Inc. (USA)[(ix)(1)]
Builder Center Limited (England)[(ii)(iii)(xiv)(2)]
Building and Engineering Plastics Limited (England)[(ii)(iii)(xiv)(2)]
Clawfoot Supply, LLC (USA)[(x)(1)]
Clayton International, LLC (USA)[(x)(1)]
Columbia Pipe & Supply, LLC (USA)[(x)(1)]
Crew-Davis Limited (England)[(ii)(iii)(xiv)(2)]
DBS Holdings, Inc. (USA)[(ix)(1)]
Energy & Process Corporation (USA)[(ix)(1)]
FEI Ventures, LLC (USA)[(x)(1)]
Ferguson Enterprises, LLC (USA)[(x)(1)]
Ferguson Finance (Switzerland) AG (Switzerland)[(iii)(3)]
Ferguson Finance plc (England)[(iii)(2)]
Ferguson Fire & Fabrication, Inc. (USA)[(ix)(1)]
Ferguson Global AG (Switzerland)[(iii)(3)]
Ferguson Group Holdco Limited (England)[(iii)(2)]
Ferguson Group Services Limited (England)[(iii)(2)]
Ferguson Holding A/S (Denmark)[(iii)(12)]
Ferguson Holdings (Switzerland) AG (Switzerland)[(iii)(3)]
Ferguson Holdings Limited (Jersey)[(iii)(10)]
Ferguson Insurance Limited (Isle of Man)[(viii)(16)]
Ferguson Nordic Holdings ApS (Denmark)[(iii)(12)]
Ferguson Overseas Limited (England)[(iii)(2)]
Ferguson Panama, S.A. (Panama)[(ix)(4)]
Ferguson Puerto Rico, Inc. (Puerto Rico)[(ix)(1)]
Ferguson Receivables, LLC (USA)[(x)(1)]
Ferguson Sourcing (Switzerland) AG (Switzerland)[(iii)(3)]
Ferguson Swiss Holdings Limited (England)[(iii)(2)]
Ferguson Trinidad and Tobago Limited (Trinidad and Tobago)[(iii)(11)]
Ferguson UK Holdings Limited (England)[(i)(iii)(iv)(2)]
Ferguson US Holdings, Inc. (USA)[(ix)(1)]
Ferguson Winnersh Limited (England)[(ii)(iii)(2)]
Ferguson Winnersh 2 Limited (England)[(i)(iii)(xiv)(2)]
Heating Replacement Parts & Controls Limited (England)[(ii)(iii)(xiv)(2)]
Heatmerchants Limited (England)[(ii)(iii)(xiv)(2)]
HM Wallace, Inc. (USA)[(iii)(1)]
HP Logistics, Inc. (USA)[(ix)(1)]
HP Products Corporation (USA)[(ix)(21)]
James Electric Motor Services Ltd. (Canada)[(ix)(8)]
James Martin Signature Vanities, LLC (USA)[(x)(1)]
Jones Stephens Corp. (USA)[(ix)(1)]
Julise Limited (England)[(ii)(iii)(2)]
Living Direct, Inc. (USA)[(ix)(1)]
M. A. Ray & Sons Limited (England)[(ii)(iii)(xiv)(2)]
Matera Paper Company, Inc. (USA)[(ix)(1)]
Max Industries, LLC (USA)[(x)(1)]
Millennium Lighting, Inc. (USA)[(ix)(1)]
Ningbo Ferguson Global Company Limited (China)[(iii)(14)]
O.B.C. Limited (Northern Ireland)[(ii)(iii)(7)]
Pipeline Controls Limited (England)[(ii)(iii)(xiv)(2)]
Power Equipment Direct Inc. (USA)[(ix)(1)]
Safe Step Walk In Tub, LLC (USA)[(x)(18)]
SEMSCO Barbados, LLC (USA)[(ii)(x)(9)]
Shanghai Du Te International Trading Company (China)[(iii)(15)]
Stock Loan Services, LLC (USA)[(x)(1)]
Tellum Construction, LLC (USA)[(x)(1)]
Wolseley (Barbados) Ltd (Barbados)[(ix)(1)]
Wolseley Bristol Limited (England)[(ii)(iii)(xiv)(2)]
Wolseley Canada Inc. (Canada)[(ix)(8)]
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 Engineering Limited (England)[(ii)(iii)(2)]
Wolseley Europe Limited (England)[(ii)(iii)(2)]
Wolseley Finance (Isle of Man) Limited (Isle of Man)[(ii)(viii)(xiii)(6)]
Wolseley Finance (Thames) Limited (England)[(ii)(iii)(2)]
Wolseley Finance (Theale) Limited (England)[(ii)(vii)(2)]

