Ferguson plc
Annual Report and Accounts 2020

Better with Ferguson

Welcome to Ferguson

Ferguson plc is a leading value added distributor of plumbing and heating products.

07
Group Chief Executive's Q&A
Kevin Murphy, our new Group Chief Executive, discusses his views on strategy and Ferguson's response to COVID-19.

04
Chairman's statement
Geoff Drabble reflects on a year of substantial progress and considerable challenges.

26–29
Financial review
Mike Powell, CFO, assesses the Group's strong and resilient performance this year and continued financial strength.

IFC–59
Strategic report

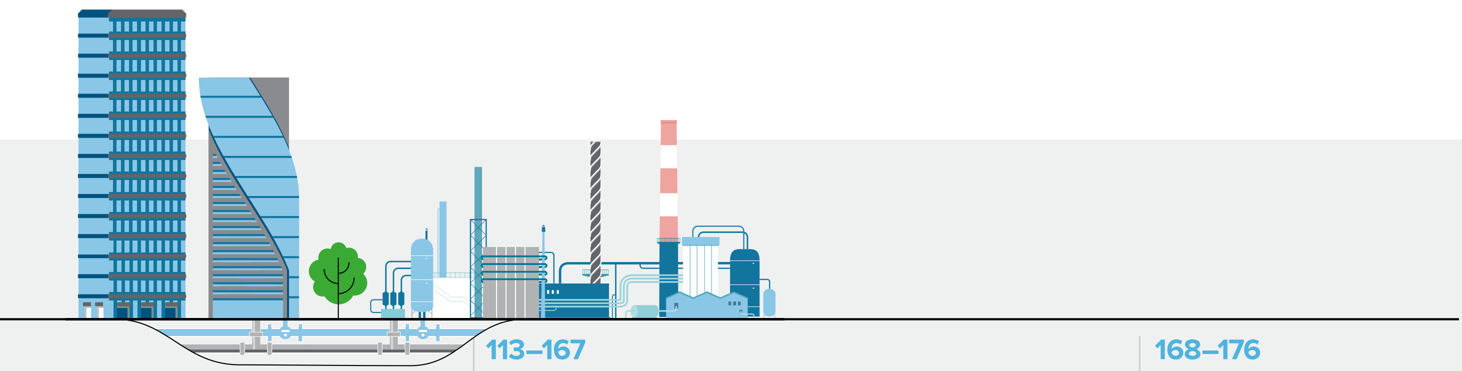
60–112
Governance

Better with Ferguson

Our purpose is to act as a trusted supplier and partner to our customers, providing innovative products and solutions to make their projects better. We offer excellent service, advice and a broad range of specialist plumbing and heating products delivered where and when our customers need them.

The emergence of COVID-19 this year has demonstrated more than ever how our customers rely on us every day to help them deliver critical infrastructure spanning almost every stage of residential, commercial, industrial and municipal development. Whatever the future challenges, we will continue to partner with our customers to keep millions of homes and businesses operating while helping them to run their business more efficiently.

For more information on our values and people
Page 20



113–167 Financials

168–176 Other information

Value added distributor

We serve nine customer groups in the USA providing a broad range of plumbing and heating products and solutions.

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

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

For more information on our customer groups
+ Pages 30 to 45

For more information on our markets
+ Page 15

Ferguson plc is a leading, value added distributor of plumbing and heating products. Our business serves customers principally in North America, predominantly serving the repair, maintenance and improvement ("RMI") markets.

Residential Showroom

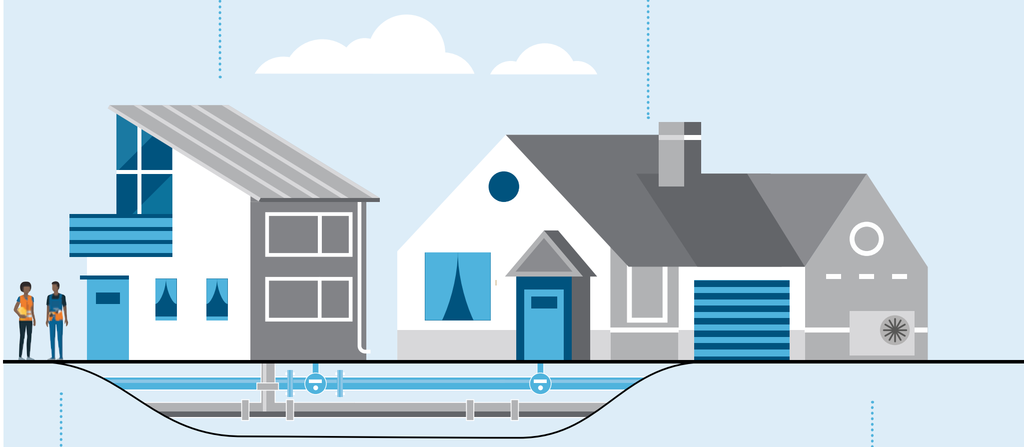
Operates a national network of 256 showrooms, serving consumers and trade customers. Showrooms display bathroom, kitchen and lighting products and assist customers by providing advice and project management services for their home improvement projects.

15%
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.

19%
of total US revenue



eBusiness

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

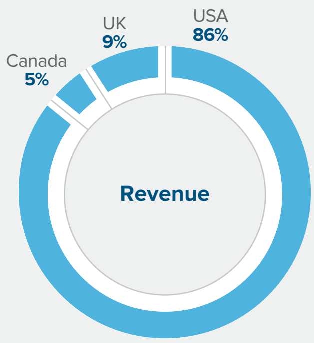
8%
of total US revenue

HVAC

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

10%
of total US revenue

Group



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 124 to 127. Underlying trading profit refers to continuing operations unless otherwise stated.

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.

14%

of total US revenue

Facilities Supply

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

5%

of total US revenue

Fire and Fabrication

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

4%

of total US revenue

Waterworks

Distributes 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.

18%

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.

7%

of total US revenue

USA

$18,857m

Revenue

(2018/19: $18,358m)

8.4%

Underlying trading margin[2]

(2018/19: 8.2%)

Canada

$1,083m

Revenue

(2018/19: $1,191m)[3]

4.0%

Underlying trading margin[2]

(2018/19: 5.6%)[3]

UK (non-ongoing)

$1,879m

Revenue

(2018/19: $2,222m)[4]

0.4%

Underlying trading margin[2]

(2018/19: 3.1%)[4]

2. See note 3 on pages 128 and 130 for further information on segmental metrics. The underlying trading margin is calculated as the underlying trading profit divided by revenue.
3. Excludes Central European businesses, the last of which was sold in January 2019.
4. Excludes soak.com, which was sold in March 2019.

Navigating exceptional times while protecting the business for the long term

I am delighted to have been given the opportunity to join the Board of Ferguson as Chairman and what an extraordinary time to have started in this role. As I joined last May I was struck by many qualities about the business with its very strong customer-centric culture, the energy and commitment of the Ferguson associates and the excellent leadership team focused on driving performance.

The rapid, effective and caring response to the COVID-19 pandemic, the impact of which began to be felt in March, has shone a light more than ever on these qualities. Above all else this year, I have been struck by the unwavering commitment of Ferguson's 34,000 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. On behalf of the Board I would like to express our sincere thanks to them and recognize their outstanding contribution to our success.

Over the past six months the ongoing impact of COVID-19 has been significant and has had a profound impact on all our lives and will do so for some time to come.

As for all organizations, the pandemic has caused a significant shift in the way Ferguson operates and brings into play significant risks and challenges. We have an experienced management team that has a strong track record of dealing with incidents and to tackle this crisis they have set up response teams to ensure we keep the core business operating and protect the health and wellbeing of our colleagues and customers.

The Board receives regular updates from the Executive team on the provision of core services, how we are supporting colleagues and the community, and the mitigation of the risks to our business. You can read more about our response to the COVID-19 pandemic in Kevin Murphy's Chief Executive's review. The Board has also carefully considered and monitored the potential economic impacts of COVID-19, in particular financing and liquidity. Ferguson has a proven cash generative business model and entered this period of high uncertainty with a strong balance sheet and significant liquidity headroom. Mike Powell provides a detailed overview of this in his Financial review on pages 26 to 29. Additional detail also can be found in our viability statement on pages 54 to 55 and our principal risks on pages 53 to 59.

"Above all else this year, I have been struck by the unwavering commitment of Ferguson's 34,000 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
Chairman

Financial performance and strategy

2019/20 has been a year of substantial progress under the stewardship of Kevin Murphy in his first year as Group Chief Executive, despite the impact of COVID-19. The Group has delivered a strong and resilient trading performance in particularly challenging markets in the second half. As you will read in his Chief Executive's Q&A on pages 7 to 14, Kevin has provided fresh impetus to the rapid execution of our strategy, in particular prioritizing investment and focus on our largest growth opportunity in the USA.

The Group generated ongoing revenue[1] growth of 2.0 per cent to $19,940 million (2018/19: $19,549 million). Headline earnings per share[1] was 1.1 per cent lower at 511.6 cents mainly due to a higher effective tax rate from previously announced tax reform. Total basic earnings per share of 427.5 cents was 11.2 per cent lower than last year due to increased exceptional and amortization charges in the year and exceptional discontinued disposal gains in the prior year. We delivered an excellent cash performance over the period which, at a time of great focus on the impact of the pandemic on the health of company balance sheets, underlines the strength of our business model.

Shareholder returns

Since 2009, Ferguson's investment priorities have remained firmly focused on investing in the business and consistently generating above market organic growth. We also set out to maintain and grow the ordinary dividend in line with earnings through the cycle and selectively invest in bolt-on acquisitions that meet our investment criteria. Any surplus cash after meeting these investment needs was returned to shareholders promptly and we have returned over $4 billion in share buy backs and special dividends over the past eight years.

Given the uncertainty of COVID-19 our strong balance sheet has been a source of great strength as we have guided the business through the early challenges of the pandemic. Initially we took prompt actions to optimize cash flow, reducing capital expenditure and operating costs, and further improve our liquidity position. This included suspending the $500 million share buy back announced on February 4, 2020, pausing M&A activity, and after careful consideration withdrawal of the interim dividend due for payment in April 2020.

However, we stated at the time that the Board recognized the importance of dividends to shareholders and, as such, intended to consider the appropriateness, quantum and timing of future dividends when the Board had a clearer view of the effects of COVID-19 on the Company's business.

Taking into account the Group's prospects and financial position; the Board has decided to propose a final dividend for the year ended July 31, 2020 of 208.2 cents which effectively reinstates the previously withdrawn interim dividend and is in line with last year's total dividend (2018/19: 208.2 cents per share). The dividend will be paid on December 11, 2020 to shareholders on the register at November 13, 2020. Dividend payments in 2020/21 will revert back to the normal one-third: two-thirds split between an interim and final dividend. The Group's dividend policy remains unchanged.

We now intend to resume 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.

While Ferguson remains in a strong financial position, in the light of continued economic uncertainty the Board believes that it is appropriate to preserve prudent levels of funding and liquidity. As a result, the previously announced $500 million share buy back program remains suspended and will continue to be assessed as we gain further clarity on economic conditions. At the point at which the share buy back was suspended in April 2020 the Company had completed $101 million of the program.

Financial highlights

Statutory financial results

$21,819m
Revenue
(0.9%)
(2018/19: $22,010m)

$1,261m
Profit before tax
(4.8%)
(2018/19: $1,324m)

427.5c
Total basic earnings per share
(11.2%)
(2018/19: 481.3c)

208.2c
Total ordinary dividend per share
In line with last year
(2018/19: 208.2c)

Alternative performance measures

$19,940m
Ongoing revenue[1]
+2.0%
(2018/19: $19,549m)

30.0%
Ongoing gross margin[1]
In line with last year
(2018/19: 30.0%)

$1,595m
Ongoing underlying trading profit[1]
+4.1%
(2018/19: $1,532m)

511.6c
Headline EPS[1]
(1.1%)
(2018/19: 517.4c)

1. The Group uses Alternative Performance Measures ("APMs"), which are not defined or specified under International Financial Reporting Standards ("IFRS"), to provide additional helpful information. These measures are not considered to be a substitute for IFRS measures and are consistent with how business performance is planned, reported and assessed internally by management and the Board. For further information on APMs, including a description of our policy, purpose, definitions and reconciliations to equivalent IFRS statutory measures, see notes 2 and 3 on pages 124 to 130.

Board changes

I was pleased to join Ferguson as a Non Executive Director on May 22, 2019 and to succeed Gareth Davis as Chairman from November 21, 2019. On behalf of the Board I would like to thank Gareth for his strong leadership and commitment over the last 16 years. He successfully oversaw a huge amount of positive change over that period and I am personally grateful to Gareth for the time and invaluable support he generously gave to me during my induction.

John Martin stepped down as Chief Executive on November 19, 2019. John's contribution to Ferguson has been outstanding for nearly a decade and he left the business in great shape. The Board wishes him well for the future. Kevin Murphy succeeded John as Chief Executive in November. Kevin, a US national, was appointed CEO of Ferguson Enterprises in the USA and joined the Board in August 2017. He has a strong track record of operational delivery having previously served as Chief Operating Officer of Ferguson Enterprises for 10 years after joining the business through an acquisition of his family's waterworks business Midwest Pipe and Supply in 1999.

Mike Powell will step down as Chief Financial Officer (CFO) on October 31, 2020 in order to take up a role as Group CFO of Mondi plc. As CFO for several years Mike also played a critical role in the Group's transformation to focus the business on its attractive North American markets, and we wish him all the very best. Mike will be succeeded by Bill Brundage on November 1, 2020. Bill is currently CFO of Ferguson Enterprises and has over 17 year's experience in a variety of senior finance roles with the Company. In searching for Mike's successor, we conducted a rigorous review of potential internal and external candidates and we were fortunate to have an internal candidate of such high caliber and experience in Bill. I would like to congratulate him on his appointment.

Darren Shapland also stepped down as a Non Executive Director on November 21, 2019. The Board thanks him for his significant contribution to the Group over the last six years. Darren's responsibilities as Chairman of the Audit Committee were taken on by Alan Murray, the Senior Independent Director. Alan, a US resident, is a chartered management accountant with considerable financial, operational and international experience within global businesses including 19 years at Hanson plc, with five years as CEO.

From my early interactions with the Board this year, it is evident that the Board and Committees function well with high levels of engagement from all members and an appropriate level of challenge and support. Details of the Board's work, including the various Board Committees, is included in the Governance report on pages 60 to 112.

UK demerger

In September 2019, the Board announced its intention to separate its Wolseley UK operations by way of a demerger into an independent UK listed company, subject to shareholder approval. The timing of this remains uncertain in the current economic environment and consequently the Board is assessing other separation options in parallel with progress towards the demerger to facilitate the exit of the Wolseley UK business.

Listing structure

Ferguson has been listed in London since 1986. During this time the Group has benefited from a strong and diverse shareholder base that in recent years has been supportive of the Group's growing focus on attractive opportunities in North America. This strategy has led to an increasing proportion of revenues being generated from North America over time. The Board has therefore kept listing structure under review over several years, as the business has evolved.

Following the UK separation, Ferguson's Group CEO, CFO and operational management team will be based in North America and the entirety of the Group's revenue and profit will be generated there. In addition, there is a comparable set of peer companies listed in the USA, some of whom compete directly with Ferguson. These companies have a large domestic investor following and are typically covered by a broad range of North American equity analysts. Therefore, during the last year the Board, taking into account the views of shareholders and advisers, assessed a range of options and the associated costs and benefits of amending its listing structure to allow greater access to North American domestic capital.

Following this assessment, the Board concluded that the USA is now the natural long-term listing location for Ferguson. A US listing will provide Ferguson 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.

In February 2020 we announced a formal consultation with institutional shareholders on two potential listing structures which would aim to facilitate greater North American domestic investment in Ferguson. Option 1 was to seek shareholder approval for a secondary listing of ordinary shares in the USA, with the primary listing remaining in London, and Option 2 was to seek shareholder approval for a primary listing in the USA and demotion of the London listing. Throughout this process the Board has been mindful of the importance of acting in the interests of shareholders as a whole, many of whom, in the event of a primary US listing, have mandates restricting continued long-term ownership.

Following the consultation, the Board, together with its advisers, carefully considered the feedback received and in July 2020 sought shareholder approval for Option 1 to implement a secondary listing of ordinary shares in the USA. At the same time the Board also set out that in due course its intention is to put forward a further resolution to Ferguson shareholders to relocate Ferguson's primary listing to the USA.

We were very pleased that shareholders voted in favor of the resolution and it received over 99 per cent support, significantly above the required 75 per cent threshold. We expect the new listing to become effective in the first half of calendar year 2021. We believe that this two-step process to transition to a full US primary listing provides an appropriate period during which some Ferguson shareholders who have mandates which may restrict their long-term ownership in Ferguson could sell their holdings in an orderly manner.

On behalf of the Board I would like to thank shareholders for their feedback and support in this matter and in the coming years I have no doubt that Ferguson will benefit from having direct access to this significant incremental pool of capital in the USA.

Looking ahead

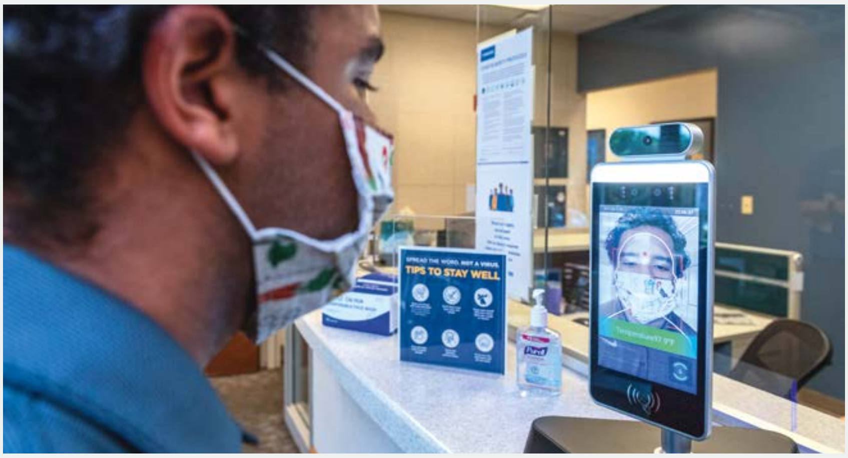
Ferguson has made excellent progress this year on many fronts despite considerable challenges. The Board is confident that the Group has the right strategy, leadership and culture to deliver on its full potential. Our consistent strong performance, together with continued rapid execution of our strategy,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

Geoff Drabble
Chairman

The Group has delivered a strong and resilient performance despite the significant challenges we've all faced during the year

I am incredibly proud to be a part of this great Company through what has certainly been an extraordinary first year as Ferguson's Group Chief Executive.

The COVID-19 pandemic has undoubtedly had a dramatic impact and continues to affect almost every aspect of our business and personal lives. I want to start by recognizing all of our extraordinary associates who have steadfastly continued to support our customers and make their projects more successful, in often very difficult circumstances this year. 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 now asked to perform their jobs remotely; they have all risen to the challenge. During these extraordinary times we are incredibly thankful and proud of what they continue to accomplish.



Kevin Murphy
Group Chief Executive Officer

Q

You've had to wrestle with significant challenges this year including the outbreak of COVID-19 in the second half. How did the Group perform this year?

A

The Group delivered a strong and resilient performance in 2019/20 which was particularly important given the challenges of COVID-19 this year. Ongoing revenue of $19,940 million was 2.0 per cent ahead of last year (2018/19: $19,549 million) and 0.1 per cent behind on an organic basis. Ongoing gross margins were in line with last year, which was a good performance given the adverse product mix challenges of COVID-19 in the second half as we temporarily closed our branch and showroom networks. The Group's operating expenses were well controlled, particularly in the second half, as we acted swiftly to lower our expense base in line with the rapidly changing marketing conditions. Ongoing underlying trading profit was 4.1 per cent ahead of last year at $1,595 million (2018/19: $1,532 million), which under the circumstances was an excellent performance.

Profit before tax decreased to $1,261 million (2018/19: $1,324 million) as a result of slightly higher amortization, impairments and exceptional charges in the current year while cash performance has been excellent in the year.

Read more about our financial performance
+ Pages 16 to 17 and 26 to 29

Q

Ferguson has continued to operate its businesses in the USA, Canada and the UK throughout the COVID-19 pandemic. Why has this been important?

A

Ferguson is an essential business – essential to the health and safety in each of the countries we operate in. Our trade customers maintain heating, ventilation and air conditioning (HVAC), clean and wastewater services to millions of homes and businesses. We keep key residential, commercial, industrial and public sector facilities running and we also support the major public utilities with the products they need for repair and maintenance of their networks. It has been critical to try to support our customers and play our part in keeping these important parts of our economy running. This was widely recognized by the relevant authorities and in all 50 states in the USA, Ferguson was recognized as an essential service.

Q

How have you safeguarded your associates and kept your customers safe?

A

Protecting the health and wellbeing of our associates and customers has always been our first consideration and throughout the COVID-19 pandemic this was no different. Given the challenges of COVID-19 we had to quickly figure out a new way of operating safely and we rapidly implemented new precautions across our business in adherence with relevant authorities including the Centers for Disease Control and Prevention (CDC) guidelines in the USA. Cleaning protocols at all sites were enhanced and we ensured that social distancing was practiced at all locations. In the early weeks of the pandemic our branches moved to pick-up and delivery only with customers encouraged to order ahead with pick-up in store or at the curbside. We also implemented new processes and protocols to keep our drivers safe including touchless signature at the point of delivery or pick-up location. At the peak of the pandemic about 14,000 US associates were working remotely, supported by technology.

As lockdown restrictions were lifted locally from late May/early June we started reopening our physical counter locations. These were adapted with physical safeguards including safety screens and new signage to help reinforce the necessary social distancing measures required and always in line with local governmental guidance.

All our bricks and mortar showroom sites were also initially closed (though virtual consultations continued) and later in the spring we reopened to scheduled appointments ensuring these visits were safe.

Q

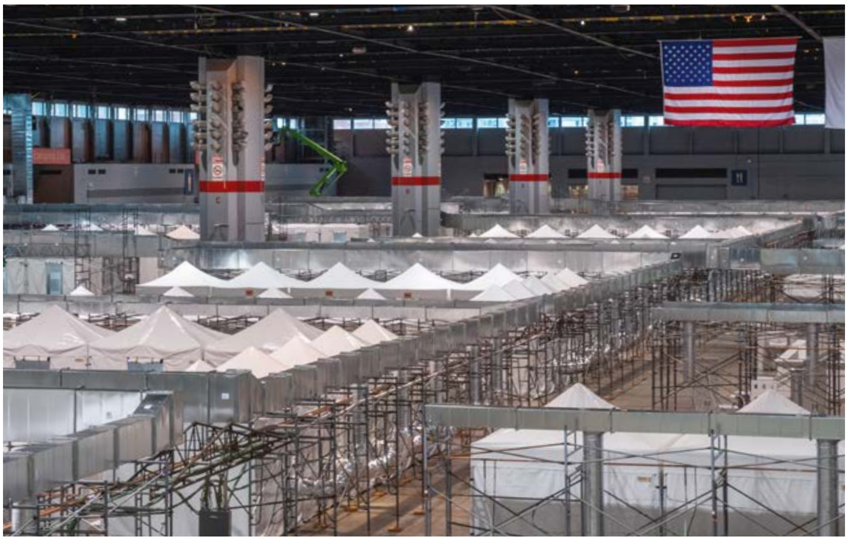
What have you done to support the wider communities in which you operate?

A

This was particularly important as we are uniquely positioned to make a contribution to our local communities and we are playing our part to directly support the health impact of the crisis. We have participated in more than 50 temporary hospital projects across the USA and have worked on similar projects in the UK and Canada. These projects have created more than 12,000 additional patient beds in the USA in often challenging environments including pop-up tents in parking lots, parks and convention centers.

In New York, where there was a high concentration of cases early in the pandemic, we created a 24/7 emergency one-hour pick-up counter focused on servicing local hospitals in the New York metro area. In addition, as hospitals and health departments responded to the surge in COVID-19 patients, Ferguson has donated approximately 70,000 N95 face masks to healthcare organizations in the USA. Deliveries of masks have gone to hospitals across the USA from California to Virginia. It has been a phenomenal effort so far and we are really proud of how our people have risen to the challenges and supported our customers and communities (see case study opposite).

The McCormick Place Convention Center as it was being converted into a temporary hospital to help in the battle against COVID-19



Case study

Pulling out all the stops

COVID-19 continues to present huge challenges for communities and economies. At the start of the outbreak Ferguson was essential to setting up care facilities to help cope with the rising number of infected people.

Jim Kuenn, Director of Commercial – Central Midwest describes what happened when Ferguson got the call to help on the COVID-19 Care Center project at McCormick Place in Chicago:

"The goal was to turn an empty convention center into a 3,500-bed COVID-19 care facility. We got involved midday on a Tuesday. Our customer called saying, 'I need help sourcing product and I need it yesterday'. We were told that 500 beds, with fixtures and hot water needed to be ready on Friday by noon. It didn't stop there. They told us that 3,000 more beds, fixtures and hot water needed to be ready within eight days. We reviewed the mechanical schedule and specifications provided to us.

"The Ferguson team stepped up to the challenge and worked 24/7 to make it happen while adhering to our new COVID-19 procedures such as social distancing and wearing our personal protective equipment. Our customers ran ahead of schedule and met the deadlines because everyone, from our contractors to various suppliers, found a way to say 'yes'. I get prideful chills from what was accomplished. What our teams of associates overcame that week is a true showing of who we are as people."

Q

Has anything changed in terms of how business is being done in this new COVID-19 era? Anything you think will change when life gets back to normal?

A

On the trade side of our business we've been very encouraged by the overall adoption rate of our e-commerce tools during the crisis. Since it started, an additional 44,000 customers have signed on to use our digital tools. Activity levels through our mobile experience have doubled over the same timeframe, signaling that customers are embracing our site and appreciating our digital offering. We have continued to see accelerated growth in our mobile platforms for our trade customers. Mobile will be critical in creating the frictionless experience that allows our customers to be more efficient and our associates more productive, which is central to our strategy. We continue to roll out version updates with additional functionality, but customers can now seamlessly do the following:

- **Buy online pick-up at store – we've created a "contactless process" for our customers and associates to transact.**
- **Use the "Ferguson SKU App" on their mobile phone to scan product barcodes to seamlessly create a shopping cart for Ferguson.com.**
- **Track their delivery truck in real-time after we embedded truck delivery tracking software into our platform.**
- **Search for products by job versus individual product following the launch of our "shop by job" feature – this cuts down on the time customers navigate the app or site to select the right products.**
- **Add necessary instructions for their orders, pick-ups and deliveries through our text to branch service.**
- **Gain access to a wide and deep product inventory with visibility as we continued to add thousands of different products across all of the businesses we serve.**

As we think about longer-term strategy, technology remains a key differentiator. We will continue to develop and invest in e-commerce solutions which will set us up well for the future.

Q

As a new CEO, is Ferguson's overall strategy going to change?

A

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 most importantly, our associates.

We will operate with a short-term and long-term focus, not sacrificing the short for the long, or the long for the short. We can and will do both.

Figure 1: **Our strategic framework**

How tomorrow works

As trusted advisers, we provide innovative products and solutions to make our customers' projects better.

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

+ Pages 32 to 41

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

Our values

People | Safety | Integrity | Innovation | Service | Results

Read more about our values

+ Page 20

Q

How would you describe Ferguson's strategy?

A

You can see from figure 1 (opposite), that in essence we see ourselves as partners to our customers to make their projects more successful. Distribution remains a core competence and we bring a deep and wide inventory which is leading in our product categories together with a world class supply chain. To our customers this means putting together a bundle of products and getting it to them when and where they need it. We are really good at that. But we want to be more than that. We 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.

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 better?" Our customer relationships are clearly critical but we believe in the future this won't be enough.

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

"We 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."

Other priorities include operating through one brand in the USA, Ferguson, to ensure customers recognize and value what we do. 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.

As such we want to be a part of our customers' decision-making process sooner, evolving from order taker to trusted adviser and always be project driven to guide projects rather than just quoting lists. You can read about how we are achieving this on pages 36 to 39.

And then on the right side of figure 1, what are those things that we're going to invest in to enable thought leadership to become a reality? Not least of which is omnichannel – this means creating that 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.

Other important areas of focus are value added services inside our supply chain, for example geo-positioning (see page 12) or the evolution of what our salesforce should, and will be, for example sales advisers acting as partners at the start of a project (see page 34). 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 (see pages 32 to 33 and 56).

Q

What about efficiency and ensuring you stay ahead of your competition?

A

Yes, this is absolutely critical and we will continue to grow faster than the market in the short term 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. We'll continue to generate operating leverage which to us means growing trading profit faster than revenue by controlling our cost base. We'll continue to be efficient in our working capital so that we generate strong and attractive cash flow. 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.

All this needs to be built on strong foundations which are the values that we have held true as a company over the last 65 plus years (you can read more about our values on page 20). We are going to always live these values and they are important in guiding us to the right way to do business.

Other information
Financials
Governance
Strategic report

Q

So how will you grow in the future?

A

We see four dimensions to growth (see figure 2) which emanate from our core strengths. It all begins with the customer and we will never abandon the trade professional as our core relationship. But what we will do is address stakeholder relationships more than ever before. We'll make sure that we're engaged with owners, engineers and architects to drive project specifications and ensure that we are uniquely placed to secure a piece of business. This will also help to sell our own products and expand our gross margins. We will earn that value through our focused product strategy.

Secondly, while we have no intention to own manufacturing assets, we're going to get as close to the point of manufacturing as we possibly can. We're going to continue to expand our diverse global sourcing organization that we have built to make sure that we're driving design, product development and own brand execution. We will source from inside and outside the USA for our own brand applications and drive sales through specification to the end user.

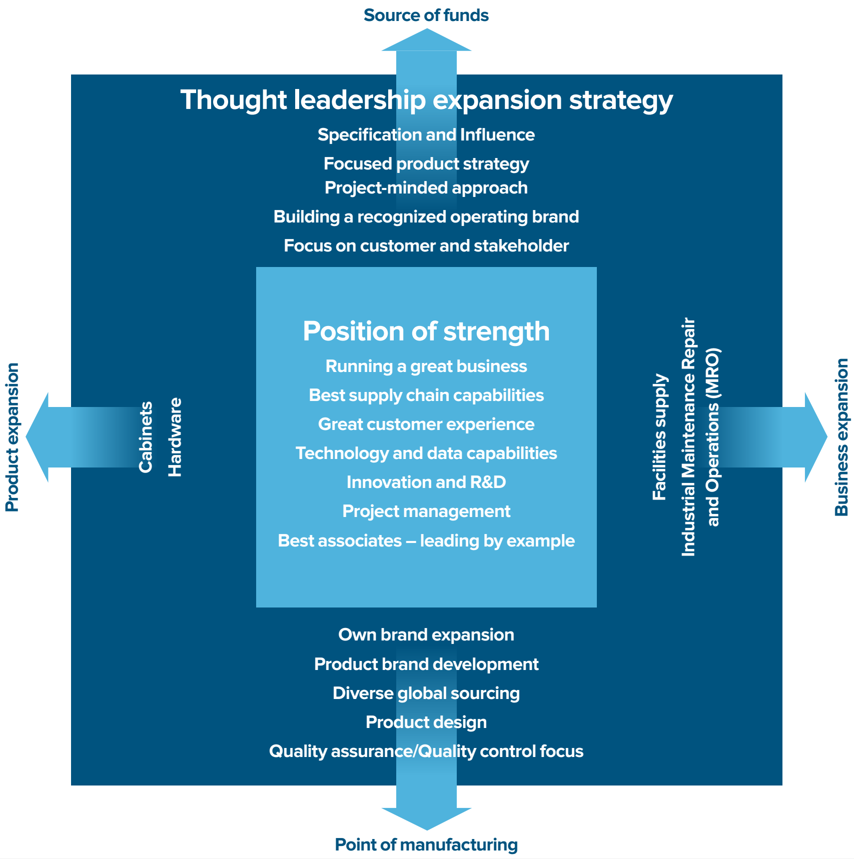
Product expansion is about growing that bundle to provide a comprehensive range of products and lines of business so that we are more relevant for not only the trade professional, but also the ultimate end user and owner.

Finally, in terms of business expansion, we will also stay focused on our customer groups which are set out in figure 3, opposite. For example, in the USA we serve nine customer groups with a number one or two market position in the majority of them. There is a significant opportunity for strong growth and continued consolidation within each of these large, fragmented markets.

Many customer projects require a range of products and services from across our business 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 as shown in the shared infrastructure table (figure 4), 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.

Figure 2: **Expanding our role in the value chain**

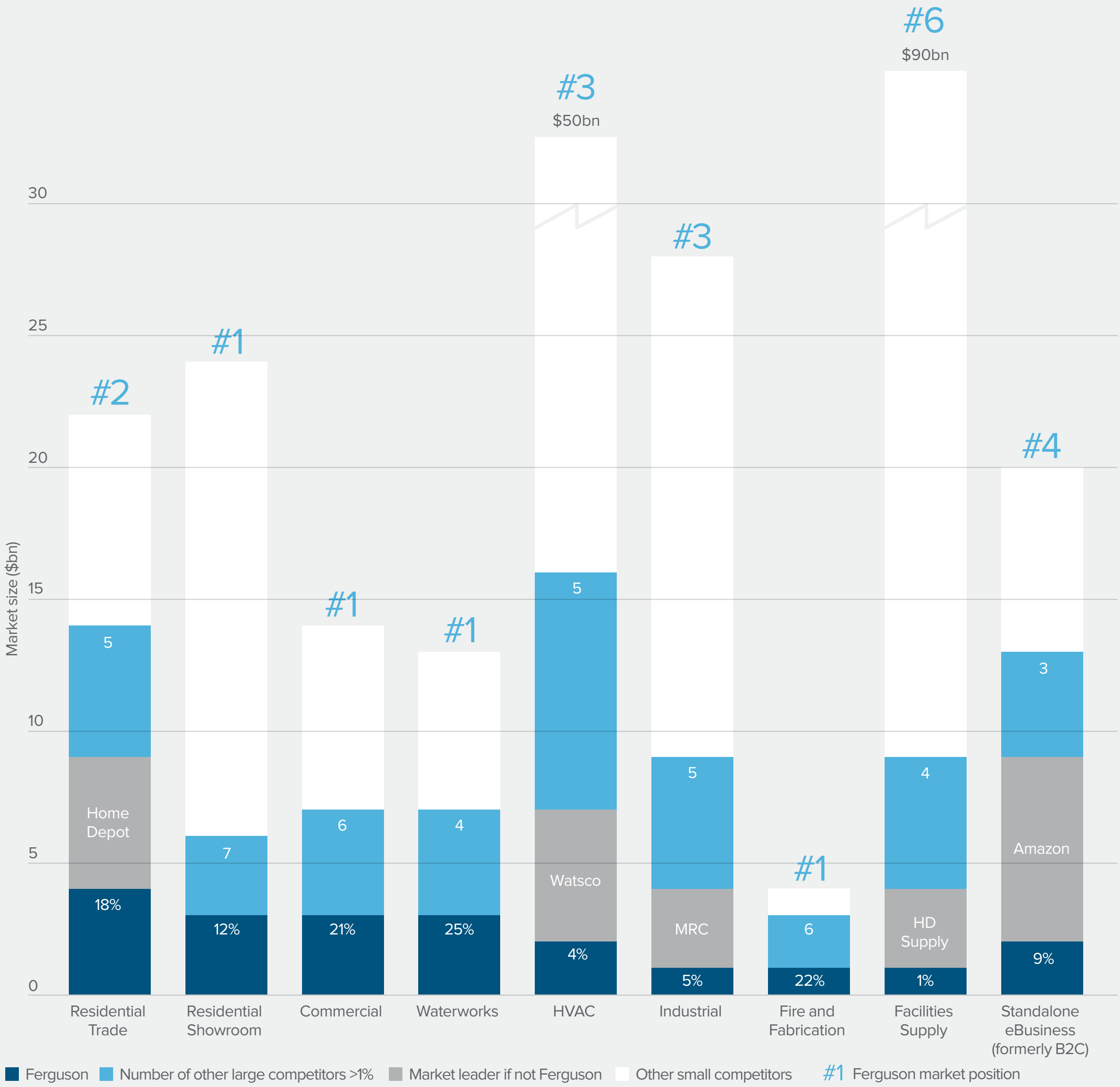


Case study

Geo-location tracking

This year we launched geo-location tracking services for our customers in the USA which means, through the Ferguson mobile experience, they can receive real-time notifications of deliveries via voice, text or email alerts. Customers are now getting notifications as the truck is making stops along the way. They also know precisely what is on the truck about to be delivered, helping them know for example, if they have a potential backorder situation.

Figure 3: **Strong positions in fragmented markets* in the USA**



* Management estimated market share

Figure 4: **US shared infrastructure**

The chart below shows the shared infrastructure across the customer groups we serve.

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

Significant shared infrastructure Partial shared infrastructure * Enterprise resource planning.

Q

What about acquisitions: is the impact of COVID-19 on independent regional wholesalers likely to bring opportunities?

A

I think, like during the last downturn, the good ones will focus and survive quite well. However, it will be interesting to see how our industry copes with the digital aspect of customer relationships as we think this will start to manifest itself more and more in their thinking. So I think that it could actually spur on M&A activity for us in the long-run.

Our primary focus will always be on organic growth but acquisitions remain a core part of our growth strategy. Here, we will stay very focused on bolt-ons of great businesses inside our core customer groups where we bring capabilities to make our local relationships better. And then capability acquisitions which includes areas like own brand, valve and automation that make our existing branch network better and more competitive. So you'll see us press forward in these areas as we did before COVID-19.

Q

And what about Ferguson's areas of focus in respect of Environmental, Social and Governance?

A

We established our sustainability program (see pages 48 to 52) following consultation with shareholders four years ago and we see these issues as a key part of running a great business.

Central to our program is upholding our culture of Best Associates and in particular we continue to work hard to protect the health and wellbeing of our associates, which has been brought even more sharply into focus during the COVID-19 pandemic.

Health and safety has always been and remains at the forefront of all our decision-making and it was encouraging in 2019/20 that we improved the Group's total recordable injury rate by 35 per cent compared to last year.

Of course our own carbon footprint remains a key focus and an area where we can continue to improve. We will make ongoing progress, particularly in the major areas of impact such as fleet efficiency, but we have more work to do on meeting our carbon, waste and recycling targets set in 2015/16. We're also stepping up our focus on reducing our own environmental impact as well, working with our customers and vendors to bring high-efficiency products to market such as the c. 17,000 products we carry today which conform to the WaterSense and ENERGY STAR energy efficiency rating (see page 52). We also focus on the growing need for own brand products with a lower environmental impact.

We also know we can mobilize our 34,000 associates to make the communities in which we live and work better most notably in the areas of reducing hunger, nurturing tomorrow's skilled trades and clean water and sanitation initiatives and you can read about some of these exciting programs on page 50.

Further detail can be found in the Key resources and relationships section (pages 20 to 23) and in the Sustainability section (pages 48 to 52).

Q

There has been a huge focus on inclusion and diversity this year. How is Ferguson responding?

A

Let us be clear – racism and discrimination, in any form, against any individual or any community, have no place in our Company or the world.

By recognizing and celebrating our differences, we are learning so much more from each other and we remain committed to listening and learning and doing more to advocate for inclusion, diversity, equality and acceptance at Ferguson and in our communities. We continue to prioritize inclusion and diversity and our actions stand behind our words.

For example, in June the Executive Committee participated in a highly interactive inclusion and diversity experience. Earlier this year we rolled out training to our leadership teams to better recognize and address unconscious and unintentional bias and we will complete this with all our associates over the next year. For more on our inclusion and diversity efforts please see page 21.

To our associates, you have my commitment that we will continue to provide an environment where everyone is treated with dignity and respect, with opportunities for all associates to grow, develop and succeed based on merit.

Q

Finally, how do you see the outlook for Ferguson?

A

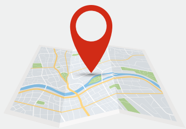
It is impossible to predict the future progress of the virus, or its economic impact and we expect the current levels of uncertainty to continue for the foreseeable future. However, the fundamental aspects of our business model remain attractive and since the start of the new financial year Ferguson has generated low single digit revenue growth in the US in flat markets overall. While we remain cautious on the outlook for the year as a whole, the business is in good shape and well prepared to address any further market related disruption.

Kevin Murphy
Group Chief Executive Officer

We operate in large, fragmented markets with strong growth characteristics

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

Market characteristics and opportunities



Customers' needs are local

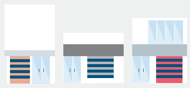
The customer base is fragmented. Professional contractors typically operate within 20 miles of their home base and may visit their local branch several times per week. In addition, they continue to increase the usage of digital channels which complement their working patterns.

Large supplier base

Ferguson distributes over one million products from over 39,000 suppliers across the world.

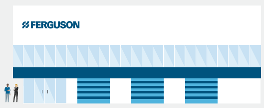
Clear need for distributors in the supply chain

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



Highly fragmented industry

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



Benefits of scale

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

Strong organic growth opportunities

Market characteristics support long-term organic growth opportunities.

Bolt-on acquisition opportunities

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

Market growth drivers in the USA

Population growth

>5%

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

Source:
United Nations Department of Economic and Social Affairs.

Housing transactions

5.0–5.5m

Existing home sales continued to average between 5.0–5.5 million, remaining significantly below the 2005 peak.

Source:
National Association of Realtors.

Consumer confidence

Moderate

Consumer confidence was lower in 2019/20 due to COVID-19 concerns. There is a correlation between consumer confidence and activity levels in our markets.

Source:
The Conference Board.

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.

Source:
US Department of Housing and Urban Development.

Increased comfort levels in homes

95%

95 per cent of new single family homes in the USA have two or more bathrooms. There is a trend towards increasing levels of comfort in homes.

Source:
US Department of Housing and Urban Development

Disposable income

No. 1

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

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

Other information

Financials

Governance

Strategic report

Key performance indicators ("KPIs")

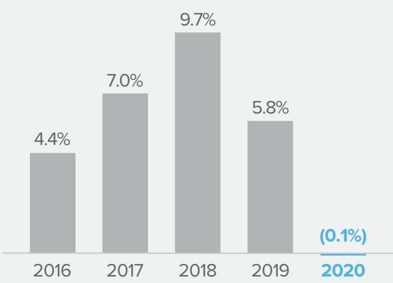
How we measure our progress

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 10.

Ongoing organic revenue growth[1,2]

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

Performance



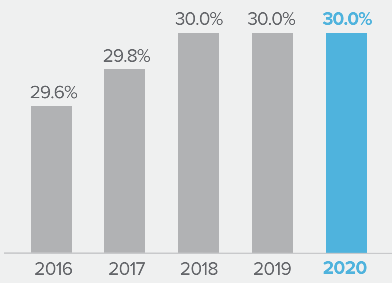
(0.1%)

Organic revenue declined 0.1 per cent in 2019/20. Organic growth in the first half was offset by the impact of the COVID-19 pandemic in the second half, see pages 30 to 46 for further details.

Ongoing gross margin[1,2]

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

Performance



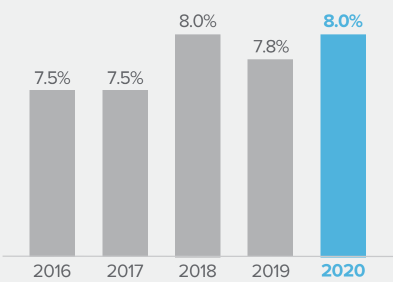
Flat

Gross margin was in line with 2018/19 principally as a result of good pricing discipline despite the COVID-19 pandemic in the latter part of the year, which resulted in an adverse mix effect given the temporary closure of our brick and mortar counters and showrooms.

Ongoing underlying trading margin[1,2]

The ratio of ongoing underlying trading profit to ongoing revenue.

Performance



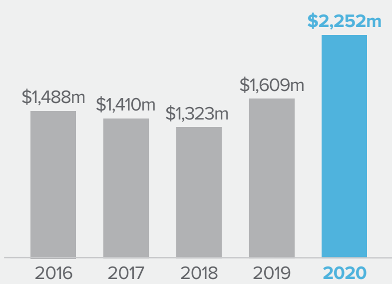
+0.2%

The trading margin rose to 8.0 per cent. Trading margin expansion was due to improvements in operating cost efficiencies.

Operating cash flow

Cash generated from operations before interest and tax.

Performance



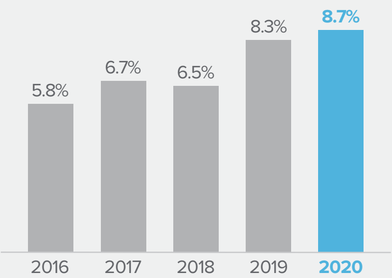
$2,252m

Cash flow from operations was $2.3 billion in the year. This improvement was a combination of a strong performance in the US business for 2019/20 and the positive impact of IFRS 16[3]. Cash flow from operations on a pre-IFRS 16 basis was $1,904 million, see reconciliation on page 28. 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 ongoing revenue from own brand products to total ongoing revenue.

Performance



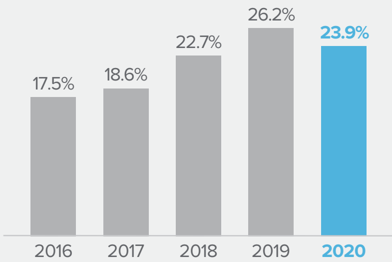
+0.4%

The percentage of own brand revenue increased by 0.4 per cent in 2019/20 to 8.7 per cent with both the US and Canada businesses growing the proportion of own brand revenue.

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



23.9%

Return on gross capital employed was 23.9 per cent in 2019/20. On a pre-IFRS 16[3] basis the return on gross capital employed was 24.9 per cent with the reduction due to a flat return but with a higher average capital employed during the year.

Associate engagement

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

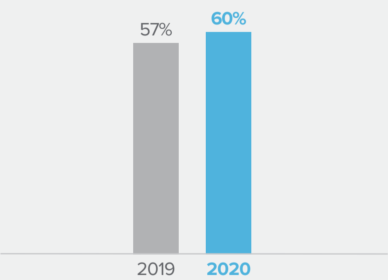
Performance

The initial survey result in 2018/19 across the Group was 51 per cent. This sets a high bar as "engaged associates" must agree with all four engagement questions. This demanding score now acts as a baseline for performance moving forward but we unfortunately had to defer the 2019/20 engagement survey due to COVID-19. We will disclose the results of the next engagement survey in the Annual Report next year.

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, less those customers scoring six or less.

Performance



60%

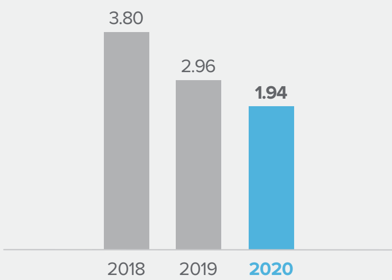
The process of tracking and reporting customer service differs by region, therefore an example is given for the USA. The average net promoter score remains an excellent score and is best-in-class in our industry and is among the highest levels achieved in any industry.

The methodology was changed in 2019 to align to industry best practice while also collating a broader number of responses. As such, scores prior to 2019 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



35% improvement

The Group recordable injury rate improved by 35 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. See the Sustainability section for more information on pages 48 to 52.

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. 2016 to 2019 metrics restated to reflect the movement of the UK business into non-ongoing operations.
3. On August 1, 2019, the Group adopted IFRS 16 "Leases". See note 1 on page 119 for further details.

Our services are essential to creating value

We create value through the expertise of our people, our scale, bespoke logistics network, technology and the support and value added service offering we give our customers.

Key resources and relationships

34,000
Our people
The differentiator in our ability to deliver outstanding customer service through our 34,000 associates

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

39,000
Our suppliers
Over 39,000 reputable suppliers giving us access to a diverse and broad range of quality products

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

How customers buy
% Group revenue

In branches	70%
In showrooms	10%
Via e-commerce	18%
Through central account management and call centers	2%

Technology
Ongoing investment to improve our business

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

How we fulfill orders
% Group revenue

Delivered from branches	50%
Collected from branches	25%
Delivered from suppliers	16%
Delivered from DCs	9%

Capital
A strong balance sheet to enable ongoing investment

Find out more about our key resources and relationships
+ Pages 20 to 23

What makes us different?

Best associates

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

Read more about our associates
+ Pages 20 to 23 and 30 to 47

Value added services

We are differentiated by the services we offer, which are highly valued by our customers and make their projects better.

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
+ Page 22

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 7 to 15 and 30 to 47

Sourcing

One of the widest ranges of branded and exclusive own brand products.

Bidding

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

Customized solutions

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

Sales channels

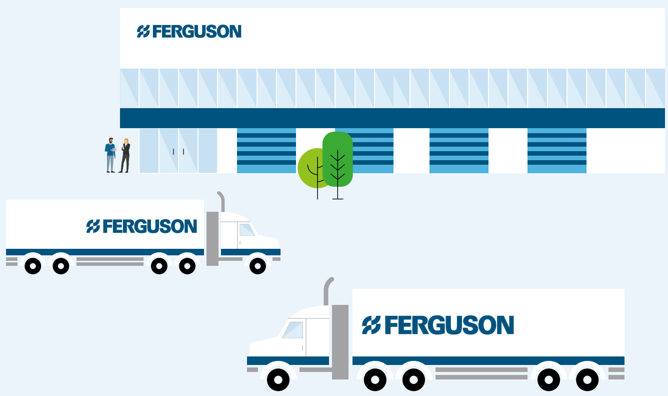
An omnichannel offer to provide flexibility and maximize access to our services and products.

Pick-up

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

Delivery

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



The value we create

Strong returns

We are able to generate strong returns by consistently winning market share and efficiently managing our operations.

Our shareholders

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

$1,595m
ongoing underlying trading profit 2019/20
+4.1% (2018/19: $1,532)

$1,904m
cash generated from operations (excluding impact of IFRS 16)
+18.3% (2018/19: $1,609)

208.2c
dividend per share 2019/20
In line with last year

Our customers

We provide essential products and services which enable customers to run their operations efficiently and help in the fight against the COVID-19 pandemic.

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

Net promoter score

60%
is amongst the highest in our industry (2019/20)

Our 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.

Our 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.