Fully owned subsidiaries continued

Wolseley Holdings (Ireland) Unlimited Company (Republic of Ireland)(ii)(iii)(xiii)(5)

Wolseley Holdings Canada Inc. (Canada)(ix)(8)

Wolseley Industrial Canada Inc. (Canada)(iii)(8)

Wolseley Integrated de Mexico, S.A. de C.V. (Mexico)(iv)(17)

Wolseley Integrated Services Inc. (Canada)(ix)(8)

Wolseley Investments Limited (England)(ii)(iii)(2)

Wolseley NA Construction Services, LLC (USA)(x)(1)

Wolseley Pension Trustees Limited (England)(ii)(vi)(2)

Wolseley Properties Limited (England)(ii)(iii)(2)

Wolseley UK Finance Limited (Guernsey)(ii)(iii)(xiii)(13)

Wolseley-Hughes Merchants Limited (England)(ii)(iii)(2)

Associated undertakings

Group Silverline Limited (England)(xi)(19)

GTP Services, LLC (USA)(xii)(20)

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 as membership interests.
(xi) Ownership held as 100% of preference shares.
(xii) Ownership held as 70% of series A preferred units.
(xiii) Companies controlled by the Group based on management's assessment.
(xiv) Applied for strike off.

Registered office addresses:

(1) 12500 Jefferson Avenue, Newport News VA 23602, United States of America.
(2) 1020 Eskdale Road, Winnersh Triangle, Wokingham, RG41 5TS, United Kingdom.
(3) Grafenauweg 8, CH-6300, Zug, Switzerland.
(4) Avenida 2F Norte, Calle Matias Hernandez, Rio Abajo, Panama City, Panama.
(5) 25/28 North Wall Quay, Dublin 1, Ireland.
(6) 33-37 Athol Street, Douglas, IM1 1LB, Isle of Man.
(7) 42-46 Fountain Street, Belfast, Northern Ireland, BT1 5EF, United Kingdom.
(8) 880 Laurentian Drive, Burlington ON L7N 3V6, Canada.
(9) 9501 Highway, 92 East, Tampa FL FL 33610, United States of America.
(10) 13 Castle Street, St Helier, Jersey, JE1 1ES, Channel Islands.
(11) Building no 6, Fernandes Industrial Centre, Eastern Main Road, Laventille, Port of Spain, Trinidad and Tobago.
(12) Sundkrogsgade 21, 2100, København, Denmark.
(13) Glategny Court, Glategny Esplanade, St Peter Port, GY1 1WR, Guernsey.
(14) Room 1203, Building 1 (Beilun Financial Building), 527 Baoshan Road, Xinqi, Beliun District, Ningbo, China.
(15) Room 306-1 Building 2, 3000 Yixian Road, Baoshan district, Shanghai, China.
(16) Tower House, Loch Promenade, Douglas, Isle of Man, IM1 2LZ, Isle of Man.
(17) Carretera a General Cepeda 8395, Derramadero, Coahuila, 25300, Mexico.
(18) 402 BNA Drive, Suite 350, Nashville, TN 37217, United States of America.
(19) Boundary Way, Lufton Trading Estate, Yeovil, Somerset, BA22 8HZ, United Kingdom.
(20) 9375 Spruce Mountain Rd., Larkspur, CO 80118, United States of America.
(21) 4220 Saguaro Trail, Indianapolis, IN 46268, United States.