Carbon emissions

6.7%
improvement versus 2015/16 baseline
(23.3 to 21.8 tCO_2e per $m revenue)

Find out more about the outcomes of what we do
+ Pages 4 to 6, 20 to 23 and 48 to 52

What we rely on to provide our value added services

Our key resources and relationships are crucial to ensuring we are able to offer our customers industry leading, value added services that ultimately drive profitable growth. Our associates are the driving force of the business and a key differentiator in how we create value. They are guided by our 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 how we engage with and consider our key stakeholders, please see pages 24, 25 and 66.

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 people

34,000
associates

Our associates are at the heart of everything we do. By living our values through the work they perform and the customer service they provide, they are the key to our success. They strengthen our culture by forming and maintaining relationships that build on loyalty and trust while delivering excellence in all areas.

Leadership

The growth of our business relies on success of our leaders and how they motivate and inspire our associates every day. As with prior years, we continue to see a blend of external hires and internal succession appointments within the USA, Canada and the UK to leadership positions, enabling us to broaden the experience, knowledge and diversity of our leaders. How we develop all our associates, including our leaders, is discussed in the "Talent management and development" section below.

Talent management and development

Last year, we updated and launched the Group's Mission, Vision and Values. These reinforce our commitment to our customers and associates; they guide what we stand for and how we act. Our values encourage the right behaviors for all associates to provide the best customer service, work with the utmost integrity and look for new, innovative approaches to lead both our customers and our business into the future.

In the USA, we continued to invest in our talent management model, developing our leaders through the completion of specific development activities including participating in Strategic Project Teams on business development opportunities. This was to enhance their knowledge and broaden their leadership experience. Additional focus allowed us to execute on succession planning and role movement across the leadership ranks to produce well rounded and seasoned leadership talent.

Having set out our inclusion and diversity (I&D) framework last year we are now delivering our key actions. We have commenced training and learning activities for all people managers and are rolling out our all associate program. We have launched our first Business Resource Groups for Women and African American associates; our third Group for LGBTQ will be set up before the end of calendar year 2020. The I&D Council was created with a diverse group of leaders from across the organization, the team has been engaged with driving I&D initiatives and is providing great insights to the work we have underway.

At the start of the COVID-19 pandemic we quickly adjusted all our training offerings and programs to virtual, including facilitation where required. As a result, over 700 members of our salesforce strengthened their virtual selling skills. We continue to evaluate and evolve our curriculum and strategically align our offerings to the skills our associates need to grow, develop and drive best-in-class business results.

In Canada, we have continued to drive the talent strategy and enhance our capabilities while improving the HR infrastructure to gain efficiencies. Building upon the principles of employee self-service and maintaining a single system-of-record, we launched five technology-enabled capabilities: performance management, compensation planning, talent development, employee recognition, and a new intranet. We refined our organization structure across all levels, and implemented new function-specific operating models, both to ensure more efficient delivery of products and services to our customers and further align to the Ferguson US model.

This was enhanced by the launch of a multi-year Leadership Development Program for 300+ leaders, spanning all functional areas of the business.

In the UK, we have focused on development plans that align to customer groups, satisfying specific customer needs and increasing colleague engagement. Customer service training was completed by all branch colleagues ensuring a consistent approach to serving our customers across the estate. Talent management processes are established, and several high potential associates have been promoted.

Inclusion and diversity

We want to attract and retain the best talent irrespective of race, color, religion, gender, age, sexual orientation, marital status, disability, or any other characteristic that make people unique. Females represent 44 per cent of the Board, while our percentage of women in senior management positions across the Group was 20 per cent. Detail on the Board's approach to diversity, including the Board Diversity Policy and performance against its specified objectives, can be found on pages 72 and 73.

Last year, we launched our Group Inclusion and Diversity framework which reinforces our commitment to identify and remove any potential for unconscious bias in our employment, promotion and succession practices.

Ferguson is committed to developing a diverse workforce and an inclusive working environment in the communities where we operate. By recognizing and celebrating our differences, we are learning so much more from each other and we remain committed to listening and learning and doing more to advocate for inclusion, diversity, equality and acceptance at Ferguson and in our communities. We continue to review our progress as we make strides in delivering improvements in workforce diversity.

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. To ensure success and to continue to support an environment that is free from discrimination and harassment, where all associates are treated with dignity, fairness and respect, we have launched I&D Diversity Councils in the US and UK.

We rolled out training to our leadership teams to recognize unconscious and unintentional bias that we each carry. In June, the Executive Committee participated in a highly interactive inclusion and diversity experience. In the US, unconscious bias training was conducted with senior and mid-level managers during July and August. We will complete this training with all our associates over the next year.

We also provided unconscious bias training for leaders in Canada and the UK. Additionally, we established an African American and a Women's Business Resource Group (BRG) to provide support, connection and affiliation across all regions. Our recruitment practices factor in under-represented groups and we insist on diverse candidate slates when using executive search firms.

All material issues relating to our people directly affect our strategy, set out on pages 10 and 11. The effectiveness and level of engagement of our people is critical in delivering on our strategy and maintaining the success of the business.

Inclusion and diversity gender breakdown

	Unspecified	Total men	Total women	% women
Directors (Board)		5	4	44%
Senior leadership[1]		81	20	20%
Total associates[2]	47	26,416	7,889	23%

1. The senior leadership group consists of those members of the Executive Committee, who are not Board Directors, and their direct reports. This is consistent with the data we supply to the annual Hampton-Alexander review.
2. The total average individual associate number of 34,352 is reported above (total men plus total women plus total unspecified) including all continuing businesses.

Competitive pay and reward

Our reward programs are an important tool to help us celebrate success and reinforce the way we do business. We review our incentive programs across the Group every year to ensure they continue to support our values, reward the right behaviors as well as high performance and as a result drive business performance. Associates are typically incentivized through a combination of improvements in growth in trading profit, average cash-to-cash days and, for some roles, personal objectives.

We have a number of well-established recognition programs in the US, which were unchanged for this financial year, including the President's Club recognizing our top performing outside sales associates; the President's Circle, recognizing top performing sales associates and sales managers; and the President's Gallery, honoring showroom sales associates. All these programs recognize our values and reward outstanding contributions as well as exceptional performance and support profitable growth in the field. In addition, we also have the Bob Wells Leadership Award, which is presented to a Ferguson sales associate who consistently demonstrates exceptional performance and sales leadership.

In Canada, we rolled out Bravo!, our associate recognition program to reward associates for demonstrating our values. We digitized and centralized our performance review, merit increase and bonus calculation processes to align with our ongoing focus on enhancing the pay-for-performance culture at Wolseley Canada. We also launched an associate health and wellness program to encourage associates to live a healthy and active lifestyle.

In the UK we held our associates recognition awards, "The Wolseleys" in November, where associates from sales, operations and business support were commended at a special event to mark their hard work and dedication in ensuring a safe workplace, serving customers, and growing the business. During the pandemic, we shared thanks and recognition from customers regularly among associates and to external audiences, as we continued to trade in support of essential services across the UK. Informal local recognition continues to be developed to support our performance culture.

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

See our KPIs
+ Pages 16 and 17

Beyond the Boardroom

In his role as Employee Engagement Director, Alan Murray, Senior Independent Director, conducted three in-person sessions with associates this year, two in the US 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 subsidiaries, functions and business groups in that region with discussion focused on several key topics including safety, customer service, culture, the use of technology, sustainability and the future of the Group.

Further sessions will resume but, due to COVID-19, may be conducted virtually.

Health and safety

For information on health and safety, our 2019/20 performance against the prior year and engagement with stakeholders in this area see pages 48 to 52 and 24 and 25 respectively.

Ethical behavior and human rights

We are committed to complying with the law and to operating under the highest ethical standards. 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 behalf of us are set out in our updated Code of Conduct launched in August 2020. 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.**

All of our businesses provide training for relevant associates on anti-corruption, anti-trust and modern slavery matters. This is typically provided through online training material and face-to-face training may also be provided. 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 52.

Our customers

+1 million

over one million customers

Customers rely on us for high levels of availability on a broad range of products, ready for collection or delivery when and where they need it. Our customers value high quality and efficient service from local relationships, competitive pricing, account-based credit and billing and order accuracy. They also want flexibility in choosing the most convenient way to do business with us, whether in a branch, by phone, mobile or online. Since the COVID-19 pandemic customers also want reassurance that we are taking measures to protect them and our associates, which is why we rapidly implemented new ways of working in line with governmental guidance (read more on pages 7 to 14).

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. Some of these are summarized in figure 1 below.

For example: same-day delivery, one-hour Pro pick-up, 24-hour emergency water heater replacement hotline or our outside sales associates visiting customer job sites 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. 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.com 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 information on how we engage with this stakeholder group see pages 24 and 25.

Figure 1: Projects are better because you worked with Ferguson

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

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

Customized solutions
- Value and automation
- Fabrication
- Pre-assembled units and kits
- 24/7 commercial water heater service

Sales channels
- Inside sales
- Showroom consultancy
- Field/outside sales
- Call/e-commerce call centers
- Online and EDI*
- Credit and warranty services
- No-hassle returns

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

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

* Electronic data interchange.

Our suppliers

39,000

suppliers

We have over 39,000 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 our customers' trusted adviser 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.

Channels to market

2,194
branches

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 multi-channel 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. This has become even more important during the COVID-19 pandemic and we have continued to follow guidelines set out by the relevant authorities including the Center for Disease Control and Prevention (CDC) at all our branches and distribution centers. Health and safety risk assessments and branch audits are carried out regularly so that we maintain our adherence with our new ways of working. Our insurers also support these efforts, undertaking their own safety assessments at selected key sites each year.

For information about our environmental efficiency efforts see pages 50 to 52.

For information about our health and safety program see page 49.

For information on how we engage with this stakeholder group see pages 24 and 25.

Technology

18%
proportion of revenue from e-commerce activities

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

Distribution network

5,700
fleet vehicles

To ensure the availability of a wide range of products to our customers we continue to invest in our extensive distribution network and large vehicle fleet. Our customers rely upon us for prompt and flexible delivery options to meet their own needs, such as specialist vehicles and same-day delivery. Suppliers 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 market distribution centers 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 ensure that we are able to 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 reduce or re-use these products to avoid landfill.

For information about our environmental efficiency efforts and health and safety, see pages 49 to 52.

Stakeholder engagement

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 further information see page 66.

	Why relevant?
Associates • Existing and prospective associates, including apprentices and trainees	• Our associates want to work for a company that values them, provides ongoing development, treats them fairly and remunerates them appropriately • 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	• Our customers want to have confidence in the availability of our offering and tailored advice to deliver their projects, so they are better because they worked with Ferguson
Suppliers • Branded manufacturers • Outsourced third party manufacturers for own brand	• 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	• 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 • Supporting the families of our associates is just the right thing to do
Investors • Shareholders (institutional) • Shareholders (private) • Financial institutions e.g. lending banks	• 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, listing location

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 70, the sustainability section on pages 48 to 52, the risk section on pages 53 to 59 and the stakeholder engagement section above and right.

Nature of engagement	Our response to engagement	Relevant metrics
• Employee Engagement Director, Alan Murray engages regularly with associates and reports back to the Board • Regular engagement and town hall meetings • Associate engagement surveys • Regional conferences and other associate events • First in Safety engagement program with dedicated training (see page 49) • Training and apprentice programs • Ferguson Cares relief program (see pages 49 and 50) • Further details are provided on pages 20 to 22	• Associate reward and benefit structure which recognizes the contribution our associates make to the success of the business • Associate policies which ensure our people are treated fairly • Ensuring health and safety remains a cornerstone of our culture	• Associate engagement survey scores • Safety performance metrics (see page 49) • Employee retention metrics
• Allocated sales managers • Customer feedback mechanisms (including net promoter score and satisfaction scores) • 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	• Addressing problem areas/actions as a result of satisfaction surveys • New service offerings e.g. curbside pick-up, geo-positioning software • National pricing strategy for our trade customers • Sales center call routing • Local inventory needs and adjustments • COVID-19 response and preparedness	• Customer net promoter (see page 17) and overall satisfaction scores • Level of repeat business • Customer spend per account • Churn analysis • Receivable days
• 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 relationship	• Regular meetings with key suppliers to assist in management of production cycles e.g. capacity issues, disruption • Policies in place in relation to working with our suppliers to ensure fair and high ethical standards • Differences in sales channels between retail, wholesale and e-commerce	• Product fill-rate • Payable days
• Nationwide programs in addition to local community initiatives entered into by individual locations • Responding to community needs for emergency relief, e.g. COVID-19 • Ferguson Cares program (see pages 49 and 50) • Executives serve on boards of charities, both at our regional headquarters and locally • Community engagement part of College of Ferguson induction for trainees • Further details are provided on pages 49 and 50	• Community building activities • Disaster response when required • Financial support at times of crisis	• Charitable donations • Employee time contributed to community initiatives (see pages 49 and 50)
• Investor conferences • One-to-one meetings • Annual Report and other communications • Results presentations and bondholder calls • Reporting to financial lending institutions • Annual General Meeting • Investor relations website	• Communication of business model and strategic plan • Application of stated capital allocation priorities • Maintain compliance with stated financial objectives e.g. leverage range, etc.	• Returns to shareholders (see page 28) • Qualitative shareholder feedback following key interactions e.g. post-results meetings • See KPIs on pages 16 and 17

Strong and resilient trading performance

Ferguson delivered a strong and resilient trading result for the year, achieved despite the pandemic which started to emerge from March 2020 onwards. The business has demonstrated an agile cost base, a robust cash flow performance and retained a strong balance sheet and great liquidity.

Key highlights

- Revenue 0.9 per cent lower reflecting the impact of COVID-19.
- Ongoing gross margin unchanged at 30 per cent, ongoing underlying trading profit margin up 20 basis points.
- Headline earnings per share of 511.6 cents 1.1 per cent lower than last year principally due to the increased tax rate.
- Total basic earnings per share of 427.5 cents 11.2 per cent lower than last year due to increased exceptional and amortization charges in the year and exceptional discontinued disposal gains in the prior year.
- Completed six acquisitions for total consideration of $351 million.
- Returned $778 million to shareholders during the year including $451 million by way of share buy backs.
- Return on gross capital employed decreased from 26.2 per cent to 23.9 per cent.

Statutory results

The financial results have been prepared under IFRS and the Group's accounting policies are set out on pages 119 to 124.

On August 1, 2019, the Group adopted IFRS 16 "Leases" using the modified retrospective approach to transition. The impact on the opening balance sheet at the date of initial application was the creation of a right of use asset of $1,220 million and a lease liability of $1,481 million. See note 1 on page 119 for a reconciliation of the operating lease commitments previously reported under IAS 17 at July 31, 2019 to the opening lease liability.

The impact on the income statement for the year was to decrease rental costs by $337 million, increase depreciation by $268 million and increase finance costs by $53 million, resulting in a net increase to profit before tax of $16 million. There was no impact on the net increase in cash, cash equivalents and bank overdrafts.

	2020 $m	2019 $m
Revenue	**21,819**	22,010
Operating profit	**1,422**	1,402
Net finance costs	**(144)**	(74)
Share of (loss)/profit after tax of associates	**(2)**	2
Gain on disposal of interests in associates and other investments	**7**	3
Impairment of interests in associates	**(22)**	(9)
Profit before tax	**1,261**	1,324
Tax	**(307)**	(263)
Profit from continuing operations	**954**	1,061
Profit from discontinued operations	**7**	47
Profit for the year attributable to shareholders	**961**	1,108

Revenue of $21,819 million (2018/19: $22,010 million) was 0.9 per cent lower than last year as strong growth in the first half of the year was offset by the impact of COVID-19 on trading.

Operating profit of $1,422 million (2018/19: $1,402 million) was 1.4 per cent higher than last year, with trading profit growth in the USA and the positive impact of IFRS 16 on operating profit ($69 million) partially offset by a fall in trading profit in the UK and Canada, an increase in the amortization of acquired intangible assets and higher exceptional costs.

Profit for the year attributable to shareholders decreased to $961 million (2018/19: $1,108 million) as a result of marginally higher operating profit as mentioned above, more than offset by a higher tax charge due to a higher effective tax rate due to previously announced tax reform, and exceptional disposal gains in the prior year.

Reconciliation between ongoing underlying trading profit and statutory operating profit

In order to monitor performance on a consistent basis, the Group uses certain alternative performance measures which enable it to assess the underlying performance of its businesses. The Group's key financial performance metric is "underlying trading profit" which is operating profit before exceptional items, the amortization and impairment of acquired intangible assets and the impact of IFRS 16. The Group's definition of exceptional items is defined in note 2 to the financial statements.

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

See note 2 on pages 124 to 127 for further information, definitions and reconciliations of alternative performance measures

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

	2020 $m	Restated 2019 $m
Ongoing underlying trading profit	**1,595**	1,532
Non-ongoing underlying trading profit	**8**	74
Continuing underlying trading profit	**1,603**	1,606
Impact of IFRS 16	**69**	–
Continuing trading profit	**1,672**	1,606
Exceptional items	**(120)**	(94)
Amortization of acquired intangible assets	**(130)**	(110)
Statutory operating profit	**1,422**	1,402

Operating profit

Performance of the ongoing business

	2020 $m	Restated 2019 $m	Growth %
Revenue	**19,940**	19,549	+2.0%
Gross profit	**5,983**	5,870	+1.9%
Operating expenses	**(4,388)**	(4,338)	+1.2%
Underlying trading profit	**1,595**	1,532	+4.1%
Gross margin	**30.0%**	30.0%	–
Underlying trading margin	**8.0%**	7.8%	+0.2%

Ongoing revenue of $19,940 million (2018/19: $19,549 million) was 2.0 per cent ahead of last year but 0.1% lower on an organic basis. Inflation in the year was broadly flat. Ongoing gross margins of 30.0 per cent (2018/19: 30.0 per cent) were in line with last year as a result of good pricing discipline, reflecting the value we deliver to our customers. Operating expenses in the ongoing business were tightly controlled. In addition to temporary measures such as a hiring freeze, reductions in overtime and temps and temporary layoffs, we took decisive actions to right-size the cost base for the market environment. During the year we reduced net permanent headcount by approximately 2,100 across the USA, Canada and UK and made 94 branch closures.

Ongoing underlying trading profit was $1,595 million (2018/19: $1,532 million), 4.1 per cent ahead of last year as the actions on costs contained the profit reduction from lower revenue in the second half. There was one additional trading day compared to last year which increased ongoing underlying trading profit by about $17 million. Acquisitions generated revenue of $356 million and trading profit of $16 million in the year.

Non-ongoing underlying trading profit

The Group's non-ongoing businesses, which comprised the UK business and in 2018/19 also the Group's Dutch business, Wasco, and UK business soak.com, generated revenue of $1,879 million (2018/19: $2,461 million) and underlying trading profit of $8 million (2018/19: $74 million). The lower revenue and underlying trading profit generated by the UK business was principally a result of the national lockdown which severely impacted demand.

Impact of IFRS 16

The impact of IFRS 16 was to increase trading profit by $69 million to $1,672 million, as rental costs decreased by $337 million, partially offset by an increase in depreciation of $268 million.

Amortization of acquired intangible assets

Amortization of $130 million (2018/19: $110 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 $1,721 million (2018/19: $1,656 million), remains on the balance sheet and is supported by value in use calculations.

Exceptional items

Net exceptional charges in operating profit totaled $120 million in the year (2018/19: $94 million), comprising a $3 million loss on disposal of businesses, $93 million of business restructuring charges and $24 million of other exceptional charges, principally in relation to the proposed UK business separation and planned US listing. The restructuring charges were principally in relation to cost actions taken in the USA, UK and Canada to ensure the business is appropriately sized for the post COVID-19 operating environment.

Net finance costs

Net finance costs were $144 million (2018/19: $74 million) with $53 million of the increase due to the adoption of IFRS 16. The remaining increase was principally due to a higher level of average gross debt than last year.

Tax

The Group generates 97 per cent of its ongoing trading profit in the USA and 3 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 $307 million (2018/19: $263 million) on profit before tax of $1,261 million (2018/19: $1,324 million) resulting in an effective tax rate of 24.3 per cent (2018/19: 19.9 per cent). The ongoing tax charge is $376 million (2018/19: $339 million) which equates to an ongoing effective tax rate of 24.9 per cent (2018/19: 23.3 per cent) on the ongoing profit before tax, exceptional items, the amortization and impairment of acquired intangible assets and the impairment of interests in associates of $1,512 million (2018/19: $1,456 million). The increase is primarily due to tax reform.

The wider macropolitical and economic situation is uncertain in some of the main territories in which Ferguson operates and changes could adversely impact the Group's business as well as the Group's future tax rate. A combination of growing international trade pressures, including trade-related actions taken by the USA and China and rising debt levels, especially as a result of governments' responses to the COVID-19 pandemic, is creating political and regulatory uncertainty which could lead to changes to the prevailing tax regime and adversely impact the Group's results. The Group is engaged with the relevant tax authorities and will ensure any changes are reflected in Ferguson's tax strategy.

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

The Group paid $225 million (2018/19: $242 million) in corporation tax in the year. The corporation tax paid in the year will typically differ to the total tax charge in the income statement as a result of:

- non-cash deferred tax expense or income arising from accounting requirements in IAS 12 "Income Taxes" to 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.

Earnings per share

Headline earnings per share decreased by 1.1 per cent from 517.4 cents to 511.6 cents. Basic earnings per share from continuing operations were 424.4 cents (2018/19: 460.9 cents) and diluted earnings per share were 420.4 cents (2018/19: 457.5 cents). Total basic earnings per share, including discontinued operations, were 427.5 cents (2018/19: 481.3 cents) and total diluted earnings per share were 423.5 cents (2018/19: 477.8 cents).

Cash flow

The Group has continued to generate strong cash flows during the year with cash generated from operations of $2,252 million (2018/19: $1,609 million) and a good cash conversion ratio of cash generated from operations/Group adjusted EBITDA of 125 per cent (2018/19: 90 per cent). Cash generated from operations in the year includes the impact of IFRS 16 of $348 million. Without this, the cash conversion would have been 106 per cent.

			2020	2019
	Net debt excluding lease liabilities $m	**Lease liabilities $m**	**Net debt including lease liabilities $m**	Net debt $m
Operating cashflow	**1,904**	**348**	**2,252**	1,609
Interest and tax	**(331)**	**(53)**	**(384)**	(319)
Capital expenditure	**(302)**	**–**	**(302)**	(418)
Acquisitions	**(351)**	**–**	**(351)**	(657)
Dividends paid	**(327)**	**–**	**(327)**	(445)
Share buy back	**(451)**	**–**	**(451)**	(150)
Disposal proceeds	**52**	**–**	**52**	303
Lease liability additions, disposals and remeasurements	**–**	**(131)**	**(131)**	–
Other items	**(17)**	**(38)**	**(55)**	(38)
Net movement	**177**	**126**	**303**	(115)

Acquisitions and capital expenditure

Acquisitions are an important part of our growth model and during the year we invested $351 million in six bolt-on acquisitions, principally in the USA. During the initial uncertainty of COVID-19, the Group paused acquisition activity. We now intend to resume our focused acquisition program, funding selective bolt-on acquisitions to improve our market leadership positions or expand the capabilities of our existing business models.

The strategy of investing in the development of the Group's business models is supported by capital expenditure of $302 million (2018/19: $418 million). Investment was higher in 2018/19 primarily due to one new freehold distribution center in the US. The Group also continues to invest in strategic projects to support future growth such as distribution hubs, technology, processes and network infrastructure.

Returns to shareholders

Given the initial uncertainty of COVID-19, the Group took prompt actions to optimize cash flow including suspending the $500 million share buy back announced on February 4, 2020 and after careful consideration withdrawal of the interim dividend due for payment in April 2020.

Taking into account the Group's prospects and financial position, the Board has decided to propose a final dividend for the year ended July 31, 2020 of 208.2 cents per share which effectively reinstates the previously withdrawn interim dividend. Thus, in a year of slightly higher underlying trading profit with excellent cash generation and strong balance sheet, the Board is recommending an overall dividend in line with last year's total dividend (2018/19: 208.2 cents per share).

During the year the Group returned $451 million to shareholders through share buy backs including $350 million from the share buy back program announced in June 2019 and $101 million from the share buy back program announced in February 2020 prior to it being suspended.

Return on gross capital employed

Return on gross capital employed decreased from 26.2 per cent to 23.9 per cent. The decrease was due to an increase in capital employed.

Net debt excluding lease liabilities

Net debt excluding lease liabilities decreased during the year by $177 million to $1,012 million at July 31, 2020. Strong operating cash flow generation of $1,904 million was partly offset by acquisition and capital expenditure of $653 million, interest and tax payments of $331 million and shareholder returns of $778 million.

Pensions

At July 31, 2020, the Group's net pension liability of $61 million (2018/19: asset of $153 million) comprised assets of $2,122 million (2018/19: $1,904 million) and liabilities of $2,183 million (2018/19: $1,751 million). The change in the net pension liability 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 23 (iv) on page 151.