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 Computershare (our registrar) using the contact details set out on page 182 or Ferguson's Investor Relations department at investor@fergusonplc.com.

Financial calendar

Key dates for the remainder of calendar year 2021 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.

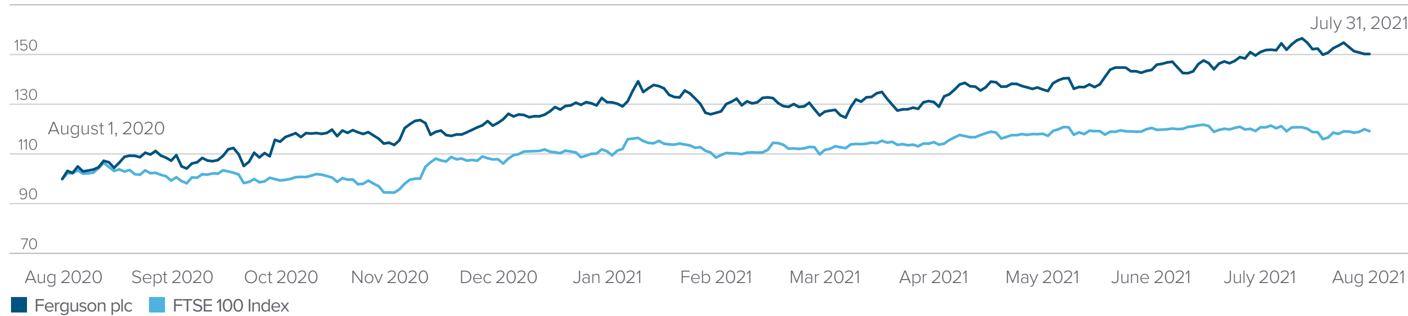
December 2, 2021	2021 Annual General Meeting
December 10, 2021	2021 final dividend payment date

Ferguson shares

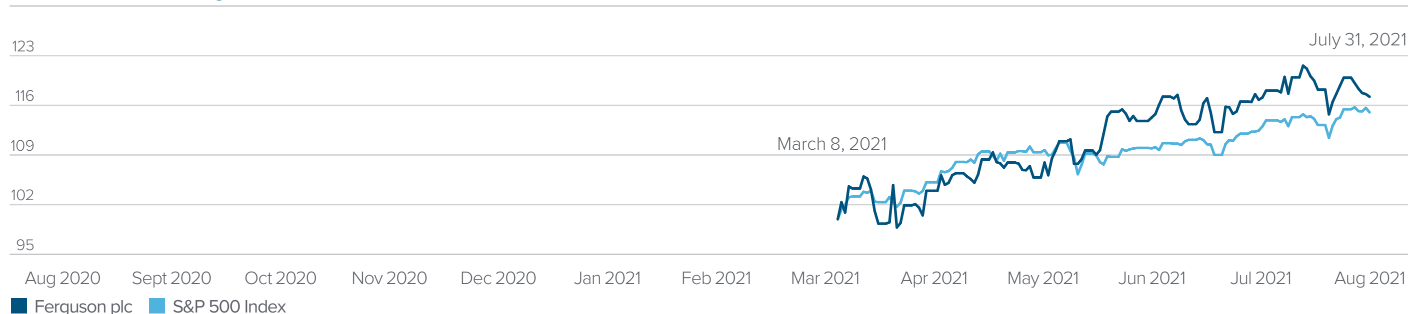
Share price history

Set out below are graphs showing the performance of Ferguson's share price (using normalized share price data) compared to the FTSE 100 Index during the financial year and the S&P 500 Index from March 8, 2021 to the end of the financial year.

FTSE 100 Index – Ferguson and FTSE 100



S&P 500 Index – Ferguson and S&P 500



Recent corporate actions and share capital history

Since 2009, there have been seven corporate actions, including those affecting the share capital of Ferguson plc:

2021 – Additional listing of shares on the New York Stock Exchange.