Other matters

Capital structure

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

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

(i) to reinvest in organic growth opportunities;

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

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

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

Liquidity

The Group maintains sufficient borrowing facilities to finance all investment and capital expenditure included in its strategic plan with an additional margin for contingencies. The Group aims to have a range of borrowings from different financial institutions to ensure continuity of financing. During the year the Group issued $600 million principal aggregate amount of bonds at 3.25 per cent with a 10-year maturity. At July 31, 2020, the Group had total committed facilities, excluding bank overdrafts, of $5,118 million (2018/19: $3,870 million). Of the Group's committed facilities at July 31, 2020, $2,200 million (2018/19: $1,573 million) was undrawn. $2,085 million (2018/19: $1,610 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 53 to 59.

Mike Powell

Mike Powell
Group Chief Financial Officer

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 2.7 per cent and ongoing underlying trading profit of $1,587 million
- Continued market share gains across all end markets
- In light of COVID-19 we rapidly adjusted our ways of working to protect the health and wellbeing of our associates and customers
- Excellent cost control in the second half to mitigate the resulting revenue shortfall

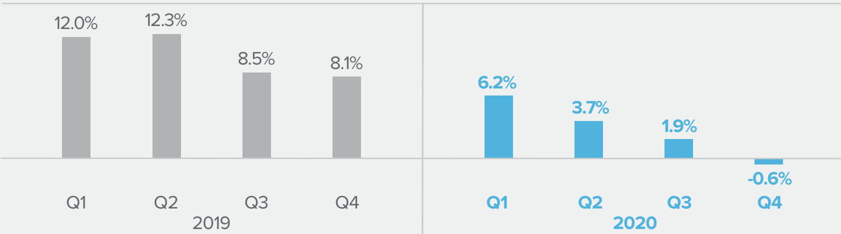
Five-year performance

$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 124 to 127.

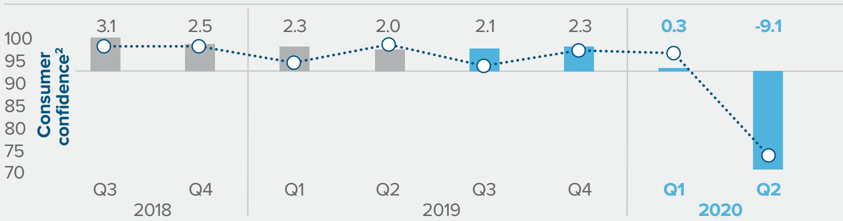
Quarterly total revenue growth

%



GDP growth[1]

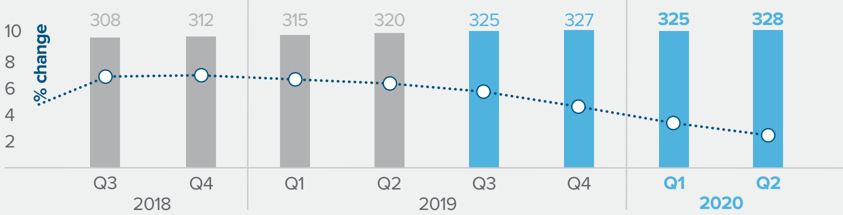
% change per calendar year



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 1,442 branches serving all 50 states with approximately 27,000 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 32 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. 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) growth in the USA remained above two per cent in calendar Q3 and Q4 2019 but reduced to flattish in Q1 2020 before turning negative in Q2, indicating contraction in the economy, largely due to the COVID-19 impact.

The unemployment rate hit historical lows of less than four per cent during the year before spiking amid the COVID-19 pandemic.

Residential – (54 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 weakened but still expect modest 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 remained between 5.0–5.5 million in 2019/20.

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 1.4 million through 2019/20 while housing starts have averaged 1.3 million units. These measures have improved over the prior year and have rebounded well since the COVID-19 impact in April and May 2020.

Commercial (32 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 averaged 50 from August 2019 through to January 2020 but has been below 50 since February 2020 indicating expectations of market contraction.

Civil/Infrastructure (7 per cent of revenue)

The AIA Billings Index – Commercial/Industrial is also an indicator for the civils market. The non-residential construction Put In Place survey reflects the historical amount spent each month on construction. The value of non-residential spending rose year-over-year in all four quarters of the financial year.

Industrial (7 per cent of revenue)

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 48.6 through 2019/20 indicating market contraction during the year but increased above 50 in both June and July 2020.

Operating performance

The US business grew revenue by 2.7 per cent which included acquisitions growth of 1.9 per cent. Price inflation was broadly flat. Blended Branches revenue grew 0.4 per cent in the year, with growth constrained during the lockdown period. Waterworks and eBusiness grew well with revenue up by 9.1 per cent and 12.2 per cent respectively. HVAC grew by 9.4 per cent while Industrial revenue was 11.8 per cent lower in the year.

Revenue growth was strong overall in the first half with good momentum going into the first two months of the second half before the virus hit. Revenue was lowest in April down 9.3 per cent and we have seen a steady sequential recovery in monthly revenue growth rates through the summer. The business returned to organic revenue growth in August. The major impact on volume continues to be highly correlated to the degree of disruption locally which has been variable across the US states and localities. Initially we saw more significant impacts in coastal states including New York and California while the mid-west and south east regions were less impacted. Our counter and showroom locations were open by mid-June to support customers with appropriate protective measures in place. We continue to encourage customers to use our e-commerce tools and we have seen strong adoption rates from customers during the pandemic with increased user activity of our mobile experience for trade customers.

During the pandemic Blended Branches revenue was lowest in April down 15.3 per cent impacted by significant revenue declines in the hotspot locations such as New England, New York, Michigan, the Pacific North West and Northern California. Since April revenue growth rates have recovered steadily. eBusiness generated very strong revenue growth as it benefited from increased consumer demand for home improvement products. Waterworks initially generated strong revenue growth benefiting from fewer operating restrictions though recent trends have been weaker as a result of tough prior year comparators. HVAC having initially been adversely impacted by local lockdowns with revenues down 17.0 per cent in April, returned to growth in June. Over the summer HVAC benefited from good residential markets, with high levels of repair and remodel activity from consumers based at home and the contribution of the S.W. Anderson acquisition.

Over the last six months residential RMI markets have remained fairly resilient with good single family activity levels. Commercial markets have weakened overall with the weakest spots in retail, office and lodging though partially offset by strong activity in distribution and data centers, and healthcare projects. Civil markets were resilient in the initial lockdowns but as we moved in to Q4 the civil market turned negative as municipal funding became more restricted. Industrial markets have remained challenging through the year due in part to depressed oil prices and a tough operating environment for manufacturing during the pandemic.

Gross margins were well controlled with good pricing discipline and reflect the value we deliver to our customers. During the early months of COVID-19 there was an adverse product mix effect from strong Waterworks revenue which is lower gross margin and the impact of the closure of bricks and mortar counter and showroom facilities which generate attractive gross margins.

We took a number of prudent cost saving measures to protect short-term profitability including a hiring freeze, a reduction in associate hours, overtime and temporary staff, and temporary lay-offs being implemented in the worst hit regions. We have made net reductions to permanent headcount of approximately 1,400 during the year and consolidated 78 branch locations in order to appropriately size the business for the post COVID-19 operating environment. We expect the $65 million of US restructuring costs to have a payback period of approximately one year.

Before acquisitions were paused in March, five bolt-on acquisitions were completed in the year with total annualized revenues of $333 million. The largest was Columbia Pipe & Supply which specializes in PVF, commercial mechanical, commercial plumbing, industrial, valve automation, engineered products and hydronics. The business operates from 16 locations in five states in the Midwest region and generated revenue of $220 million in the year ended December 31, 2019.

Underlying trading profit of $1,587 million (2019: $1,508 million) was 5.2 per cent ahead of last year and the underlying trading margin was 8.4 per cent (2019: 8.2 per cent).

Figure 1:
Estimated end market growth

Growth by customer end market	% of USA revenue	Estimated market growth H1 2019/20	Estimated market growth H2 2019/20	Estimated market growth 2019/20	**2019/20 organic revenue growth**
Residential	54%	1%	(3%)	(1%)	**+2%**
Commercial	32%	1%	(6%)	(3%)	**(1%)**
Civil/Infrastructure	7%	3%	(1%)	1%	**+6%**
Industrial	7%	(6%)	(19%)	(13%)	**(12%)**
		Flat	(6%)	(3%)	**+0.4%**

Residential Trade

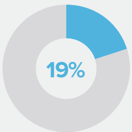
Residential Trade forms part of Blended Branches and serves the residential RMI and new construction sectors with a large proportion of sales through the branch counters.

Key products and services

Plumbing supplies	Water heaters
Pipe, valves and fittings	Plumbing counters
Bathroom fixtures	Pro pick-up

Key highlights this year

Contribution to US revenue



One-hour Pro pick-up expanded to nearly all of our Blended Branches counter locations nationally

Continued to increase proportion of own brand sales

Further developed our mobile experience

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.

During the year we adapted our operations to offer curbside pick-up while the counters were closed to walk in customers amid the COVID-19 pandemic. We rapidly re-opened the branch network with enhanced cleaning protocols and protective equipment when it was appropriate to do so. Additionally, we successfully expanded our one-hour Pro pick-up service to nearly all Blended Branches locations across the USA. This service is available to customers through all of our order channels.

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

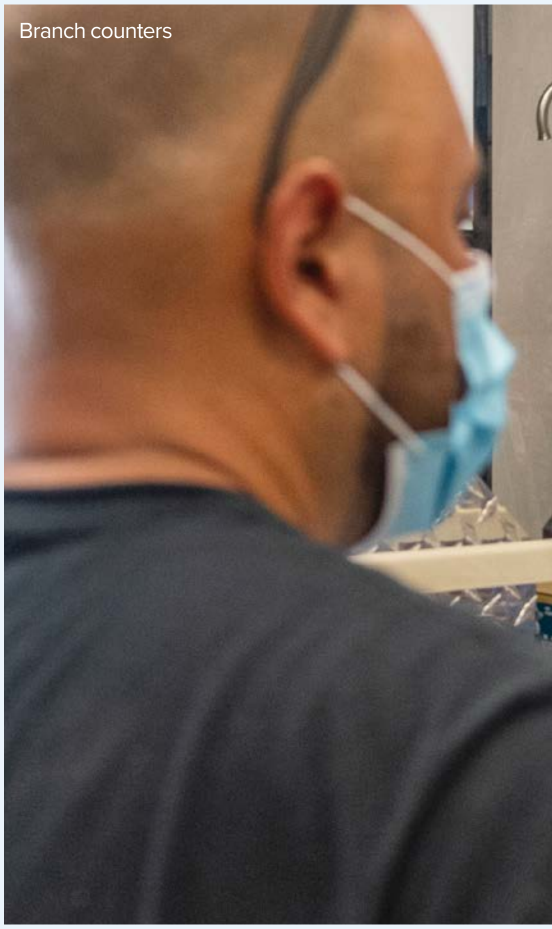
One area of success during 2019/20 was the growth of Jones Stephens, a previous acquisition, across the network which resulted in a significant increase in own brand sales penetration within our rough plumbing segment.

We continue to diversify our product offering through multiple brands to attract and retain a larger base of customers while aligning prices based on our cost to serve. We also continue to work on our digital presence providing mobile and inventory management for our customers. A highlight on the mobile experience during the year has been the roll-out of customer specific pricing tools.

Our focus in the year ahead will remain on progressing the omnichannel experience within the Residential Trade business by improving the connectedness of our in-store, online and mobile offerings. Customers' adoption and usage of online channels has increased significantly during the COVID-19 crisis. We are also reviewing how we can better partner with plumbing customers at a project level rather than focusing on product requirements.

Ferguson is the number two in residential trade in the USA with an estimated market share of 18 per cent. The estimated combined market share of the top three companies is 52 per cent with much of the market fragmented between mid-size regional distributors and small, local distributors. For more information on market size and position see page 13.

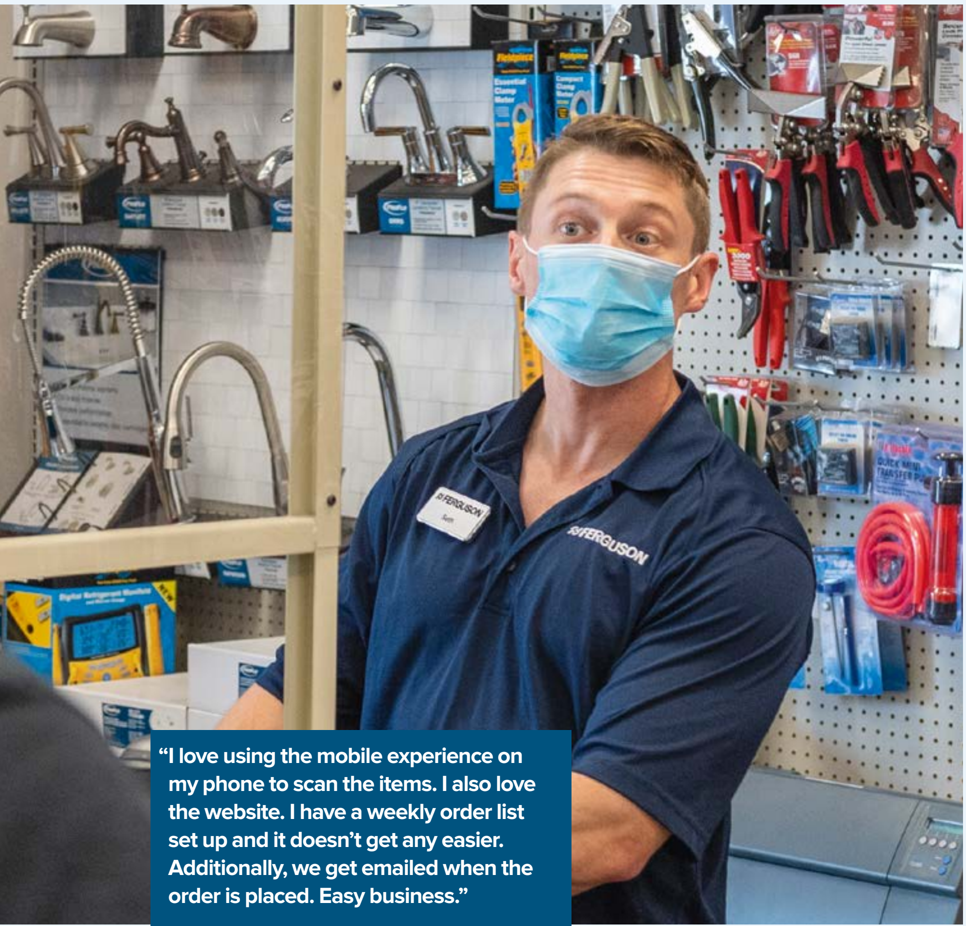
See pages 30 and 31 for relevant residential end market indicators and trends.


Branch counters

"Ferguson always has what we need; the ease of the website and our salesperson makes our experience effortless to take care of our daily purchasing needs. The website is clean with an easy mobile experience that makes it so simple to order."

Patricia Guglielmo
Approved Oil Co Brooklyn Inc, Brooklyn, New York


Website



"I love using the mobile experience on my phone to scan the items. I also love the website. I have a weekly order list set up and it doesn't get any easier. Additionally, we get emailed when the order is placed. Easy business."

Lauren Hickman
Tri County Air Service Inc, Wiggins, Mississippi

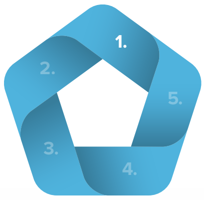
50%

We have generated a 50 per cent increase in online user activity during the COVID-19 pandemic.

44,000

Additional customers registered to use our digital tools since the start of the COVID-19 pandemic.

How tomorrow works – Our strategy



1. Digitally enabled customer relationships
2. Project driven
3. Specification and influence
4. Focused product strategy
5. One brand: Ferguson

Read more about our strategy
+ Pages 10 and 11

How tomorrow works – Case study

Digitally enabled customer relationships
COVID-19

The COVID-19 pandemic has created many challenges for our customers and we are there to support them by combining our great people relationships with an array of digital tools (see below) that enhance their experience and help them deliver their projects safely and efficiently.

Since the pandemic began to July 31, 2020, an additional 44,000 customers have signed on to use our digital tools. This is significantly more than the normal run rate. User activity is also up nearly 50 per cent, proving that customers are embracing our site and appreciating our digital experience. We have continued to see accelerated growth in our mobile offering for our trade customers. Mobile is critical in creating the frictionless experience that allows our customers to be more efficient and our associates more productive.

Scott Hamele, owner of Plumbing Place and early Ferguson mobile adopter said "Being a small business, I'm on the go constantly and the mobile experience from Ferguson allows me to run my business from anywhere – from ordering materials and checking on orders to using the scan function for ordering stock – we can order anything from our shop or on our trucks – it's very helpful and time saving!" He added, "Pick-up is always easy too and we don't have to wait long. They know who we are so we can grab it off the pick-up shelf or, if it's a big item, get help in loading it really quickly."

We are constantly improving our digital offering with additional functionality. Customers can now seamlessly do the following:

Buy online, pick-up at store – we've created a "contactless process" for our customers and associates to transact.

Use their mobile phone to scan barcodes of our products to seamlessly create a shopping cart for the online check out process.

We have embedded our truck delivery tracking software into our platform, allowing our customers to track their delivery truck in real-time.

We launched an innovative "shop by job" feature that allows customers to search for products by job, versus individual product – this cuts down on their time navigating to select the right products.

We added a text to branch service for customers who need to add necessary instructions for their orders, pickups and deliveries.

We continue to add thousands of different products across all of the businesses we serve giving us the widest and deepest breadth of product inventory and visibility in the industry.

How tomorrow works – Case study

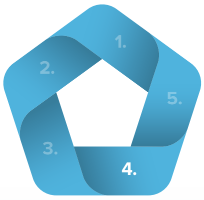
Focused product strategy
Own brands

Own brands are a critical part of our growth strategy. They offer our customers high-quality, “on-trend” product ranges at competitive prices with excellent availability and an industry leading warranty. For us, these products offer higher gross margins so the business, our customers and our associates all do well when we sell own brand products.

Signature Hardware has become our organization’s primary consumer facing own brand of decorative plumbing products with the majority of revenue, 57 per cent, coming through Ferguson Bath, Kitchen and Lighting Showrooms. Our legacy decorative plumbing brands, Mirabelle and Monogram Brass, migrated to Signature Hardware at the end of March 2020 to create one unified consumer plumbing brand. This move reflects greater focus on our decorative plumbing product development, product quality, marketing and omnichannel sales opportunities. Extensive research of our customers, contractors and associates showed that Signature Hardware has strong brand recognition and reputation, and therefore presents a strong opportunity for growth.

Our local outside showroom salesperson, Nate Colbert, heard about a large residential building development of 68 houses in Eagle, Idaho. Normally, residential developments would be bid for through the plumbing contractor, however Nate took the initiative and approached the developer directly. Nate discussed the benefits that Signature Hardware had to offer and the developer liked the well-designed look and quality of the products. Nate put together a quote with exclusively Signature Hardware products for all 68 houses, with between 2–3 bathrooms per house. The price point, product quality and lead times all meant that the bid was secured for the project that was worth approximately $250,000 and completed in June 2020.

How tomorrow works – Our strategy



1. Digitally enabled customer relationships
2. Project driven
3. Specification and influence
4. **Focused product strategy**
5. One brand: Ferguson

Read more about our strategy
+ Pages 10 and 11

Nate Colbert

Signature Hardware products

9%
Own brand percentage of US revenue.

57%
of Signature Hardware sales are generated through our Residential Showroom business.

"The developer was very grateful for the direct approach in the end knowing the great look and feel of the whole Signature Hardware product range they were getting at a good, competitive price. Our lead times meant we could hit deadlines for such a large order too and I'm sure that had a part to play in being awarded the contract."

Nate Colbert
Outside sales, Residential Showroom

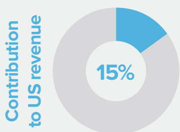
Residential Showroom

Residential Showroom forms part of Blended Branches and operates a national network of 256 showrooms, serving consumers and trade customers.

Key products and services

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

Key highlights this year



- Virtual showroom tours and appointments
- Geo-positioning in trucks to give customers real-time updates on deliveries
- Enhanced white glove delivery and installation services
- Improved omnichannel offering linking e-commerce services and the showroom network

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.

During the year we expanded our digital capabilities to give customers the ability to independently tour a number of our showrooms online. We have also been conducting virtual appointments where customers can discuss their project requirements and receive advice on different products, designs and specifications from the comfort of their own homes. Many customers have used this service and followed it up with an in-store visit to quickly finalize their purchase, particularly during the COVID-19 pandemic.

We have continued to enhance our customer service offering with the addition of geo-positioning in our delivery fleet. Customers can now get real-time status updates on their delivery via email, phone or text. Additionally, we continue to expand our white glove delivery service and are now able to perform installations of a broader range of products while also removing old appliance units.

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.

Ferguson is the market leader with an estimated 12 per cent market share and the next largest competitor is about a third of the size. For more information on market size and position see page 13.

See pages 30 and 31 for relevant residential end market indicators and trends.

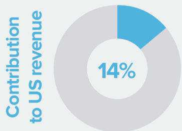
Commercial

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

Key products and services

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

Key highlights this year



- Acquisition of Columbia Pipe & Supply
- Expansion of local technical support services across the business
- Continued integration of Building Information Modeling ("BIM") systems with our software to improve ordering efficiencies

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 acquired Columbia Pipe & Supply, a Chicago headquartered distributor specializing in a broad range of commercial products including plumbing, valve automation, engineered products and hydronics. The business has a strong reputation, established vendor relationships and long-standing customer relationships, and it will allow us to expand on existing capabilities. Through its 16 locations, Columbia Pipe & Supply will accelerate Ferguson's growth in the greater Chicago market and the Midwest.

We have also improved our customer service offering by enhancing our engineered solutions capabilities across the country. This has involved the provision of additional technical support services to our customers; offering additional solutions development support; and further utilizing BIM technologies to improve ordering efficiencies. We continue to partner with a number of construction technology providers to develop more advanced digital solutions for commercial and mechanical contractors.

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 is number one in the USA with an estimated market share of 21 per cent, roughly twice the size of its nearest competitor. For more information on market size and position see page 13.

See page 31 for relevant commercial end market indicators and trends.

One Vanderbilt, NY

$5m

The total value of the project for One Vanderbilt was approximately $5 million.

50%

Approximately 50 per cent of US revenue is "project based".

Our project driven approach helped us enable specific delivery times for crane picks to lift them up the skyscraper. If products missed their slot, it could mean delays for the entire build.

How tomorrow works – Case study

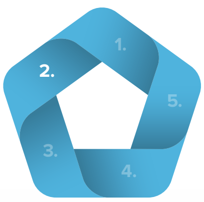
Project driven
One Vanderbilt

We work with our customers to make their projects better and this is never more true than in our Commercial business. The construction of One Vanderbilt, the second largest skyscraper in New York City, started in late 2016 and is expected to complete by the end of calendar year 2020.

Due to the exceptionally limited build space on-site, products needed to arrive at specific time windows for crane picks to lift them up the skyscraper. If products missed their slot, it could mean delays for the entire build. Our project driven approach helped us to understand the full requirements of the customer including fabrication, collaboration with installers, specific delivery times, out of hours work and specialist delivery vehicles, all of which made us the perfect partner. This, along with a competitive price won us the bid and we have consistently delivered to customer expectations. The total value of this one project was approximately $5 million.

We supplied all the finished plumbing fixtures, drain, waste and vent piping and much of the mechanical piping, valving and fitting materials for this project. Our mechanical fabrication shop in Long Island City assisted by providing cut to length pieces with fittings ready to install. All deliveries were co-ordinated to arrive at specific times, often early in the morning (including after hours and weekends), due to the location of the project (right outside Grand Central Station) and for elevator loads and crane picks. We utilized our fleet of boom trucks (with cranes) to offload and put in place much of this material to assist the contractor and limit the need to move material around site.

How tomorrow works – Our strategy



1. Digitally enabled customer relationships
2. **Project driven**
3. Specification and influence
4. Focused product strategy
5. One brand: Ferguson

Read more about our strategy
+ Pages 10 and 11

One Vanderbilt, NY

Other information
Financials
Governance
Strategic report

How tomorrow works – Case study

Specification and influence
Newport News Waterworks

We are trusted advisers to our customers and with approximately 50 per cent of US sales generated through bidding and tendering with our customers for a job, we succeed when our customers do. They rely on our expertise and our ability to help solve their construction, repair, maintenance and improvement problems. The Newport News (Virginia) Waterworks Utility department (“NNWW”) approached our experts in 2017 looking to update their outdated water metering infrastructure across 120,000 residential homes. Our experts understood the customer requirements and specified an Advanced Metering Infrastructure (“AMI”) system (see below) that we could implement with the help of our vendor and install partners, all managed by us.

Due to the size and scope of this project, it would traditionally be a direct bid by manufacturers, cutting out distribution completely. However, as Ferguson Mid-Atlantic Waterworks General Manager Doug Koenig explains, “Our relationship with NNWW and the collaborative effort from our vendor and install partners not only put us in the driver’s seat but helped ensure the successful award of the project.” He continued, “Our combined experience and ability to collaborate across Ferguson specialisms gave us the leverage to act as a consultant for the customer and made us stand out as thought leaders as the customer made their final decision.”

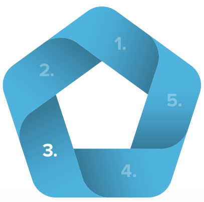
Two years later, the resulting $45 million contract included the AMI system, software, infrastructure, installation and integration, all managed by us. This is the largest single “Remote Disconnect Meter” deployment in the USA and the second-largest capital expenditure for the NNWW ever. The project began in 2020 and is scheduled to complete in 42 months.

“The customer required a business partner that understands the need to continually innovate while delivering long-term success. Our shared vision of creating innovation through thought leadership and investments in technology to evolve with the changing expectations of our customers made the partnership a very good fit.”

Brandon Matthews
Ferguson Business Development Manager

Waterworks truck

How tomorrow works – Our strategy



1. Digitally enabled customer relationships
2. Project driven
3. **Specification and influence**
4. Focused product strategy
5. One brand: Ferguson

Read more about our strategy
+ Pages 10 and 11

What is an Advanced Metering System (“AMI”)?

AMI enables two-way communication through a fixed network to transmit information between the utility office and meters or other endpoints, providing greater benefits to the utility provider and its customers. Real-time data from AMI allows for the identification of potential leaks, saves money with energy efficiency initiatives, bases monthly bills on actual usage and not estimated use, and resolves billing questions more efficiently.

"This project marks one of the largest collaborative efforts of our business and perhaps in the industry. I have been a part of many large pipeline and plant projects over the years, but I have never seen so many people and departments come together to provide value during the bid process."

Doug Koenig
Ferguson Mid-Atlantic Waterworks
General Manager

NNWW recently received a Sustainable Water Utility Management Award, recognizing its commitment to achieve a balance of innovation and success in economic, social and environmental endeavors.

Waterworks

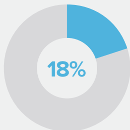
Waterworks distributes pipe, valves and fittings ("PVF"), hydrants, meter systems, geosynthetics and related water management products.

Key products and services

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

Key highlights this year

Contribution to US revenue



- **Expanded water plant division to provide additional value to customers**
- **Continued to broaden attractive stormwater and geosynthetics segments**
- **Established new capabilities within the central estimating team**

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 expanded 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.

Alongside strategic hires of key personnel, this year we have integrated the Innovative Soil Solutions acquisition. This Texas-based acquisition complements our traditional Waterworks business and expands our product offering, allowing us to offer broader capabilities in geotextiles and erosion control solutions.

After establishing a central estimating team in 2018/19, we have streamlined processes and improved productivity levels. We have bolstered service offerings with 3D capabilities and the team is working closely with other businesses, particularly Commercial, to leverage their specialist knowledge to improve bid and tender work across the business.

We 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 is the largest operator in the USA, with an estimated market share of 25 per cent, slightly higher than the number two. Outside the top two, no other company holds greater than five per cent market share. For more information on market size and position see page 13.

See page 31 for relevant civil/infrastructure end market indicators and trends.

HVAC

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

Key products and services

Fans, ventilation and indoor air quality products	Ductless variable refrigeration flow training and systems
Air conditioners and air handlers	Repair and maintenance parts
Heat pumps and furnaces	Light commercial equipment and controls

Key highlights this year

Contribution to US revenue

- Broadened product range to give customers greater choice
- Continued expansion into major metro markets including New York City
- Expansion of digital and e-commerce technologies

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 broaden product ranges through the year with a particular focus on light commercial equipment, repair parts, installation supplies and ductless products. We have also widened the range of connected products such as smart thermostats, water sensors, cameras and carbon monoxide detectors.

Geographic expansion remains focused on major metro areas and was bolstered by the acquisition of S. W. Anderson in New York, which supplies HVAC to both residential and commercial end markets. Expertise across multiple customer groups also allows us to leverage our HVAC knowledge with commercial customers when it pertains to larger commercial project tenders.

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, including the ability to review their specific product pricing, previous invoices and delivery notes.

Ferguson is the third largest wholesale distributor in a large, highly fragmented market with an estimated market share of approximately four per cent. The market leader is just over twice the size of Ferguson. For more information on market size and position see page 13.

See pages 30 and 31 for relevant residential and commercial end market indicators and trends.

$50bn

Estimated size of the HVAC market (see page 13).

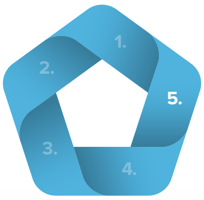
+9.4%

HVAC revenue growth in 2019/20.

Bayshore branch, NY, rebranded Ferguson

Mahwah showroom, counter and shipping warehouse, NJ, rebranded as Ferguson

How tomorrow works – Our strategy



1. Digitally enabled customer relationships
2. Project driven
3. Specification and influence
4. Focused product strategy
5. **One brand: Ferguson**

Read more about our strategy
+ Pages 10 and 11

How tomorrow works – Case study

One brand: Ferguson
How we approach bolt-on acquisitions

Over the past five years Ferguson has spent nearly $2 billion acquiring 65 businesses across the Group, 53 of which were in the USA. The majority of these deals have been bolt-on where we rapidly integrate all businesses into our network to create synergies. The vast majority of these businesses have also been rebranded.

Acquisitions remain a key part of our growth strategy and over the last two years we have increased our footprint in the Northeast of the USA considerably with the acquisitions of Blackman, Wallwork and S.W. Anderson. Blackman was acquired in December 2018 and once the back office technology integration was complete, Ferguson developed a new marketing strategy and rebranding plan for the region. The rebranding was completed in early 2020 across 15 locations, bringing with it additional benefits for the business as set out below. Wallwork and S.W. Anderson are currently in the process of being rebranded.

The rebranding process is hugely important because the Ferguson name today is respected and synonymous with quality, service and results. Acting as one brand in all that we do enables us to utilize the size, scale and reputation of the Company and creates many efficiencies across all areas of our business including:

- increased brand recognition and reputation;
- consistent brand promise and customer experience across all channels;
- leveraged investment across the business creating efficiencies in areas such as brand building and marketing, omnichannel and digital investments, customer insights, recruiting and creative and design services;
- ability for our customers to engage seamlessly across all aspects of our business;
- one path to market for our suppliers; and
- investor and market clarity on brand value proposition.

We will continue to focus on driving the Ferguson brand to ensure customers recognize and value what we do as a consultative experience.

Industrial

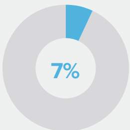
The Industrial business operates across all industries including energy, pulp and paper, chemical, mining, and food and beverage.

Key products and services

Pipe, fittings and flanges	General industrial MRO products
Valves and automation services	HDPE products, fabrication, and equipment rental
Supply chain services	

Key highlights this year

Contribution to US revenue



- Market share gains in a softer industrial market
- Enhanced valve automation offering
- Continued expansion into industrial maintenance, repair and operations ("MRO") markets

Our Industrial customer group supplies pipe, valves & 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 all sectors including energy, pulp and paper, chemical, mining and food and beverage. Customers include industrial contractors where Ferguson typically provides PVF products. We also sell directly to end users and manufacturers where we can offer both a wide variety of products and 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 expand 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 on aerospace, automotive, mining and oil and gas customers in the latter part of the financial year.

Growing the valve automation business remains a priority. We acquired Process Instruments & Controls and Rencor Controls which build out our valve automation service offering on the West Coast and in the Northeast respectively.

We continue to develop and expand the Industrial MRO service in a number of geographies in order to improve our service offering and grow wallet share with customers.

The industrial market is fragmented; we estimate our market share to be five per cent, with the market leader approximately two times larger and concentrated in the oil and gas sector. For more information on market size and position see page 13.

See page 31 for relevant industrial end market indicators and trends.

Fire and Fabrication

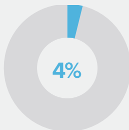
Fire and Fabrication supports our customers, principally contractors, working on fire protection systems for new installations, renovations and servicing of existing fire systems across residential and commercial end markets.

Key products and services

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

Key highlights this year

Contribution to US revenue



- New technology capabilities to offer fire sprinkler design services
- Expanded own brand product offerings
- Additional fabrication services and locations

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.

With the acquisition of MFP Design, we are now able to offer fire sprinkler design services to customers. As our contractor customers are required to provide an appropriate fire sprinkler design in order to win tendered work, this capability allows Ferguson customers to collaborate with us on both design and product fulfillment.

We also continue to focus on the provision of fabrication services with new facilities becoming operational during the year, with more to follow in the year ahead. We were able to leverage Fire and Fabrication expertise and fabrication services with commercial customers during the year and expect to continue to do so in the years ahead. The continued roll-out of own brand products has helped give customers more product choices.

Ferguson is the number one in the USA with an estimated 22 per cent market share. The three next largest competitors hold approximately 44 per cent market share between them. For more information on market size and position see page 13.

See page 31 for relevant commercial end market indicators and trends.

Facilities Supply

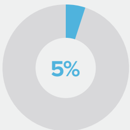
Facilities Supply provides products, services and solutions to enable reliable maintenance and renovation of commercial facilities.

Key products and services

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

Key highlights this year

Contribution to US revenue



- **Strong growth in multi-family segment**
- **Expansion of our renovation business**
- **Leveraged e-commerce channels to serve customers more efficiently**

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.

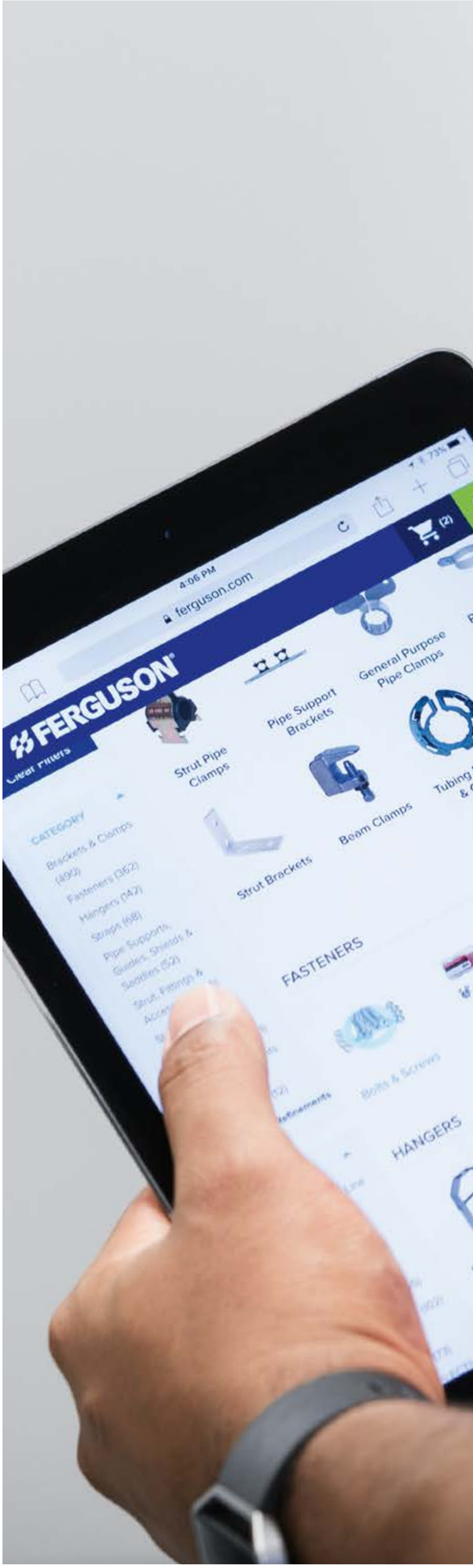
We saw strong growth in the multi-family property sector during the year where we added a number of key national accounts and grew our wallet share with existing customers. The renovation part of Facilities Supply continued to expand organically in the year, which includes services such as HVAC installation.

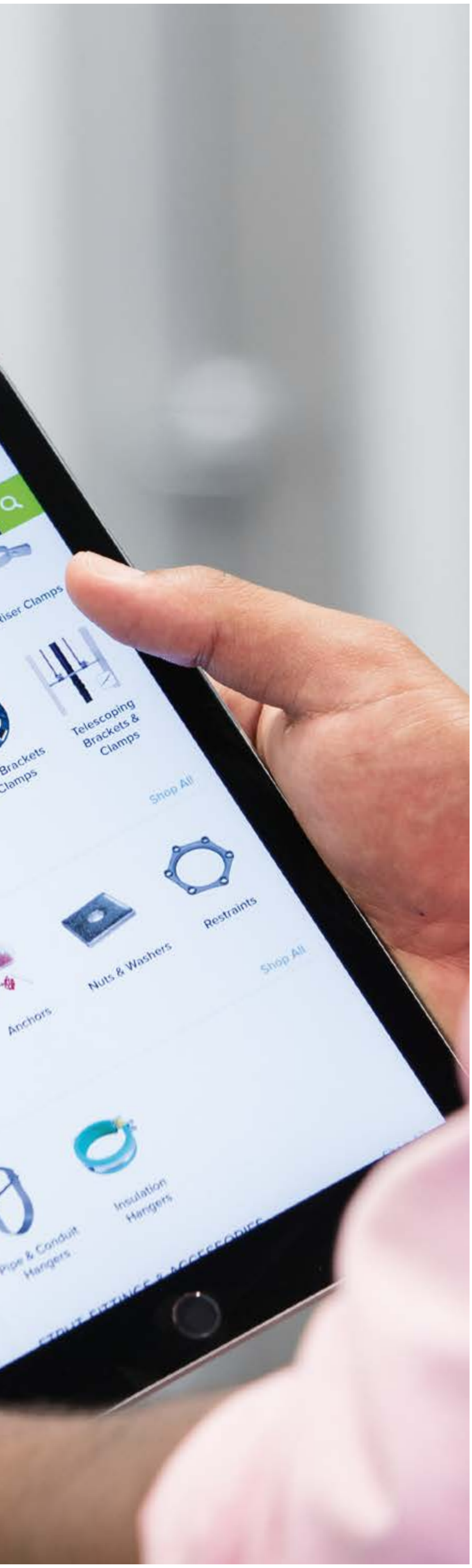
E-commerce remains a key priority within Facilities Supply where we have encouraged customers to utilize online experiences through ferguson.com or via system to system integrations. This speeds up customer interactions and frees up associate time to serve more customers.

Growing national accounts with both new and existing customers remains a priority. We will also look to expand the renovation business focusing on specific sub-markets where we are well equipped to win new work. Additionally, we look to broaden the customer base by stocking a wider range of popular products that appeal to specific customer segments.

The market is both large and highly fragmented with no competitors holding more than a four per cent market share. Ferguson's market share is estimated at approximately one per cent. For more information on market size and position see page 13.

See page 31 for relevant commercial end market indicators and trends.





eBusiness

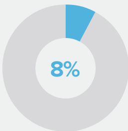
eBusiness leverages our US product categories and supply chain with the majority of revenue generated through Build.com.

Key products and services

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

Key highlights this year

Contribution to US revenue



- Deepened relationships between eBusiness and key vendors to give greater breadth of product availability
- Improved omnichannel offering linking e-commerce services and the showroom network
- Trialed two-hour delivery

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

We continue to evolve our digital commerce model, investing in the Ferguson brand to drive a best-in-class online experience to support both professional trade customers and consumers. Additionally, we are integrating eBusiness with Ferguson's physical network to support a seamless omnichannel experience for the customer, initially focusing on connecting Build.com with our 256 showrooms. We do this by leveraging the Build.com platform and our projects tool, a home improvement tool designed to gather inspiration, plan, organize and collaborate with others in real-time, to service the walk-in consumer.

During the year we saw a pick-up in activity during the COVID-19 lockdown as consumers turned their attention towards home improvement projects. Additionally, we have strengthened relationships with key suppliers where we have aligned eBusiness and Ferguson branch product strategies to ensure a consistent and broad offering for customers. We are also working closely with suppliers of connected home equipment who supply a broad range of smart home products.

Having developed the capability to deliver to more than 70 per cent of the US population in one day during 2018/19, we have continued to explore accelerated delivery options. During the year our supply.com website trialed two-hour deliveries on thousands of different products utilizing outsourced fleet providers. We are working to bring this capability to Ferguson.com to complement our one-hour in-branch Pro pick-up option.

The market is predominantly comprised of large competitors with the top four holding an estimated 75 per cent of the market. Ferguson is estimated to be number four with approximately nine per cent market share, slightly down from last year as we continue to focus on profitable growth. For more information on market size and position see page 13.

See pages 30 and 31 for relevant residential end market indicators and trends.

Canada

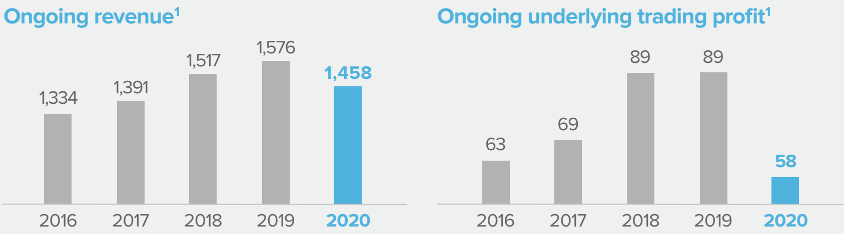
A wholesale distributor of plumbing, heating, ventilation and air conditioning, refrigeration, waterworks, fire protection, pipe, valves and fittings and industrial products.

Key highlights this year

- Total revenue decline of 7.5 per cent in challenging markets
- Canada trading profit of $CAD 58 million, $CAD 31 million lower than last year
- Cost base reduced for current operating environment

Five-year performance

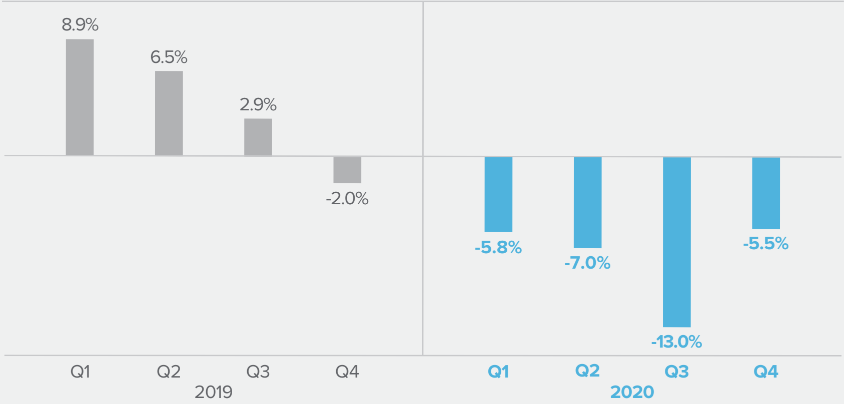
$CADm

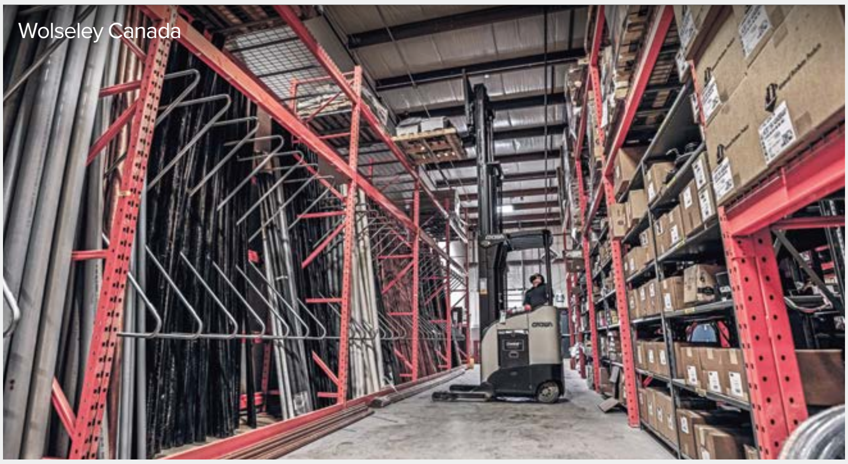


1. This is an APM; for further information on APMs, including a description of our policy, purpose, definitions and reconciliations to equivalent IFRS statutory measures, see note 2 on pages 124 to 127.

Quarterly total revenue growth

%





Business profile

Wolseley Canada predominantly serves trade customers across the residential, commercial and industrial sectors in both RMI and new construction. The business operates 210 branches with one distribution center. At the year-end Canada had approximately 2,000 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 the second largest business serving the plumbing and heating customer group.

Market trends

Canadian GDP growth has decreased through the year from a high of 1.6 per cent in calendar Q3 2019 to a 0.9 percent contraction in calendar Q1 2020 before sharply contracting by 13.0 per cent in Q2. Consumer confidence averaged 53.2 in the first eight months of the financial year before sharply dropping in April and averaging 40.1 in the final four months of the year. A score above 50 indicates an expectation of growth, while a score below 50 indicates an expectation of contraction.

Operating performance

Revenue was 9.1 per cent lower with inflation of approximately 2 per cent. Industrial end markets and Western Canada were weak during the year and markets remained generally challenging this year even prior to the country wide COVID-19 lockdown period. The business returned to organic revenue growth in August.

Gross margins were slightly lower than last year and despite cost cutting measures underlying trading profit of $43 million was $24 million lower than last year. We have reduced net headcount by approximately 300 during the year and closed seven branch locations to right size the business for the current environment.

UK (non-ongoing)

A leading trade distributor operating in the large and fragmented UK plumbing, heating and infrastructure markets. In September 2019, we announced our intention to separate the UK operations subject to shareholder approval (see page 6 for further information).

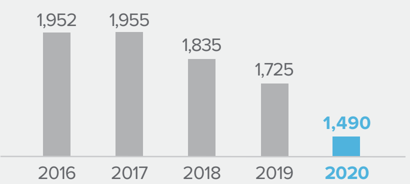
Key highlights this year

- Total revenue decline of 13.6 per cent in challenging markets
- UK trading profit £48 million lower than last year
- Business restructured for current operating environment
- Refocused business by separating out Blended Branches to better align to customer needs

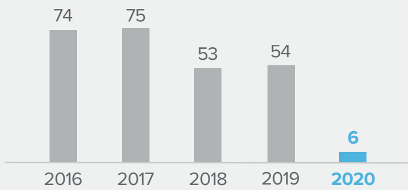
Five-year performance

£m

Revenue[1]



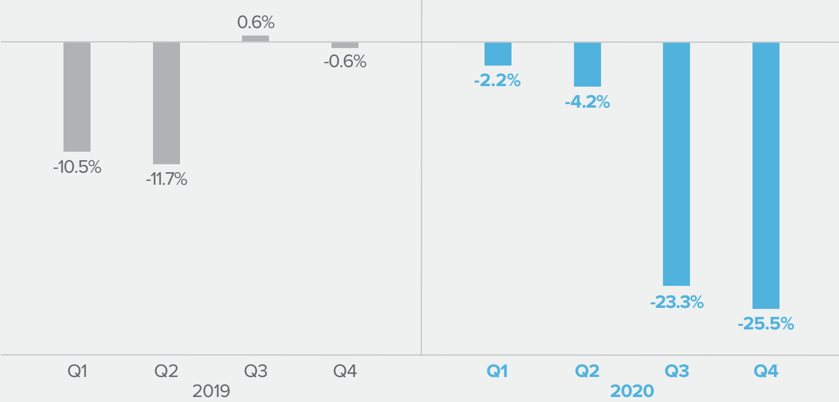
Underlying trading profit[1]



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 page 124 to 127.

Quarterly total revenue growth

%



Wolseley UK

Business profile

The UK principally operates under the Wolseley brand mainly serving the trade RMI market through 542 branches, four distribution centers and approximately 5,000 associates. Branches provide same-day and next-day product availability, a key service offering to our customers.

Customer groups and market position

Plumbing and Heating is the largest business within the UK and provides plumbing and heating products and the associated pipe, valves and fittings to customers operating in the residential sector. Building Services offers a similar product set to the commercial sector with the addition of air conditioning and refrigeration. These businesses represent 72 per cent of UK revenue and within these markets Wolseley is the second largest merchant distributor in the UK. Infrastructure is a specialist in below ground drainage serving the civil infrastructure and utilities markets. The business is estimated to have a market share of about 20 per cent.

Market trends

The quarterly GDP growth rate in the UK has declined over the last 12 months from just over one per cent growth in both calendar Q3 and Q4 2019 to contracting by 1.7 and 21.7 per cent in Q1 and Q2 of calendar 2020 respectively. Consumer confidence has been negative for the last 12 months.

Operating performance

Revenue declined by 15.4 per cent, primarily due to the COVID-19 lockdown restrictions. Acquisitions contributed 1.8 per cent and inflation was approximately 1 per cent. Gross margins were a touch lower and underlying trading profit of $8 million was $61 million behind last year as the national lockdown severely impacted demand. We have seen a sequential improvement in revenue trends since April in line with the easing of lockdown measures and the business returned to organic revenue growth in August.

Towards the end of the financial year we have refocused the business on a clear customer proposition and to drive operational efficiencies. This included separating out Building Services from the core Plumbing and Heating business to better align our service offering with our customers' needs. We have also rationalized the supply chain reducing capacity to lower the cost base which included the closure of the Worcester distribution facility in June. We have reduced net permanent headcount by approximately 400 and closed nine branches during the year as markets continue to look challenging in the near term.

For information on the UK demerger, see page 6.

Our sustainability program

We concentrate on three key focus areas where we can have the greatest positive impact on our environment and in our communities, while growing our business. These priorities improve associate engagement, address our top risks and compliance requirements, and are important to our customers, suppliers and shareholders.