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 $11^{227/563}$ pence.

2013 – Special dividend, share consolidation and consequential redenomination of shares as $10^{53/66}$ pence.

2012 – Special dividend, share consolidation and consequential redenomination of shares as $10^{5/11}$ pence.

2010 – Scheme of arrangement and redomiciliation.

2009 – Share capitalization and rights issue.

Further details can be found on the Ferguson plc website **www.fergusonplc.com**.

Ordinary shares

Ferguson shares are listed on the London Stock Exchange and New York Stock Exchange using code "FERG".

Dividend

Proposed final dividend
166.5 cents per share

The Directors have recommended a final dividend of 166.5 cents per share. Payment of this dividend is subject to approval at the 2021 AGM. Dividends will be declared in US dollars and shareholders will be able to elect to receive payment in GBP.

Key dates for this dividend

Ex-dividend date	October 28, 2021
Record date	October 29, 2021
Last day for GBP currency elections	November 12, 2021
AGM (to approve final dividend)	December 2, 2021
USD/pounds sterling exchange rate announcement	November 22, 2021
Payment date	December 10, 2021

Dividend history

Details of dividends paid in the financial years 2019/20 and 2020/21 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 Center" section.

Financial year	Dividend period	Dividend amount (per share)	Record date	Payment date	DRIP share price
2020/21	Special 2021	180.0 cents[1]	March 26, 2021	May 11, 2021	N/A[4]
2020/21	Interim 2021	72.9 cents[2]	March 26, 2021	May 11, 2021	N/A[4]
2019/20	Final 2020	208.2 cents[3]	November 13, 2020	December 11, 2020	£86.2098

1. Shareholders who elected to receive the 2021 special dividend of 180.0 cents per share in pounds sterling received 129.61 pence per share.
2. Shareholders who elected to receive the 2021 interim dividend of 72.9 cents per share in pounds sterling received 52.49 pence per share.
3. Shareholders who elected to receive the 2020 final dividend of 208.2 cents per share in pounds sterling received 154.84 pence per share.
4. No DRIP was offered for the 2020/21 special and interim dividends.

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 checks becoming lost or delayed in the post. The associated dividend confirmation statement or advice of deposit will still be sent direct to your address of record. To sign up to receive your dividends directly to your bank or building society account in:

- Pounds sterling: go to Computershare's Investor Center and return the completed form to the address located in the upper-right corner of the form. This form is available at **www-us.computershare.com/investor/#home** > Company Info > FERG > GBP Dividend Election and Mandate Form.
- US dollars: enroll in Direct Deposit by accessing your account on Investor Center. Alternatively, you can obtain a copy of the required form by contacting Computershare via telephone.

2. GBP election: Dividends are declared in US dollars and the default payment method is US dollars[1]. Should you wish to elect to receive your dividend in pounds sterling, go to Computershare's Investor Center and return the completed form to the address located in the upper-right corner of the form. This form is available at **www-us.computershare.com/investor/#home** > Company Info > FERG > GBP Dividend Election and Mandate Form.

3. International Currency Election (ICE) service: If you wish to receive your dividends in a currency other than US dollars or pounds sterling, you may enroll in Computershare's International Currency Exchange ("ICE") program[2]. To enroll in ICE, or to learn more about the ICE program, access your account on Investor Center, or visit **www-us.computershare.com/investor/#home** > View All Printable Forms > International Currency.

1. Following the additional US listing of ordinary shares which was effective on March 8, 2021 the default payment currency for dividends is US dollars. Shareholders who were on the register as at close of business on March 5, 2021 with no currency election in place will have been defaulted to receive dividends in pounds sterling.
2. Please note that a payment charge would be deducted from each individual payment.

Shareholder information continued

Shareholder communications

Annual General Meeting ("AGM")

The 2021 AGM will be held at the offices of Freshfields Bruckhaus Deringer, 100 Bishopsgate London, EC2P 2SR, United Kingdom on Thursday, December 2, 2021 at 12.30pm (UK time). Please consult the 2021 Notice of AGM and **www.fergusonplc.com** for details regarding the 2021 AGM.

Website

See page 183 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 Computershare. They will be able to assist you in various matters including:

- changing your registered name and address;
- managing your dividend payments;
- certifying your tax status;
- notifying the death of a shareholder;
- registering for electronic communications; and
- transferring your shares.

You can contact Computershare in writing, by telephone or online. Further contact details are set out below. Please use your Holder Account Number when contacting Computershare. This can be found on your Direct Registration System ("DRS") statement.

If you are not already registered to view your shareholding online, you will need to register via Computershare's Investor Center.

Computershare

Computershare Trust Company N.A.
462 South 4th Street, Suite 1600
Louisville
Kentucky
KY 40202
United States

Telephone: 0370 703 6203 (inside the UK)
Telephone: +1 866 742 1064 (inside US and Canada)
Telephone: +1 781 575 3023 (outside UK, US and Canada)

Website: www.computershare.com/us
Investor Center: https://www-us.computershare.com/Investor/#Home

Share sales

If you wish to sell Ferguson shares and you hold your shares through the DRS, you can do this:

- through the online service within Investor Center;
- through the telephone service; or
- via post.

Further details of Computershare's internet, telephone and postal sale service can be obtained by calling Computershare on the contact telephone numbers above.

Group information

Company details

Registered Office

Ferguson plc
13 Castle Street
St Helier
Jersey
JE1 1ES
Channel Islands

Registration No. 128484 Jersey

Corporate Headquarters and Group Services Office

1020 Eskdale Road
Winnersh Triangle
Wokingham
RG41 5TS
United Kingdom

Telephone: +44 (0) 118 927 3800

Ferguson plc is registered in the UK as Ferguson Group Holdings, United Kingdom Establishment No. BR021199

Website

www.fergusonplc.com

Company contacts

Investor relations (investor@fergusonplc.com)

Vice President Investor Relations and Communications – Brian Lantz

Company secretariat

Group Company Secretary – Graham Middlemiss

Company advisers

Auditor

Deloitte LLP

Corporate brokers

Barclays
JP Morgan Cazenove

Financial adviser

Rothschild & Co

Public relations

Brunswick Group LLP

Law firms

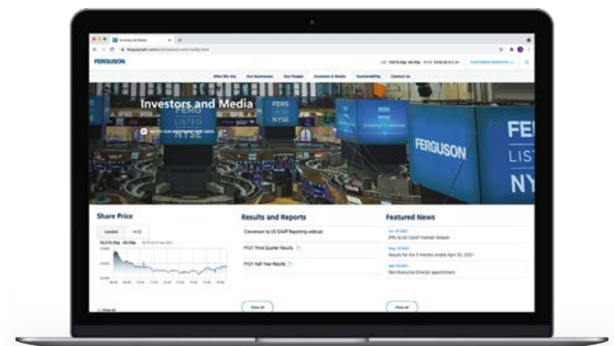
Carey Olsen Jersey LLP
Freshfields Bruckhaus Deringer LLP
Kirkland & Ellis LLP

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 operating company 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-center.html

Visit our Investor and media center on our corporate website to stay up to date on Ferguson's results, financial calendar and latest press releases. Within the Investor and media center you will find the Shareholder center 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, including within the meaning of the United States Private Securities Litigation Reform Act of 1995, 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, statements or guidance regarding or relating to our future financial position, results of operations and growth, projected interest in and ownership of our shares by domestic US investors, plans and objectives for future capabilities, risks associated with changes in global and regional economic, market and political conditions, ability to manage supply chain challenges, ability to manage the impact of product price fluctuations, our financial condition and liquidity, including our ability to repay our indebtedness and obtain financing in the future to fund capital expenditures and other general corporate activities, legal or regulatory development changes, and other statements concerning the success of our business and strategies.