Governance

- We continue to utilize the guidance and methods provided by the Sustainability Accounting Standards Board ("SASB"), considering all issues under the Multiline and Specialty Retailers & Distributors.
- Ferguson's Sustainability Leadership Council, which includes CEO Kevin Murphy, meets quarterly to provide executive oversight and strategic guidance for our sustainability program.
- We are committed to transparency in Environmental, Social and Governance (ESG) disclosures and disclose our information in line with the recommendations set forth by the Task Force for Climate-Related Financial Disclosures (TCFD).
- We formally signed on as a Supporter of TCFD, encouraging other companies to join us in disclosing ESG related risks and opportunities.

When we think about sustainability, what is most important to Ferguson is the health and safety of our associates, the development of our people, our impact on the environment and the communities we serve and ensuring that we behave ethically at all times, while always being alert to the emerging risks and opportunities for the business.

Ferguson is successful because we have the best associates, and our baseline commitment is to create a safe work environment for all. We are committed to embedding safety as a core value driver in everything we do and we've worked hard, in the past three years in particular, to drive better performance. I'm pleased that our recordable injuries continue to improve, which shows we are making progress in our journey to become First in Safety, but we will never be complacent here and I know we can do even better.

Of course our own carbon footprint and waste reduction remain a key focus and an area where we can continue to improve. This year we are still ahead of our 2015/16 baseline results for both carbon and waste reduction but I am disappointed that we are not meeting the targets we set for the business four years ago. I am personally engaged with our leadership teams and the specialists from our businesses to ensure that we consider and act on their views for best practices and opportunities for improvement.

We have also spent time this year reviewing our ESG approach with a view to enhancing and formalizing our strategy. In the coming year we will work on the expansion of our ESG reporting, recognizing the recommendations of the TCFD and the priorities of the UN's Sustainable Development Goals.

Ferguson's ongoing operations span the North American continent but our strength lies in the local nature of our businesses. We support the communities where our employees live and work and encourage fundraising activities championed by our businesses and their employees locally. I am very proud of our activities here and you can read about some of the notable examples this year on pages 49 and 50.

Our goal is for Ferguson to be a socially and environmentally responsible organization. We want to inspire and implement solutions that protect the environment, while being commercially successful for our stakeholders. It is core to how Ferguson does business and it is how we will grow in the future.

Kevin Murphy
Group Chief Executive Officer

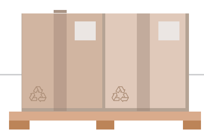
Key focus areas

While we consider all issues under the Multiline and Specialty Retailers & Distributors guidance offered by the SASB, we focus on the areas where we can make the largest positive impact. We have strategically grouped issues into three key focus areas. We developed this approach 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



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 20 to 22.

Health and safety

Health and safety is one of the Company's values (see our values on page 20).
Our fundamental principle operating in a COVID-19 environment has been to continue to safeguard the health and safety of our associates, customers, suppliers and the communities around us. Health and safety considerations are at the forefront of all 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 introduced new COVID-19 ways of working with stringent rules and guidance on how to operate since the start of the pandemic (see pages 7 to 14). As the understanding of the disease changed, so too did our response and guidance which we continually communicated to all our associates (in line with relevant authorities, in particular, the Centers for Disease Control and Prevention).

Outside of the COVID-19 pandemic, 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. The past year, we continue to drive change and strengthen our culture of "best associates" by focusing on enablers such as:

Leadership health and safety culture training: Coaching senior executive leaders on how they can improve health and safety culture and effectively engage their teams, evaluate their health and safety skills and develop action plans. Ensure anyone with the responsibility for managing others has the appropriate health and safety technical skills and competency for their roles.

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, rules and enforcement processes.

Health and safety performance in 2019/20

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

Group 2019/20 Total recordable injury rate: 1.94 – 35% improvement (2018/19: 2.96)

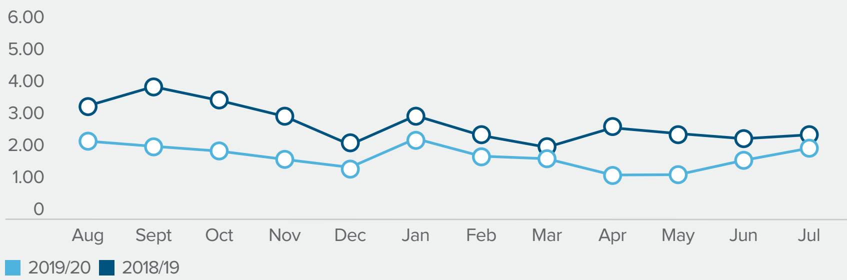
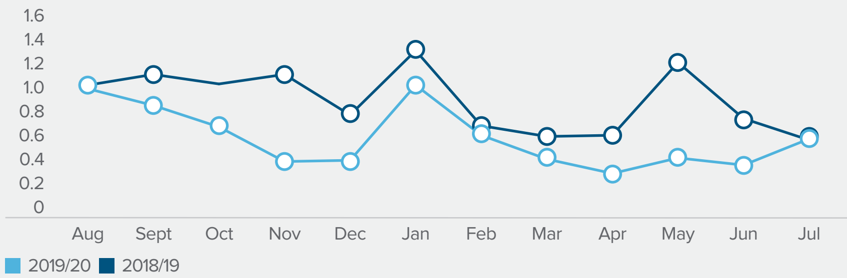


Figure 2: **Group lost time rate**

Group 2019/20 Lost time rate: 0.66 – 32% improvement (2018/19: 0.97)



Total recordable injury rate: 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.

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.

By engaging with our associates on these matters, we are able to monitor and discuss adherence to the agreed standards and address areas of non-adherence while recognizing good performance as appropriate.

Communications: Sustain and improve the "First in Safety" campaign to ensure all associates understand their contribution to health and safety. This provides our associates with the right guidance to do their job and understand their responsibility for health and safety.

Health and safety performance in 2019/20

In 2019/20 the Group's total recordable injury rate and lost time rate improved by 35 per cent and 32 per cent respectively compared to last year (see figures 1 and 2). This improvement is due to a robust associate engagement program, senior leadership commitment and engagement from all management levels, allocation of safety resources and deployment of safety professionals in the field to focus on areas such as material handling and training.

Focusing our social investment

We are committed to supporting our key priorities for social investment.
Our Ferguson Cares program focuses on the following areas:

Inclusion and diversity: Recognizing the importance of supporting social equality, Ferguson committed to supporting The Urban League at the national level. The Urban League is a historic civil rights organization that advocates on behalf of economic and social injustice and against racial discrimination in the USA. The organization has been active for over 100 years and its 90 local affiliates serve over 300 communities. Additionally, Ferguson supported I'm A Father F1rst, an Atlanta-based non-profit organization focused on mentoring young men. This organization has provided relief to their community during COVID-19 through their Meals of Love program. Moreover, Ferguson is committing to grantmaking in the future with a social equality lens, and stands against racism and discrimination in any form. To learn more about our efforts to incorporate inclusion and diversity into our business, see pages 14 and 20 and 21.

Hunger: In light of greater community needs resulting from COVID-19, Ferguson donated $100,000 to Feeding America in 2019/20. For more than 40 years, Feeding America has responded to the needs of individuals struggling with food insecurity in the United States. Every dollar donated can provide 10 meals and this donation equates to a million meals for those struggling with hunger during the pandemic. In lieu of our annual Feed the Need challenge (which takes place every spring and faced complications due to COVID-19), Ferguson also made a cash donation to the Virginia Peninsula Food Bank. This donation will provide over 250,000 meals for our neighbors in need.

Skilled trade: The skilled labor gap remains a challenge for many of our customers and we are committed to ensuring that more plumbers, HVAC technicians, electricians and welders enter the workforce. In 2019/20, our US business continued its support of the mikeroweWORKS Foundation through funding of their Work Ethic Scholarships. We also continued our support of SkillsUSA, a partnership of students, teachers and industry professionals working together to ensure the USA has a skilled workforce.

Knowing how important it is to reach high school students considering future career paths, Ferguson also developed a campaign aimed at this audience to explore a career in skilled trades. At choosetrades.com, students can learn about the different career tracks, apply for an apprenticeship or explore opportunities to apply for scholarships. Our goal is to help connect our customers with the talent that they need.

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

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

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

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

Associates in Action: As we continue to focus on our associates and their impact in our communities, we have also launched an Associates in Action program. This program doubles the impact of our associates by providing monetary donations to eligible non-profits, matching up to 16 hours of volunteer time. While we suspended volunteer programs during COVID-19, we are committed to continuing to expand Ferguson's active engagement in communities across North America.

For more information on our associates, please see pages 20 to 22.

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 2019/20 our estimates of historical data were replaced with actual data where available. We improved methods for estimating outsourced transportation data and air emissions resulting from business travel. We also improved our estimation methodology for waste and recycling data. Further detail on the data provided can be found in the "Basis of Reporting" document on the Ferguson plc website **www.fergusonplc.com**.

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

Reduce carbon emissions
-10%

Reduce total waste
-15%

Achieve recycling rate of
40%

Performance at the end of 2019/20, four years into the target period, is as follows:

Carbon
-6.7%

Total waste
-6.9%

Total waste recycled
28%

Update on 2015/16 targets

For 2019/20 we are ahead of our 2015/16 baseline results. We continue with our efforts to minimize our carbon footprint, drive down our relative waste and increase our recycling. However, due to the changing makeup of our business, recycling challenges in the USA, and services provided to our customers, we have more work to do on the targets set four years ago. 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) improved by 6.7 per cent compared to the 2015/16 baseline (21.8 tCO_2e per $m revenue in 2019/20 compared to 23.3 tCO_2e per $m revenue in 2015/16). The improvement from 2015/16 was as a result of carbon reduction initiatives over the target period. We also benefited from a continued reduction in Scope 2 emissions due to a cleaner conventional electricity grid mix in the countries where we operate.

Our Scope 1 emissions decreased in 2019/20. By choosing vehicles with better performance on a miles per gallon basis, Ferguson achieved improved fleet efficiency and further reduced fuel consumption by over a million gallons in 2019/20. Our business reduced the amount of associate travel in the second half of the year, due to COVID-19.

We continue to undertake initiatives that reduce our Scope 2 emissions. The UK business expanded their purchasing of renewable energy and sourced 100 per cent of the energy required for the business from a mixed renewable blend, including biomass, wind and solar. A number of different factors reduced our Scope 2 emissions in the US business. The switch to virtual showrooms from COVID-19 reduced our electricity consumption in the spring. Upgrades were also completed to the HVAC and lighting systems in a number of our facilities. This focus on energy efficiency not only helps our sites do more with less energy, but also improves safety conditions through enhanced task lighting.

In our US business, we purchased a solar array for our Perris, California Distribution Center in 2019/20. This rooftop system will be the first instance of owned renewable energy on our distribution network and is expected to offset 1,305 metric tons of carbon dioxide annually. This reduction in greenhouse gases is equivalent to removing approximately 282 passenger vehicles from the road for one year according to the U.S. Environmental Protection Agency's carbon footprint calculator. The US business also invested in renewable energy purchases in the state of Virginia. Not only does this increase our green power purchasing, it also generated over $192,000 in savings for the Group.

We continue to refine our methodology for estimating Scope 3 carbon emissions which are generated largely by outsourced transportation partners. Our new Transportation Management System has driven an improvement in this estimation, which has led to an increase in these emissions for the year. Our US outsourced transportation partners are committed to reducing their carbon emissions and improving their fuel efficiency. Our three primary carriers maintain US Environmental Protection Agency's SmartWay Transport Partnership status and received SmartWay Excellence Awards.

Waste

During 2019/20, total waste has decreased 6.9 per cent relative to revenue versus our base line in 2015/16 (3.5 US tons per $m revenue in 2019/20 versus 3.7 US tons per $m revenue in 2015/16) due to our waste reduction initiatives. Total waste increased 1.2 per cent in 2019/20 which remains a challenge as we continue to accept customer waste. The total waste recycled during the year was 28 per cent.

An improvement in the methodology for estimating waste from front-end containers was implemented in 2019/20, and our business now uses the estimations provided by the US Environmental Protection Agency (EPA). The new methodology increased the estimated weight of our typical front-end container, benefiting our recycling rate. We were previously underestimating our recycling tonnage.

As part of our waste reduction initiatives, Ferguson partnered with Good360, a non-profit organization that helps companies distribute highly needed product donations to people facing challenging life circumstances. This year we donated $1.8 million in product, including baths, faucets and sinks, resulting in healthier communities. By matching non-profit partners with discounted or excess inventory products, we were able to achieve additional landfill avoidance.

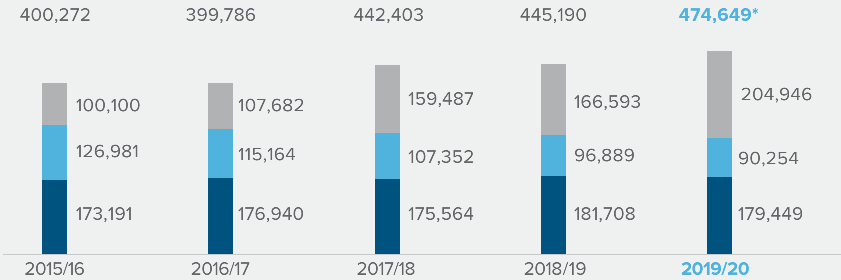
Our distribution centers continue to demonstrate high recycling rates, recycling pallets, corrugated cardboard, shrink wrap and plastic banding. We continue to utilize PackSize machines to reduce overall package size and reduce the amount of waste that our customers need to recycle downstream. Additionally, our distribution centers began piloting a foam injection system for particularly fragile items, in an effort to reduce overbox packaging and damage rates.

Figure 1: Carbon emissions

Metric tons of CO_2 equivalent per million US dollars of revenue

Carbon emissions	2015/16	2016/17	2017/18	2018/19	**2019/20**	Increase/(reduction) from 2018/19	Total emissions reduction since 2015/16
Scope 1 and 2 emissions	17.5	15.7	14.0	12.7	**12.4**	(4%)	–
Scope 3 emissions	5.8	5.8	7.9	7.6	**9.4**	23%	–
Total emissions	23.3	21.5	21.9	20.3	**21.8***	7%	(6.7%)

Total carbon emissions Metric tons CO_2 equivalent



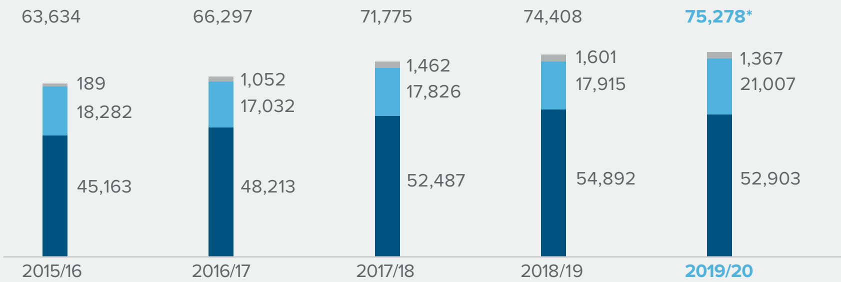
*Verified number by ERM-CVS (see page 52).

Figure 2: Waste generation

Relative waste – US tons per $ million revenue

Waste generation	2015/16	2016/17	2017/18	2018/19	**2019/20**	Increase/(reduction) from 2018/19	Relative waste reduction since 2015/16
Landfilled and incinerated	2.6	2.6	2.7	2.6	**2.5**	(8%)	–
Recycled	1.1	0.9	0.9	0.8	**1.0**	18%	–
Total waste	3.7	3.5	3.6	3.4	**3.5***	1%	(6.9%)

Total waste generation US tons



*Verified number by ERM-CVS (see page 52).

Our approach to measuring carbon was developed in accordance with the Greenhouse Gas Protocol. Emissions are calculated using the carbon factors from the Greenhouse Gas Protocol, the Department for Environment, Food & Rural Affairs in the UK, the International Energy Agency in France and the Environmental Protection Agency in the USA and are reported as tonnes of 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 957,490,043 kWh for heating, electricity and transportation. Our UK operations consumed 94,319,684 kWh for heating, electricity and transportation. Overall, the UK business contributed to 5.3% of the Group's carbon emissions (figure 1) and 9.9% of the Group's total energy consumption.

This variance is due to the renewable energy purchased in the UK business, which is reported as market-based carbon emissions.

The UK leadership team reviewed 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 at large owned locations.

To reduce our on-campus consumption of single-use plastics, our US Headquarters associates took the plastics reduction pledge and were provided with Ferguson bamboo reusable utensils.

The UK business continues to achieve high recycling rates, averaging close to 75 per cent for 2019/20. We expect the Group recycling rate to decline following the UK demerger.

Wolseley Canada reduced the amount of total waste generated year-over-year, and made good progress in the rate of recycling for the business. The business will continue to focus on this area of improvement going forward.

We retained ERM CVS, who provide sustainability assurance services, to conduct a third-party assurance of certain environmental metrics in our 2019/2020 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 definitions 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**.

Dow Jones Sustainability Index

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

Climate-related risks and opportunities

Following the recommendations from the Task Force for Climate-related Financial Disclosures ("TCFD"), Ferguson has convened subject matter experts from across the business to examine the specific risks and opportunities to the business posed by climate change. Ferguson began these disclosures in 2018/19 and signed on as a supporter of the TCFD recommendations in 2019/20. For additional information on the climate-related risks and opportunities specific to Ferguson, please refer to our public Climate Change CDP Response, available at **www.cdp.net**. You can view our climate-related risks and opportunities online at **www.fergusonplc.com**.

3 Sustainable products and solutions

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

Product quality and integrity

We require all our major suppliers to sign a Supplier Code of Conduct (or operate under its own comparable business conduct principles) and reserve the right to terminate a business relationship with any supplier that violates any of our principles. This agreement includes requirements for social responsibility, including human rights and labor standards, standards for meeting environmental regulations and providing safe working conditions, measures for anti-bribery and corruption and supply chain transparency. During 2019/20 we continued to strengthen our quality control procedures for sourcing products. Quality teams in our overseas sourcing entities continue to visit and assess our suppliers. Each business also assesses its suppliers against set criteria to provide protection to both us and our customers in the event of a product failure or breach of regulation in the supply chain.

A new role of Senior Director of Product Assurance, reporting to the Group General Counsel, was recruited in 2020 to lead product assurance, compliance and quality programs across the enterprise. This position also leads the Company's ongoing development of own brand product assurance protocols and works closely with the Company's sourcing and product teams to ensure effective and robust supplier assessment and product development programs are in place.

Sustainability and product design

We continue to develop products in our own brand offerings that are more sustainable with benefits to meet our customers' requirements. These include products that meet WaterSense and EnergyStar industry standards. The PROFLO™ Kelper Faucet is an excellent example of a stylish and water efficient own brand fixture, WaterSense certified at 1.2gpm (gallons per minute).

To ensure that all sales associates are well trained in the benefits of higher efficiency products, Ferguson has developed an online Sustainable Product Training course, which is required for all sales associates and will be integrated into the onboarding process for new sales associates during 2020/21.

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 39,000 suppliers in over 40 countries, we source over 95 per cent of our manufactured goods from suppliers in North America and Western Europe where the risk of modern slavery is lower. As we continue to enhance our anti-slavery measures, we will focus our efforts on our international suppliers.

During 2019/20, key milestones included:

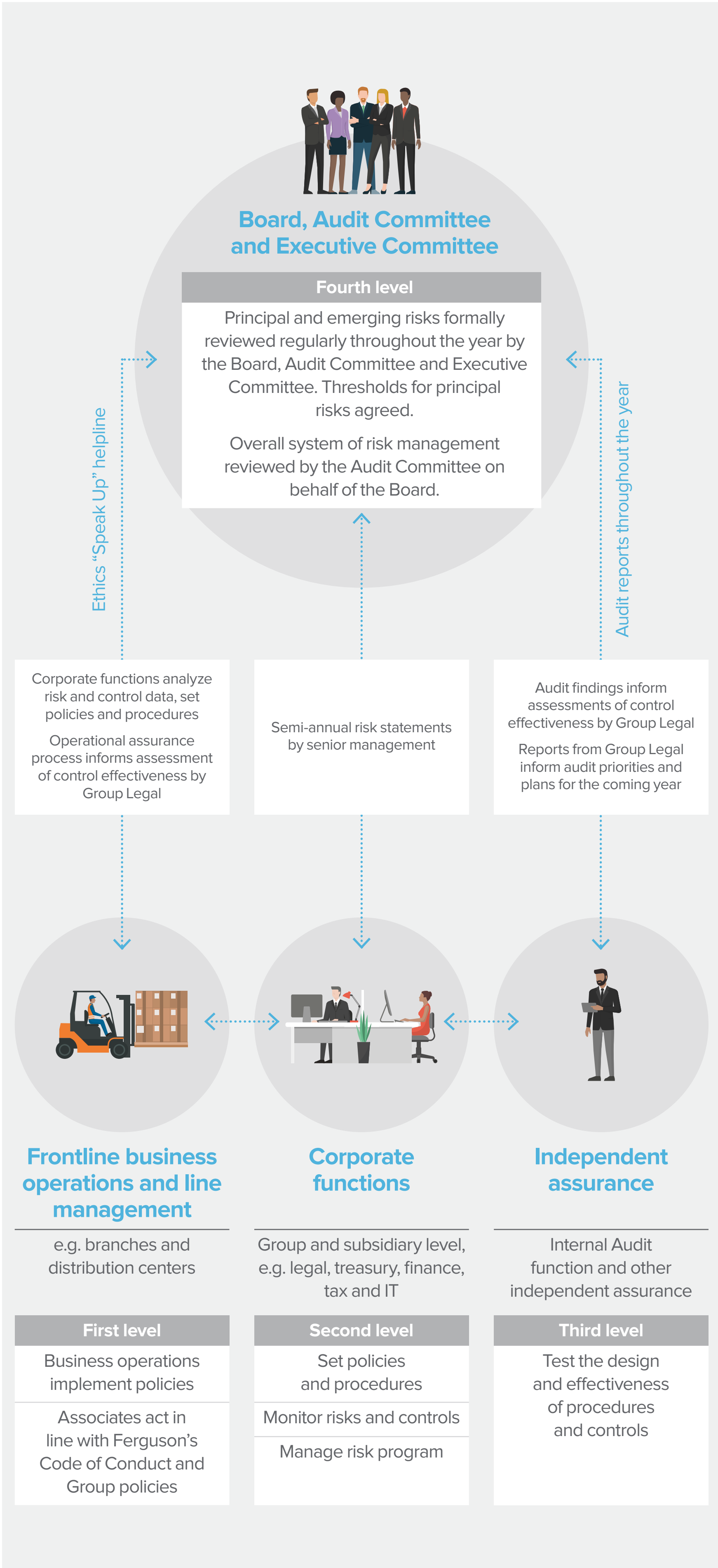
- **Continuing to commit suppliers to Ferguson's anti-slavery standards.** In total, over 1,900 major suppliers have contractually pledged to abstain from use of child, forced, or involuntary labor in their operations. Approximately 13 per cent of these suppliers are in countries with a prevalence of modern slavery according to The Global Slavery Index.
- **Harmonization of anti-slavery measures across our businesses.** Our businesses have continued the process of incorporating ethical and anti-slavery elements in their supplier audit methodologies and we have centralized all own brand vendor audit activities. New significant international product vendors are audited prior to any purchases and we periodically audit existing vendors. 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 international 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 2019/20 are set out in our annual statement in accordance with section 54 of the Modern Slavery Act, available here **www.fergusonplc.com**.

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

2019/20 risk and control assessments

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

In January 2020, the Board provided its perspective on risks relating to the Group's strategy for 2020 and beyond. The Board's assessment on principal and emerging risks was then combined with assessment of risk for business groups and functions in March 2020 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 and the Audit Committee in May 2020. The principal and emerging risks were then reported to and reviewed by the Board in July 2020. 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, following the outbreak of COVID-19, these updates included analysis of how COVID-19 amplified or accelerated the onset of 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 2020. Related risks considered by the Board in January and July 2020 and by the Executive team.
B	Market conditions	Monthly performance reviews with CEO and CFO. CEO update to the Board at each Board meeting.
C	Pressure on margins	
D	Information technology	Reports on the status of the Group's information technology strategy and operational risks were provided 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 compliance program was reported to the Audit Committee in November 2019 and July 2020 and to the Executive Committee in March, April and May 2020.
G	Talent management and retention	The Board, supported by the Nominations and Audit Committees, has received detailed updates throughout the year from leadership teams around the Group.

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 2023 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 4 to 14. Strategic plans have been prepared by business units and financial forecasts and budgets have been reviewed by the Board. The principal risks to the Group's strategy were formally reviewed by the Board and the Executive 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. These processes include the ongoing review of the impact of COVID-19 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 2020 the Group entered into the following new financing arrangements:

- A $500 million bi-lateral bank facility that matures in March 2021. 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.
- A $1,100 million revolving credit facility that matures in March 2025. This facility replaced an £800 million revolving credit facility that matured in September 2022.
- Issued $600 million of USA bond debt which matures in June 2030.

As detailed in the Financial review on pages 26 to 29 the Group currently has $5,118 million of committed facilities, of which $2,200 million were undrawn at July 31, 2020. In addition to this, the Group had cash and cash equivalents less bank overdrafts of $1,867 million as at July 31, 2020. Fuller details around the Group's financing facilities are contained within note 21 of the notes to the consolidated financial statements.