Forward-looking statements can be identified by the use of forward looking terminology, including terms such as “believes,” “estimates,” “anticipates,” “expects,” “forecasts,” “intends,” “continues,” “plans,” “projects,” “goal,” “target,” “aim,” “may,” “will,” “would,” “could” or “should” or, in each case, their negative or other variations or comparable terminology and other similar references to future periods. Forward-looking statements speak only as of the date on which they are made. They are not assurances of future performance and are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Therefore, you should not place undue reliance on any of these forward-looking statements. Although we believe that the forward-looking statements contained in this Annual Report and Accounts are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in such forward-looking statements, including but not limited to:

- weakness in the economy, market trends, uncertainty and other conditions in the markets in which we operate, and other factors beyond our control;
- adverse impacts caused by the COVID-19 pandemic or related variants;
- decreased demand for our products as a result of operating in highly competitive industries and the impact of declines in the residential and non-residential RMI markets as well as the new construction market;
- failure to rapidly identify or effectively respond to consumer wants, expectations or trends;
- failure of a key information technology system or process as well as exposure to fraud or theft resulting from payment-related risks;
- unsuccessful execution of our operational strategies;
- failure to attract, retain and motivate key associates;
- ineffectiveness of or disruption in our international supply chain or our fulfillment network, including delays in inventory, increased delivery costs or lack of availability;
- fluctuations in foreign currency and fluctuating product prices (inflation/deflation);
- inherent risks associated with acquisitions, partnerships, joint ventures and other business combinations, dispositions or strategic transactions;
- regulatory, product liability and reputational risks and the failure to achieve and maintain a high level of product quality as a result of our suppliers’ or manufacturers’ mistakes or inefficiencies;
- legal proceedings as well as failure to comply with domestic and foreign laws and regulations or the occurrence of unforeseen developments such as litigation;
- changes in, interpretations of, or compliance with tax laws in the United States, the United Kingdom, Switzerland or Canada;
- privacy and protection of sensitive data failures, including failures due to data corruption, cybersecurity incidents or network security breaches;
- exposure of associates, contractors, customers, suppliers and other individuals to health and safety risks;
- funding risks related to our defined benefit pension plans;
- inability to renew leases on favorable terms or at all as well as any obligation under the applicable lease;
- failure to effectively manage and protect our facilities and inventory;
- our indebtedness and changes in our credit ratings and outlook;
- risks associated with our intention to relocate our primary listing to the United States and any volatility in our share price and shareholder base in connection therewith; and
- other risks and uncertainties set forth in this Annual Report and Accounts under the heading “Principal risks and their management,” in our annual report on Form 20-F for the fiscal year ended July 31, 2021 filed with the Securities and Exchange Commission (“SEC”) under the heading “Risk Factors,” and in other documents we furnish to or file with the SEC in the future.

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 our legal or regulatory obligations, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

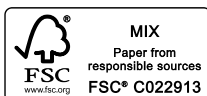
Credits

Design and production: Radley Yeldar
www.ry.com

Photography: Andy Wilson, Chris Eckert Photography and Parker Michels-Boyce Photography

Paper

This year's report is printed on paper that is both FSC® Certified and Carbon Balanced by the World Land Trust™. The paper is also fully biodegradable and recyclable.



Printing

This publication is printed by Pureprint Group a CarbonNeutral® company and the paper is Carbon Balanced with World Land Trust.

Balancing is delivered by World Land Trust, an international conservation charity, who offset carbon emissions through the purchase and preservation of high conservation value land.

Through protecting standing forests, under threat of clearance, carbon is locked in that would otherwise be released.

www.carbonbalancedpaper.com
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FERGUSON

Ferguson plc

Registered Office

13 Castle Street
St Helier
Jersey
JE1 1ES
Channel Islands

Registration No. 128484 Jersey

Corporate Headquarters and Group Services Office

1020 Eskdale Road
Winnersh Triangle
Wokingham RG41 5TS
Telephone +44 (0) 118 927 3800

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www.fergusonplc.com

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