During the year ended July 2020 the Ferguson plc long-term credit ratings remained unchanged at BBB+ and Baa2 with Standard & Poor's and Moody's respectively.

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) reduced customer demand in the Group's end markets and/or (ii) reduced availability of product resulting from supply chain disruption.

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.	New competitors and technology Market conditions Talent management and retention
Scenario 2 **Margin compression** A number of scenarios were considered whereby our ability to maintain attractive margins was tested. This was considered both in isolation and in conjunction with a fall in revenue.	Pressure on margins
Scenario 3 **Large, one-off operational expense** We considered the impact of any potential legal or regulatory fines or required large, one-off expenditures.	Information technology Health and safety Regulations

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. In the second half of the Group's financial year a number of these mitigating actions were implemented in response to the COVID-19 pandemic. 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 110.

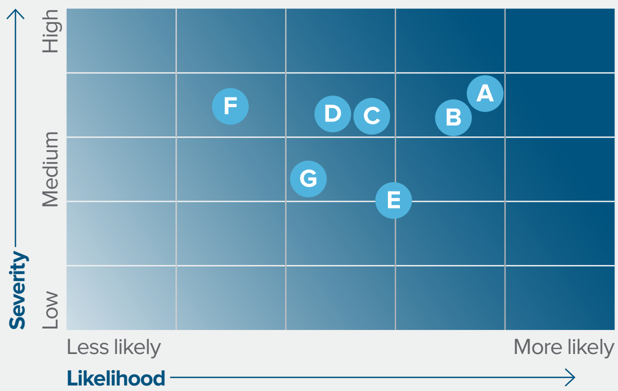
UK withdrawal from the European Union

The UK has left the European Union ("EU") and is now in a transition period before new rules come into place on January 1, 2021. This could lead to further market uncertainties that could result in a negative impact on the Group's UK business. However, the large majority of the Group's profit is derived from North America and the Board's strategic intent to separate the UK business is unchanged. The timing of the separation remains uncertain in the current economic environment, and consequently the Board is assessing other separation options in parallel with progress towards the demerger to facilitate the exit of the United Kingdom operations. In addition, disruption in the financial markets could adversely affect the share price of the Group. The Group will continue to monitor developments.

Principal risks heat map
(after mitigating controls and actions)

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

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

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

The Group faces many other risks which, although important and subject to regular review, have been assessed as less significant and are not listed here. These include, for example, natural catastrophe and business interruption risks and certain financial risks. A summary of financial risks and their management is provided on page 29.

Risks to the drivers of profitable growth

A New competitors and technology

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

Definition and impact

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

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

Changes during the year

Ferguson Ventures extended 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 technology companies to also include industry focused venture capital funds. New business model opportunities were identified and progressed, leveraging service design and rapid prototype development in the Ferguson Ventures Innovation Lab, which is focused on exploring areas of innovation and disruption by evaluating consumer and industry evolution in technology and service design.

In addition, Ferguson accelerated 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 accelerated due to COVID-19.

Mitigation

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

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

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. periodic market downturns).

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

Further information on the market trends can be found in our regional reviews on pages 15 and 30 to 47.

The Group continues to closely monitor the impact of COVID-19 and take prudent steps to mitigate any potential impacts to the successful operation of our business. The Group is also monitoring for general recessionary impacts in the medium term that may result from the government-mandated shutdowns that occurred during spring 2020.

Changes during the year

This risk is unchanged, notwithstanding the uncertainty caused by COVID-19.

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 54 and 55.

Mitigation

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

- the development of our business model;
- cost control, pricing and gross margin management initiatives, including a focus on customer service and productivity improvement;
- resource allocation processes; and
- capital expenditure controls and procedures.

The Group remains prepared to implement appropriate mitigation strategies to minimize any potential business disruption from COVID-19.

C Pressure on margins

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

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, the imposition of new or increased governmental tariffs on international sources of supply, 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 increased during the year, primarily due to levels of competition and adverse mix challenges arising from temporary closure of the branch and showroom networks as a result of COVID-19.

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

Ongoing gross margin was in line with last year.

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 grow and the Group has made acquisitions in these areas during 2019/20, while we paused further merger and acquisition activity due to market uncertainty caused by COVID-19. Refer to pages 14 and 154 and 155 for more information on acquisitions during the year.

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

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

D Information Technology (IT)

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

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. Information Technology 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 or criminal activity. This includes security threats and/or failures in the ability of the organization to operate, recover and restore operations after such disruptions. While cyber security incidents encountered by the Group to date have resulted in minimal impact, this risk continues to persist and evolve, and was amplified by the increase in frequency and intensity of cyberattacks since the emergence of COVID-19 and the related transition to remote work for many of our associates.

Changes during the year

IT risks have remained material and are being closely monitored as we implement the clearly defined global technology strategy and roadmap (see page 23). Those risks include the potential for schedule delays, cost overruns, functionality deferrals and change management disruptions on operations.

Under the management of the Chief Information Officer, the Group has continued to make substantive progress in implementing its technology strategy and roadmap, including progressing significant upgrades to its enterprise-wide resource planning systems and other enterprise-wide IT resources.

IT General Controls continue to be independently tested by Internal Audit and findings reported to the Audit Committee.

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

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

Mitigation

Business leadership 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 ensure alignment with Ferguson's strategic framework.

Management continues to execute a rolling three-year roadmap of investments in processes, resources and technical defenses necessary to continuously address emerging cybersecurity threats, and is extending enhancements to the Group's control environment to other parts of the Group's systems (see page 80).

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

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

E Health and safety

Inherent risk level: **Medium** Trend: **Lower**

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 pose health and safety risks.

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

The Group continues to closely monitor the impact of COVID-19 and to take prudent steps to mitigate any potential impacts to the health and safety of our associates or to the successful operation of our business.

Changes during the year

The Group's strategic plan remains focused on the elimination and control of risks causing disabling injuries, improving our safety culture and closing the safety, health and environmental knowledge gap among our associates. The hiring and deploying of health and safety professionals in the field provides businesses with technical resources to more effectively mitigate risk. Our efforts in these areas have improved the overall performance of the Group, notwithstanding the impact of COVID-19; see page 49 for more information.

Mitigation

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

The Group maintains a health and safety policy, with detailed minimum standards, and standard operating procedures which sets out requirements for all businesses. Branches are audited against these standards and businesses continue to implement fundamental changes to transform our culture. For more detail see page 49.

We continue to follow the COVID-19 guidance of the World Health Organization and other governmental health agencies, including with respect to travel restrictions.

F Regulations

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

Definition and impact

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

While the Group is not engaged in a highly regulated industry, it is subject to the laws governing businesses generally, including laws relating to competition, product safety, data protection, 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

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

Awareness training of the Group's Code of Conduct was deployed to all associates during the year. The Code sets out the Group's values and commitment to strict compliance with the various laws and regulations that apply wherever the Group operates.

Further information on the Group's ethics and compliance program can be found on pages 22 and 52.

Mitigation

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

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

Briefings and awareness training on key compliance topics and requirements, including harassment and discrimination, data privacy and security and gifts and entertainment were undertaken.

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, 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. Reductions in force implemented as part of the steps taken to manage our cost base given the uncertainty of COVID-19 were offset by lower voluntary attrition.

On May 26, 2020, the Group announced that Mike Powell, the Group CFO, had resigned and had committed to assisting with an orderly transition. The new Group CFO is Bill Brundage and is based at the Group's Newport News, Virginia headquarters in the USA. For further information, see pages 6, 71 and 82.

Talent management procedures were reviewed during the year (see pages 20 and 21 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 attract and retain the best talent.

A new 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 and engagement.

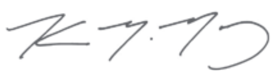
Non-financial information statement

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 67) and sets out the required information below:

– Environmental matters (including the impact of the Company's business on the environment) on pages 48 to 52.
– The Company's employees on pages 20 to 22 and 48 to 52.
– Social matters on pages 48 to 52.
– Respect for human rights on pages 20 to 22 and 48 to 52.
– Anti-corruption and anti-bribery matters on pages 20 to 22 and 48 to 52 and 80.

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 18 to 19), principal risks, including those relating to the matters identified above (on pages 53 to 59), and key performance indicators (on pages 16 to 17).

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



Kevin Murphy
Group Chief Executive
September 28, 2020

Governance

Governance overview

Dear Shareholder

I am delighted to present the Company's Corporate Governance Report for the financial year ended July 31, 2020, my first after succeeding Gareth Davis as the Chairman of Ferguson on November 21, 2019.

The Board recognizes the value and importance of good corporate governance and the role it plays in supporting Ferguson's long-term success and sustainability. Further information on how the Board has maintained its governance focus is detailed on page 65.

I believe that Ferguson has a strong governance framework that allows the tone set by the Board to cascade throughout the business and supports our outstanding management team in providing entrepreneurial leadership. It is important that we continue to make progress in ensuring that our strategy, values and culture are all aligned and supportive of the fulfillment of the Group's purpose to "act as a trusted supplier and partner to our customers, providing innovative products and solutions to make their projects better". An important part of this is engaging effectively with our stakeholders, which is central to how we do business and the effective delivery of our strategy.

Ferguson has approximately 6,900 registered shareholders, 34,000 associates, 39,000 suppliers and more than a million customers who we serve through a network of 2,194 branches and 15 distribution centers. The individuals, businesses and communities that form our stakeholder groups are all integral to our business and further information on how the Board has engaged with them during the year is included on page 66. Additional information on how we have had regard to the provisions of section 172 of the UK Companies Act 2006 is available in the Strategic report, on pages 24 and 25.

I believe that for boards to be really effective it is important that they spend time in the business. During the year, the Board visited Ferguson's US headquarters in Newport News, Virginia where we were fortunate to be able to spend time with some of the US business' associates and customers, enhancing our understanding of the residential trade strategy and the culture of the business. I was hugely impressed by the passion and innovation of our associates, which shone through in conversations and presentations we received during our visit.

The Board had also been scheduled to visit the USA for our July meetings but were, unfortunately, unable to as a result of the COVID-19 pandemic. We hope to be able to do so as soon as circumstances allow. However, it is only right that we respect the ongoing restrictions on non-essential travel in order to protect the health and wellbeing of our associates and all our other stakeholders. I am immensely proud of the actions of our business in helping to combat the impact of the pandemic and especially of the outstanding efforts our associates have made to ensure that our customers can keep on carrying out the essential work they undertake in communities across the USA, Canada and the UK. Further examples of how we have supported our associates, customers, suppliers and communities as they tackle the pandemic can be found throughout the Strategic report.

For the financial year ended July 31, 2020, we are reporting against the 2018 version of the UK Corporate Governance Code (the "Code") and confirm full compliance with its provisions.

A copy of the Code can be found on the Financial Reporting Council website www.frc.org.uk. This section, together with the reports from the Nominations, Audit and Remuneration Committees provide a description of how the Company has applied the main principles and complied with the relevant provisions of the Code. In this report we have used its core principles as the framework to explain our governance practices and the signposts below direct you to further detail.

Finally, I would like to take this opportunity to thank you for your continuing support, particularly in these unprecedented times. I hope that you find the report informative.

Geoff Drabble
Chairman

Core principles

Board leadership and company purpose	Division of responsibilities	Composition, succession and evaluation	Audit, risk and internal control	Remuneration
+ Pages 62 to 66	+ Pages 67 and 68	+ Pages 69 to 73	+ Pages 74 to 80	+ Pages 81 to 108

Board leadership and company purpose

Board of Directors

Geoff Drabble
Chairman

M N

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

Kevin Murphy
Group Chief Executive

D E M

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 to 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.

Mike Powell
Group Chief Financial Officer
(stepping down on October 31, 2020)

D E M T

Appointed: June 2017

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

Mike is a chartered management accountant with significant experience leading finance teams at large listed companies. Prior to his appointment at Ferguson he was Group Finance Director of BBA Aviation plc (now known as Signature Aviation plc), a leading provider of aviation support services with significant US operations, and CFO of AZ Electronic Materials plc and Nippon Sheet Glass as well as spending 15 years at Pilkington plc in a variety of operational and finance roles. Mike served as a Non Executive Director of Low & Bonar plc from December 2016 to May 2020.

Other principal appointments:
None.

Tessa Bamford
Independent Non Executive Director

A N R

Appointed: March 2011

Key strengths and experience:
– Broad business knowledge
– Extensive boardroom and City experience

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

Other principal appointments:
Consultant at Spencer Stuart.

Cathy Halligan
Independent Non Executive Director

A N R

Appointed: January 2019

Key strengths and experience:
– Experienced senior executive with extensive board experience
– Extensive digital transformation, digital commerce, data analytics and marketing experience

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

Other principal appointments:
Non Executive Director at FLIR Systems, Inc. and Ulta Beauty, Inc.

Alan Murray
Independent Non Executive Director

A M N R S E

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.

Graham Middlemiss
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 UK business and was Group Deputy Company Secretary from November 2012 to July 2015.

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

Tom Schmitt

Independent Non Executive Director

A N R

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.

Nadia Shouraboura

Independent Non Executive Director

A N R

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

Jacky Simmonds

Independent Non Executive Director

A N R

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.

2019/20 Board and Committee meeting attendance (eligibility)

		Committees		
	Board[1]	Audit[1]	Rem[1]	Nom[1]
Chairman				
Geoff Drabble[2 3]	9 (9)	2 (2)	3 (3)	6 (6)
Executive Directors				
Kevin Murphy[4]	9 (9)			
Mike Powell	9 (9)			
Non Executive Directors				
Tessa Bamford	9 (9)	6 (6)	6 (6)	6 (6)
Cathy Halligan	9 (9)	6 (6)	6 (6)	6 (6)
Alan Murray	9 (9)	6 (6)	6 (6)	6 (6)
Tom Schmitt	9 (9)	6 (6)	6 (6)	6 (6)
Nadia Shouraboura	9 (9)	6 (6)	6 (6)	6 (6)
Jacky Simmonds	9 (9)	6 (6)	6 (6)	6 (6)
Directors who left during the year				
Gareth Davis[5]	4 (4)			3 (3)
John Martin[6]	2 (2)			
Darren Shapland[7]	3 (3)	2 (2)	3 (3)	3 (3)

1. There were three unscheduled Board, one unscheduled Audit Committee, three unscheduled Nominations Committee and one unscheduled Remuneration Committee meetings during the year. These meetings were required in order to facilitate additional workload required for the Board to consider the UK demerger, listing structure and COVID-19 response, the Audit Committee to review the control environment, how to operate efficiently in the COVID-19 environment and for the Nominations and Remuneration Committees to consider succession planning for the Group Chief Executive and the Audit Committee Chair.
2. Non Executive Director and Chairman designate until November 20, 2019. Appointed as Chairman with effect from November 21, 2019.
3. As a member of the Audit and Remuneration Committees in his capacity as a Non Executive Director prior to his appointment as Chairman when he stepped down from these Committees.
4. Chief Executive Officer, USA until November 18, 2019. Appointed as Group Chief Executive with effect from November 19, 2019.
5. Gareth Davis stepped down as Chairman on November 21, 2019 and as Non Executive Director on January 31, 2020.
6. John Martin stepped down as Group Chief Executive on November 19, 2019.
7. Darren Shapland stepped down as Non Executive Director on November 21, 2019.

The Major Announcements Committee met three times during the year and all meetings were unscheduled. All members, save for Alan Murray and Mike Powell, attended all meetings. Alan Murray and Mike Powell were unable to attend one meeting due to unavoidable scheduling conflicts. In addition to the members detailed on pages 62 and 63, Ian Graham, Group General Counsel, and Mark Fearon, Group Director of Communications and Investor Relations, are members of that Committee.

During the COVID-19 pandemic the Board formed a special purpose Committee to enable certain delegated matters to be dealt with quickly and efficiently. Geoff Drabble, Kevin Murphy, Mike Powell, Tessa Bamford and Alan Murray are members of the Committee. The Committee met three times during the year and all members attended each meeting.

Appointments and other Board and Committee members

Each Board member listed on pages 62 and 63 served throughout the financial year ended July 31, 2020.

John Martin served as Group Chief Executive, Chair of the Executive and Major Announcements Committees and member of the Disclosure Committee until he stepped down from the Board on November 19, 2019.

Gareth Davis served as Chairman, Chair of the Nominations Committee and member of the Major Announcements Committee until he stepped down as Chairman on November 21, 2019. He served as a Non Executive Director and member of the Nominations and Major Announcement Committees for a further two months until he stepped down from the Board on January 31, 2020.

Darren Shapland was a Non Executive Director, Chair of the Audit Committee and a member of the Nominations and Remuneration Committees until he stepped down from the Board on November 21, 2019.

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 2020 Annual General Meeting ("AGM"), with the exception of Mike Powell who will step down from the Board on October 31, 2020. Further details on the AGM can be found on page 174 and at **www.fergusonplc.com**

In line with the findings of the internally-facilitated Board and Committee effectiveness reviews, further details of which can be found on page 70, 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.

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, and three unscheduled meetings, during 2019/20. Individual Director attendance at Board and Committee meetings during the year is set out on page 63.

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 2020 review and actions taken to address areas for enhancement identified in the 2019 review are set out on page 70.

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 65.

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 on www.fergusonplc.com), Committee terms of reference, the Ferguson Code of Conduct 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 74.

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 53 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 79 and 80. The Directors' assessment of the Group's longer-term viability and the viability statement are set out on pages 54 and 55.

Company purpose

Our corporate purpose is to "act as a trusted supplier and partner to our customers, providing innovative products and solutions to make their projects better". 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 business units and are applicable to every role and function throughout the Group. In 2019 the Board approved a new Group vision, mission and values statement. 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 24 and 25. 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 throughout the Group please see pages 20 and 21.

The Board's focus during the year

Principal activities in 2019/20	Further information
Strategy	
Completed the assessment of the Company's listing domicile and held an in-depth consultation with shareholders regarding an additional listing of ordinary shares in the USA	See page 6
Approved a proposal to seek shareholder approval for an additional listing of ordinary shares in the USA	See page 6
Approved changes to the Executive Committee and approved the appointment of the new Group Chief Executive	
Reviewed the Group's strategy	See pages 30 to 47
Received reports from the Group Chief Executive on progress with strategy and performance	
Approved the $500 million share buy back program, reviewed the appropriateness of the program and agreed to suspend the program in order to protect the Group's cash position during the COVID-19 pandemic	See page 109
Commencement of Wolseley UK demerger process approved	See page 6
Received regular updates regarding the Group's technology strategy	See page 23
Reviewed and approved business acquisition and capital investment proposals and conducted regular post-investment reviews	See pages 154 and 155
Received briefing on associate engagement and culture	
Annual budget reviewed and approved	
Reviewed and approved the Group's Modern Slavery Act Statement	See page 52
Performance	
Received regular reports from the Group Chief Financial Officer on financial performance	See pages 26 to 29
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 4, 5 and 26 to 29
Approved entering into new finance arrangements	
Received regular presentations from management on the performance of the Group and its business units	See pages 30 to 47
Reports on health and safety performance reviewed at every meeting	See page 49
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	See page 66
Governance	
Reviewed the results of the Board and Committee effectiveness review	See page 70
Received reports on Non Executive Directors' tenure, succession planning and approved the appointment of a new Audit Committee Chairman	See pages 71 to 73
Regularly reviewed the Group's principal risks and risk appetite	See pages 53 to 59
Approved Group insurance arrangements	

Board visit to Newport News

In January 2020, the Board and Committee meetings were held in Newport News, the corporate headquarters of Ferguson Enterprises, our US business. The Board took the opportunity to meet with associates from a wide variety of business units and functions and received a deep-dive presentation on the changing expectations of our residential trade customers and how we are evolving our proposition to help them grow. The Chairman and Group Chief Executive hosted a Q&A session with the local Executive Leadership Team and the Directors engaged in breakout sessions with a range of associates focused on gaining a better understanding of the implementation of the business' strategy and key initiatives of the business. The Board also toured a residential community of several hundred new construction homes. This provided the Directors with the opportunity to see the major phases of residential construction and how Ferguson's products and services were being used on-site. The Directors also engaged directly with an important local customer, who described his business operations, and reasons why he chose to partner with Ferguson over other suppliers.

COVID-19: maintaining governance standards

The Board recognizes the value and importance of good corporate governance, particularly in these unprecedented times caused by the global COVID-19 pandemic. The Board maintained its governance focus throughout the pandemic with Board and Committee meetings taking place as scheduled. Since the outbreak of the pandemic all Directors have been able to participate in meetings effectively using secure virtual meeting technology and have covered all usual business and matters requiring review as a result of the pandemic. The Board has also, where necessary, held additional meetings to those scheduled where required, and a special purpose Committee of the Board was created to enable certain delegated matters to be dealt with quickly and efficiently with appropriate levels of oversight and rigor.

Board leadership and company purpose (continued)
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 24 and 25 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, boards 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. 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 24.

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. The Board has direct engagement with associates during site visits and these enable the Board to meet a range of associates. We also have a dedicated Employee Engagement Director, Alan Murray, who hosts meetings with our associates during the year to further understand their thoughts and opinions. 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 24 and 25.
Customers	The Board engages with customers whenever possible during site visits. Details of the customer visit during the Board's US visit in January 2020 can be found on page 65. The Board receives information about customers in Board reports and presentations and during strategy updates. See pages 24 and 25 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. The Chairman makes himself available to meet with investors and during the year he, together with the Group Chief Executive and Group Chief Financial Officer, conducted an extensive consultation with institutional investors on potential listing structures. The Chair of the Remuneration Committee leads consultations with major investors when the Company's Remuneration Policy is under review. Further details can be found on page 82. All Directors attended the 2019 AGM and spoke with investors informally before and after the meeting and answered investor questions during the AGM. For further information regarding interaction with investors please see pages 24 and 25.
Suppliers	We engage with our suppliers through our specialist teams and business leaders. The Board receives material updates from management on the Group's supply chain. See pages 24 and 25 for further information on interaction with suppliers.
Community	Community engagement takes place locally through our operating businesses. The Board also received a detailed report from the Director of Sustainability during the year on the many projects that the Company has undertaken. For further information on interaction with the community and environment please see pages 24 and 25.

Below are examples of how the Board has had regard to the interests of its key stakeholders when making certain decisions during 2019/20.

Listing structure

In April 2020 the Board approved a proposal to seek shareholder approval for an additional listing of ordinary shares in the USA. Prior to this decision being made, in-depth consultations were held with major shareholders regarding two potential listing structures for the Company, during which we explained the options under consideration and allowed shareholders to ask questions and comment on the options. Feedback from the consultation was reviewed by the Board and the impact on investors, associates and other stakeholders was considered.

Taking into account the feedback received, the Board considered it would be in the best interests of stakeholders to seek an additional listing in the USA. The Board therefore decided to seek shareholder approval to enable an additional listing of ordinary shares in the USA as the first step in a two step process, given the long-term natural listing in the USA. Further details of the proposed changes to the listing structure can be found on page 6.

Enhanced communication

The Board considered that during the uncertain times caused by COVID-19 our shareholders, our associates and other key stakeholders would benefit from understanding more about the actions that were being taken and the ongoing performance of the Group. Consequently, in addition to the Company's scheduled program of announcements, the Board approved for public release additional Trading Updates on April 15, 2020 and July 24, 2020.

2020 AGM

The 2020 AGM will be held on December 3, 2020. Please consult the 2020 Notice of AGM and **www.fergusonplc.com** for details regarding the 2020 AGM.

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 therefore subject to the Listing Rules of the UK Listing Authority. Although the Company (being Jersey incorporated) is not subject to the UK Companies Act, the Board retains its standards of governance and corporate responsibility as if it were subject to the Act, provides shareholder safeguards similar to those of a UK registered company, has regard to relevant institutional shareholder guidelines and complies with the dilution limits detailed in the Investment Association's Principles of Remuneration.

The 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 74

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 formed during the COVID-19 pandemic, please see page 65 for further details.

Division of responsibilities (continued)

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 and Disclosure and Transparency Rules of the UK Listing Authority and EU Market Abuse Regulation
- Assists in the design, implementation and periodic evaluation of the Company's disclosure controls and procedures

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

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 nine Directors: the Chairman, the Group Chief Executive, the Group Chief Financial Officer and six independent Non Executive Directors. Forty four per cent of the Directors are female. The biographies of the Directors (set out on pages 62 and 63) demonstrate that the Board possesses strong and diverse experience that is relevant to the sector in which the Company operates and aligned with its strategy.

Independence of Non Executive Directors

Each of the Non Executive Directors and the Chairman are considered by the Board to be independent and free of any relationship which could materially interfere with the exercise of their independent 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 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 for a further term in March 2020 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, Jacky Simmonds and Nadia Shouraboura's terms were extended by one year.

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. Tessa Bamford was first appointed to the Board in March 2011 and, while her tenure now exceeds nine years, the Board continues to regard Tessa as independent. Tessa's independence was subject to a thorough review by the Nominations Committee prior to its recommendation to the Board that she 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 Tessa continues to demonstrate objective judgment and independence of thought and provides constructive challenge to management where required. The Nominations Committee also noted that, following recent changes to the executive leadership team, Tessa had not served concurrently with any current Executive Director for longer than three years and was satisfied that Tessa continued to demonstrate the high level of independence expected of a Non Executive Director. The Board considered that the reappointment of Tessa for a further one-year term to be in the best interests of the Company and the Group as her skillset and in-depth knowledge of significant and ongoing Group projects continues to be vital to the balance of the Board and that Tessa's continued presence on the Board provides continuity and stability during a period of significant change.

The Code indicates that a chairman should not remain in post beyond nine years from the date of their first appointment to the board. It also allows that this period can be extended for a limited time, particularly in those cases where the chairman was an existing non executive director on appointment, in order to facilitate effective succession planning and the development of a diverse board.

The Code came into effect in relation to the Company on August 1, 2019 and the Board had prior to this undertaken a succession process for the role of Chairman to ensure that the Company continued to comply with the Code. The succession process for the role of Chairman was led by the Senior Independent Director. In accordance with the Code, the Senior Independent Director chaired the Nomination Committee meetings when Chairman succession was discussed. Gareth Davis stepped down from the Board after 16 years of service, nine of which as Chairman. As announced on May 22, 2019, Geoff Drabble was appointed to the Board as Chairman-designate with Gareth remaining as Chairman for a short period before handing over the role to Geoff at the 2019 AGM. This facilitated an orderly succession process and transition of responsibilities and enabled Geoff to receive an appropriate induction and have time to familiarize himself with the business and the Board before taking over Chairmanship.

External appointments during the year

As announced on June 26, 2020, Nadia Shouraboura joined Mobile TeleSystems Public Joint Stock Company as a non executive director on June 24, 2020. The Board considered and approved in advance Nadia's appointment having been satisfied that the time commitment for the role would not affect her ability to devote sufficient time to her duties as a Director of the Company.

On June 17, 2020, it was announced that Geoff Drabble had been appointed as a non executive director and chairman designate of DS Smith Plc with effect from September 1, 2020 and then as Chairman from January 3, 2021. Geoff's appointment was approved in advance by the Board. The Board took into account the likely time commitment of the role and was satisfied that it would leave sufficient time for him to discharge his duties as Chairman of the Company. The Board also agreed that the Company and Group would benefit from Geoff's experience at another internationally publicly quoted company and as its chairman.

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, 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, Geoff Drabble undertook an induction process following his appointment as Non Executive Director and Chairman designate. During his induction he met with a number of senior executives, the Company's advisers and operationally focused associates in the business.

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 receives regular updates on governance, legal and regulatory matters relevant to the Group's operating environment and receives detailed briefings from advisers on a variety of topics that are relevant to the Group and its strategy.

The annual Board and Committee effectiveness review provides the Directors with an opportunity to assess individual and collective effectiveness. During the 2018/19 effectiveness review the Board identified increased opportunities for succession planning, further briefings on technology and a continued increase in the Board's focus on culture. Geoff Drabble worked closely with Gareth Davis to ensure a successful handover of responsibilities. In addition, the Board received regular reports from the Nominations Committee on succession planning during the year. The Board received regular briefings and presentations from the Chief Information Officer throughout the year on the implementation of the Group's technology strategy and roadmap, including any key risks and opportunities which may have had an impact on the project. During the year the Chief Human Resources Officer briefed the Directors on associate engagement and culture, including an overview of the US culture surveys that had been undertaken during the year. Details of the 2019/20 review are provided below.

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 page 72.

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. This year's Board and Committee effectiveness review was facilitated internally. As an externally-facilitated review was conducted in 2017/18, it is expected that the next externally-facilitated review will be conducted during the year ending July 31, 2021.

The 2019/20 review was conducted using an online survey with a discussion at the Board meeting and with follow-up discussions between the Chairman and Board members. The survey was structured around open questions that encouraged candid feedback and 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. Overall the Board's performance was highly rated with positive feedback given in relation to areas such as the Board's testing and development of the Group's strategy, the dynamics of the Board and the relationships between Board members and the understanding of associates, investors and customers. 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 2019/20 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 2019/20 review were:

- continuing 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 to enable them to operate more efficiently while also maintaining appropriate levels of oversight; and
- the creation of new committees to facilitate more in-depth oversight in appropriate areas.

Actions have already been taken in relation to these areas of focus. The Board has updated the composition of the Audit and Remuneration Committees. In addition, new ad hoc committees have been created to focus on technology developments (see page 23), the additional listing of the Company's shares on a major US stock exchange and the exit of the UK business.

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 the role, which he had smoothly transitioned into, and had established effective relationships 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

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.

Nominations Committee

Geoff Drabble
Nominations Committee Chairman

Nominations Committee members

Membership	Meetings attended (eligibility)
Geoff Drabble (Chairman)	6 (6)
Tessa Bamford	6 (6)
Cathy Halligan	6 (6)
Alan Murray	6 (6)
Tom Schmitt	6 (6)
Nadia Shouraboura	6 (6)
Jacky Simmonds	6 (6)
Members who left during the year	
Gareth Davis	3 (3)
Darren Shapland	3 (3)

Nominations Committee overview

- Geoff Drabble succeeded Gareth Davis as Chairman of the Committee on November 21, 2019.
- As at the date of this report, the Committee is made up of six independent Non Executive Directors and the Chairman. Details of membership and attendance are set out in the table above.
- The Committee met six times during the year.
- The Group Chief Executive, Group General Counsel and Group Chief Human Resources Officer and representatives of external search consultants (as required) attended Committee meetings.

An overview of the Committee's areas of responsibility is set out on page 67 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 2019/20.

Board changes and succession planning

During the year the Committee remained focused on Board and senior executive succession plans to ensure that we continue to have the right people, with the right balance of skills, to drive Ferguson forward.

It was a busy year with Kevin Murphy moving to his new role of Group Chief Executive (November 2019), Alan Murray taking over the role of Audit Committee Chairman (November 2019) and my transition to the role of Chairman (November 2019), all of which we reported on in our 2019 Annual Report and Accounts. I have talked about Board changes in greater detail on page 6. These appointments followed formal, rigorous and transparent recruitment processes. Further information on our approach to Board composition and succession planning is set out on page 72.

We commenced a selection process for a new Group Chief Financial Officer ("Group CFO") following the announcement in May 2020 that Mike Powell would be stepping down from this role and I am pleased to report the appointment of Bill Brundage as our new Group Chief Financial Officer, effective November 1, 2020. Further information on the Group CFO succession process is included on page 72. I would like to express the Board's thanks to Mike for his significant contribution to the Group, and we wish him well in his future role.

Committee effectiveness

During the year, we also reviewed the effectiveness of the Committee. The 2020 Board and Committee effectiveness reviews were internally facilitated using an online survey, the results of which were presented and discussed at the July meetings. Overall, the review found that the Committee continues to operate effectively and also identified priority areas of focus for the coming year as we work to enhance our performance. The Committee's priorities for 2020/21 are:

- to conduct an effective succession process leading to the appointment of a new Group CFO;
- to enhance the succession plans for Executive and Non Executive Directors; and
- to monitor and keep under review the composition of Board Committees to ensure that they retain the appropriate balance of skills while also making most effective use of Board members and their experience. Please see page 70 for details of changes made to Board Committees as a result of the 2020 Board and Committee effectiveness reviews.

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

Geoff Drabble

Nominations Committee Chairman

Board composition and succession planning

The Committee is delighted that Kevin Murphy has settled into his role as our Group Chief Executive. Kevin was appointed in succession to John Martin as part of Group Chief Executive succession planning that had evolved, taking into account the needs of the business.

The Nominations Committee recognizes the benefits of regularly refreshing the Board more generally and over the last two years the Board has been fortunate to welcome Cathy Halligan and Tom Schmitt as new Non Executive Directors, and Geoff Drabble as our new Chairman. The Board has benefited from Cathy's retail and digital e-commerce experience, Tom's international logistics and supply chain experience and Geoff's extensive experience leading a major UK public company with US operations. The Committee also recognizes that there has been a great deal of recent change on the Board with the Chairman, Group Chief Executive and Audit Committee Chairman all being appointed to those roles during the year, and with the announcement that Mike Powell is leaving us for a new role. It is important to balance refreshing the Board while also maintaining continuity as the Board navigates through those changes and other changes that the Company is and will be going through, such as the proposed additional USA listing and steering the business through the effects of the COVID-19 pandemic. In that context, the extension of the tenures of Tessa Bamford, Nadia Shouraboura and Jacky Simmonds was also an important part of the business of the Committee this year. More details can be found on page 69.

The process to choose a new Group CFO and a smooth induction following appointment are key priorities for the Committee. Korn Ferry was appointed to lead the search. The Committee has reviewed the expertise and experience requirements for the role so that candidates put forward meet the expectations of the Committee and the demands of the role. Key elements of the appointment process include the appointment of qualified recruitment consultants, developing a specification for candidates, selecting a longlist of candidates, selecting a shortlist of candidates and holding interviews and finally recommending preferred candidates to the Board. As the Group CFO appointment process concluded following the year-end, further information will be provided in our annual report next year.

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 leaders regularly attend Board meetings, where they report on their respective areas of responsibility. Other leaders from the business also frequently present or report to the Board and its Committees on specific areas of expertise or 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 a diverse and inclusive 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. 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 page 21 and our progress against the objectives set in our Board Diversity Policy is detailed on page 73.

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 people and providing excellent development opportunities is one of our core values.

We are committed to developing a diverse workforce 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.

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 page 21. 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 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 opposite.

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 and we are committed to making progress in all forms of diversity. During the year the Executive Committee 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. Additionally, in the USA we established an African American and a Women's Business Resource Group (BRG) to provide support, connection and affiliation across these groups. Our US LGBTQ BRG will be launched in December. Further information on the actions we have taken during the year in relation to inclusion and diversity can be found on page 21.

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 2019/20
To achieve a minimum 30 per cent female representation on the Board by 2020.	Achieved since 2017/18	44 per cent of the Board is female.
To achieve a minimum 30 per cent female representation among senior management.[2]	Ongoing	20 per cent of senior management are female (2018/19: 24 per cent).[3] Our recruitment practices factor in under-represented groups and we insist on diverse candidate slates when using executive search firms, where permissible to do so. In addition, we have established Inclusion and Diversity Councils in the USA and UK and BRGs in the USA to promote inclusion and drive our initiatives.
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 since 2018/19	Korn Ferry was engaged during the year to assist the Committee in the search for a new Group Chief Financial Officer. Korn Ferry is a signatory to the Voluntary Code of Conduct. No other executive search firms were used by the Nominations Committee during the year.

1. All targets detailed in these objectives are aspirational in nature. Recruitment decisions are based on merit with the best candidate hired or promoted irrespective of race, color, religion, gender, age, sexual orientation, marital status, disability or any other characteristic that makes them unique.
2. Defined as the Executive Committee, their direct reports and other senior management included in the Company's report to the annual Hampton-Alexander Review.
3. While the percentage of senior management that are female has reduced in 2019/20, the number of female managers has not reduced during the year. The change in percentage is due to a change in the structure of the Executive Committee which meant that additional US leaders joined the Executive Committee during the year.

Geoff Drabble

on behalf of the Nominations Committee

Audit Committee

Alan Murray
Audit Committee Chairman

Audit Committee members

Membership	Meetings attended (eligibility)
Alan Murray[1] (Chairman)	6 (6)
Tessa Bamford	6 (6)
Cathy Halligan	6 (6)
Tom Schmitt	6 (6)
Nadia Shouraboura	6 (6)
Jacky Simmonds	6 (6)
Members who left during the year	
Geoff Drabble[2]	2 (2)
Darren Shapland[3]	2 (2)

1. Chartered management accountant.
2. Geoff Drabble stepped down as a Committee member when his appointment as Chairman became effective on November 21, 2019.
3. Darren Shapland ceased to be a member of the Committee when he stepped down from the Board on November 21, 2019.

Audit Committee overview

– Alan Murray succeeded Darren Shapland as Chairman of the Committee on November 21, 2019.

– As at the date of this report, the Committee is made up of six independent Non Executive Directors. Details of membership and attendance are set out in the table above.

– Other attendees at meetings included the Chairman, Group Chief Executive, 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 and relevant financial experience.

– 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 with the Committee on a periodic basis.

An overview of the Committee's areas of responsibility is set out on page 67 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, 2020. This is my first report as Chairman of the Audit Committee having taken over from Darren Shapland in November 2019. I would like to thank Darren for his outstanding service, both as a Non Executive colleague and as Chairman of the Audit Committee, and on a personal level for the support he provided to me during the transition of responsibilities.

It is my view that the Committee's 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 has been a year of considerable development for the business and it is important that, in addition to fulfilling its regular duties, 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 continued to review proposed changes to the UK audit market. We commenced a review of the Group's internal control framework and US GAAP reporting requirements with a view to ensuring that the Company is prepared for possible changes to its listing structure. As you would expect the Committee also looked at how to operate efficiently in light of the COVID-19 pandemic; in particular, how the external audit could be delivered in the current environment while maintaining the expected high level of rigor, and to ensure that the Internal Audit function had the resources and planning in place to complete its work for 2019/20. Consequently, appropriate changes to the 2019/20 External and Internal Audit plans were considered and approved by the Committee.

The Committee's principal focus during the year has remained on our 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 recognizes the importance of maintaining a culture of continuous improvement in its own work and in the functions and processes of which it has oversight. The Committee undertook a rigorous review of its effectiveness in July 2020. 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 2020/21, set out below:

– Continued oversight of the Group's control environment and risk management processes.

– Transition of responsibilities from the outgoing Group CFO to his successor.

– Oversight of actions related to the additional US listing, including preparations for compliance with the Sarbanes-Oxley Act 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.

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

Alan Murray

Alan Murray
Chairman of the Audit Committee

How the Committee operates

Committee meetings

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

In order to ensure that appropriate information is provided and that meetings have optimal focus, the Committee Chairman holds meetings with senior management, Internal Audit and Deloitte prior to or 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 64.

Committee composition

The Nominations Committee and the Board keep the composition of the Committee under regular review. All members of the Committee are Independent Non Executive Directors whose independence, in line with the definition provided in the Code, is reviewed on an ongoing basis. Between them, the members of the Committee possess significant logistics, distribution, commercial (including e-commerce), financial, human resource and listed company skills and expertise gained in large international businesses, which are relevant to a leading value added distribution company listed on the London Stock Exchange.

Recent and relevant financial knowledge is provided by Alan Murray who is a chartered management accountant, has previously served as the Finance Director of a large international business and is the Chairman of the Audit Committee of O-I Glass, Inc.

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 62 and 63.

Committee effectiveness

This year's internally-facilitated effectiveness review involved a survey of Committee members and attendees, follow-up discussions with the Committee Chairman and an in-depth review and discussion of the results by the Committee. Overall, the review found that the Committee continued to be highly effective. The review also identified opportunities for further improvement and these are reflected in the Committee's 2020/21 priorities, which are outlined in the Committee Chairman's introduction on page 74.

Last year's effectiveness review highlighted five 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.

2019/20 area of focus	What the Committee has done
Continued oversight of cyber security	– The Chief Information Officer briefed the Directors on cyber security threats that had been experienced during the year as well as additional security measures that had been implemented to reduce certain security risks. An update on the status of the Group's strategic security program for 2019/20 was also provided.
Focus on oversight of the proposed demerger of the Group's UK business	– Although the demerger was not implemented during 2019/20, the Committee was briefed on the potential accounting implications of the proposed demerger of the Group's UK business during the year.
Continued focus on the Group's control environment, including more extensive reporting to the Committee from business CFOs on the actions that are being taken to improve controls in each business	– The Committee received briefings from the CFO of the US business, Head of Internal Audit, and External Audit on the control environment and actions being taken to improve controls throughout the Group. Further details on internal controls can be found on page 80. – In preparation for the planned additional listing of shares in the USA, work is underway to prepare for the required certifications under Sarbanes-Oxley. The Committee received briefings on this during the year.
Reviewing audit committee best practice and identifying further opportunities to enhance the Audit Committee's performance	– Reviewed audit committee best practice, including guidance published by the Financial Reporting Council. – Provided feedback to presenters that resulted in an enhancement in the way certain papers were presented.
Overseeing the further enhancement of the capabilities of the Internal Audit function, particularly in the areas of information technology and controls environment reviews	– The Committee received updates from the Head of Internal Audit regarding opportunities for improvement which had been identified during the Internal Audit effectiveness review in 2018/19. – An action plan was developed which included nine opportunities for improvement, relating to areas such as information technology audits, monitoring and communicating audit findings and the continued development of KPIs. The action plan was presented and approved by the Committee. All actions were completed during the year.

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 2019/20 are summarized below.

Principal areas of focus during 2019/20	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 Company, including its resilience to the threats of viability posed by certain of those risks in severe but plausible scenarios.	See pages 54 and 55*
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 2019 Annual Report.	See page 78**
Internal control environment	
Received reports on the Group's base financial controls and IT controls on a regular basis. Updates on the testing of these controls were regularly provided as part of Internal Audit reports.	
Reviewed risk management reports that identified significant existing and emerging risks facing the Group.	See pages 53 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 page 79
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 80
Reviewed results of assurance activities undertaken in relation to the Company's technology strategy and roadmap.	
Reviewed the Group's internal control framework and US GAAP reporting requirements.	
Received presentations from the Chief Financial Officer of the US business that included detail on the effectiveness of the financial control environment and implementation of major initiatives.	
Received a detailed report on the Group-wide application of the Company's base financial control framework.	
Internal Audit	
Received reports from the Group Head of Internal Audit on the function's work at every meeting.	See page 79
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 and approved details of the engagement of Deloitte for non-audit work at each Committee meeting.	See pages 78 and 79
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 158 to 163
Met privately with senior representatives from Deloitte on a periodic basis.	
Approved the appointment of a new lead audit partner.	See page 79
Considered the timing for tendering for the external audit.	
Audit Committee effectiveness	
Held a private session for Audit Committee members at each meeting, conducted a formal annual review of the Committee's effectiveness.	See page 75

* The information provided on pages 54 and 55 relates to the 2020 viability statement, which was carried out after the end of the financial year ended July 31, 2020. For further information on the 2019 viability statement, which was reviewed by the Committee during the year, please see pages 48 and 49 in the Ferguson plc Annual Report 2019.

** The information provided on page 78 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, 2020. For further information on the review of the 2019 Annual Report please see page 69 in the Ferguson plc Annual Report 2019.

Financial reporting and significant financial judgments

The Committee considered the issues summarized below as significant in the context of the 2019/20 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 158 to 163 and the accounting policies disclosed in the notes to the financial statements as referenced in the table.

Item	Description	Audit Committee review and conclusions
Completeness of supplier rebates (recurring item)	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. For further information please see note 1 of the consolidated financial statements on pages 119 to 124 and the independent auditor's report on pages 158 to 163.	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 $339 million rebate receivable as at July 31, 2020 were prudent but appropriate and 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 stockcounts. For further information please see note 1 of the consolidated financial statements on pages 119 to 124 and the independent auditor's report on pages 158 to 163.	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 $209 million provision for obsolete and slow-moving inventory was consistently calculated on a prudent basis, appropriate and fairly stated in the consolidated financial statements.
Exceptional items (new item)	Exceptional items in 2019/20 are significant for the Group and included cost actions taken to ensure that the business is appropriately sized for the post COVID-19 operating environment, costs in relation to the proposed UK business separation and costs in relation to the Group's planned listing in the USA. There is judgment required to determine items are correctly classified as exceptional. For further information please see note 5 of the consolidated financial statements on page 131.	The Committee reviewed the nature of items included as exceptional and considered whether the classification was appropriate and consistent with the Group policy. The Committee also sought the views of the external auditors. Following its review, which included consideration of the external audit findings, the Committee concluded the $120 million charge to operating profit for exceptional items was appropriate and fairly stated in the consolidated financial statements.

Fair, balanced and understandable assessment

Overview	Assessment process	Conclusion
At the request of the Board, the Committee assessed whether the content of the 2020 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, as well as how the 2019/20 audit process would be conducted during the COVID-19 pandemic.

The terms, areas of responsibility and scope of Deloitte's 2019/20 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 2019/20 external audit plan has been successfully completed and their independent auditor's report can be found on pages 158 to 163.

Effectiveness

Following the completion of the external audit plan, the Committee conducts an annual review of external auditor effectiveness. The review survey is completed by each operating business, the Committee Chairman, Group CFO, divisional CFOs and the Chief Information Officer as well as the Group Finance, Internal Audit, Treasury and Tax teams. The results of the survey 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 2018/19 was highly rated, and opportunities to further enhance their service were discussed and agreed with the Committee. The Committee was satisfied that Deloitte continues to provide an effective audit service.

Independence and objectivity

The Company has policies and procedures in place to ensure that the independence and objectivity of the external auditor are not impaired. These include restrictions on the types of services which the external auditor can provide, in line with the Audit Practices Board Ethical Standards on Auditing ("Ethical Standard"). Details of the services that the external auditor cannot be engaged to perform are provided at **www.fergusonplc.com**. In addition, 2019/20 was the first year for which the EU PIE 70 per cent cap on certain non-audit services applied to the Company. Deloitte and the Company monitored the level of fees for non-audit services throughout the year to ensure compliance with the cap. For further details, see page 79.

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

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

Non-audit services policy

The appointment of the external auditor for non-audit work is made on a case-by-case basis. Before Deloitte is appointed to undertake any non-audit work, an assessment is made to consider whether their appointment is appropriate and in the best interests of the Company. The prior consent of the Committee Chairman is required before Deloitte is appointed to undertake non-audit work where the fee is expected to exceed $65,000. Where the fee is expected to be less than $65,000, the Committee Chairman must be notified that the external auditors are to be engaged to provide a non-audit service but approval is not required in advance. The external auditor will not be appointed to provide non-audit services where the Chairman or the Committee considers it might impair their independence or objectivity in carrying out the audit. The Committee reviews any new non-audit engagement and the level of fees at each meeting.

Audit and non-audit fees

During the year, Deloitte was appointed to undertake non-audit services. Fees for non-audit work performed by Deloitte as a percentage of audit fees for the year ended July 31, 2020 were 83 per cent (2019: 42 per cent). Of these fees, $1.1 million were not required by law or regulation and were subject to the EU PIE cap. These fees represented 27 per cent and 52 per cent of the three-year average of audit fees for the Deloitte network and Deloitte UK firm respectively, which are both within the 70 per cent cap. Further disclosure of the non-audit fees incurred during the year ended July 31, 2020, can be found in note 4 to the consolidated financial statements on page 131. Non-audit services related mainly to the proposed demerger of the UK business, the Group's planned additional listing of shares in the USA, the issuance of a USA bond and the Half Year review. The work relating to the demerger of the UK business was the most significant of these. 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. The current lead audit partner, Ian Waller, completed his term in 2020. His replacement as lead audit partner, Andrew Bond, has been involved in the audit for five years and, of these, has acted as a key audit partner for three 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 Company's external auditor for the 2015/16 audit following a formal tender process and their reappointment was approved by shareholders at the 2019 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 Company was, and would be going through, such as the planned change to the Company's listing structure and the appointment of a new Group CFO 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 auditors. It is therefore 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.

The Board recommends that Deloitte be reappointed as the external auditor for the financial year ending July 31, 2021 at the 2020 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 control) 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. In 2019/20 the Committee approved changes to the audit plan due to COVID-19, and the corresponding impact on the plan, due to travel restrictions. Internal audits planned for the future that were considered to be conducive for remote work environments were brought forward in the current year's plan. 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 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 risk management statements, 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 joint ventures and associates are considered as part of this process. The reports identify the significant risks to the Group, review potentially significant emerging risks, provide an assessment of the controls in place and highlight the tolerance levels that the Executive Committee and, ultimately, the Board are prepared to accept. In addition, following the outbreak of COVID-19, these reports included 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 Company's overall risk management framework, including the procedures for risk identification, assessment, mitigation, monitoring and reporting and was satisfied with their effectiveness. Potential enhancements to the risk assurance framework, including an operational assurance process, were identified and agreed by the Committee. The Committee will monitor the implementation of these enhancements across the coming year.

The Committee also reviewed management's work in preparing the Company's viability statement, which can be found on page 55, at its meeting in September 2020.

Internal controls

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

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

During the year, the Committee monitored and reviewed the effectiveness of the Group's internal control systems, accounting policies and practices, standards of risk management and risk management procedures, as well as the Company's statements on internal controls, before they were agreed by the Board for this Annual Report. The Committee receives regular reports throughout the year to assure itself that the Group's systems comply with the requirements of the Code. The Committee can confirm that the Group's systems have been in place for the full financial year and up to the date on which the financial statements were approved, that they are effective and regularly reviewed by the Committee on behalf of the Board.

While the Committee is of the view that the Group has a well-designed and effective system of internal control, the planned listing in the US means the Group's internal control environment will be exposed to a different regulatory regime over the next several years. Early preparations for the required certifications under Sarbanes-Oxley, combined with feedback received, have highlighted areas where the control environment requires further refinement to meet these different standards. Last year, enhancements to the Group's control environment were identified in the annual report and accounts, we have responded to these observations and improvements have been made in the year. We are now seeking to extend these improvements across other parts of the Group's information technology systems. Beyond information technology, we are focusing on increasing the level of detail in documenting control procedures, in particular relating to the definition and precision of certain other controls. This includes entity level controls, management review procedures and oversight of external specialists. The Committee will oversee the enhancement of the control environment as detailed in the priorities for 2020/21 in the Committee Chairman's introduction on page 74.

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

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

The Group has anti-fraud and anti-bribery and corruption policies and programs in place. All Group companies are required to implement these policies and all associates are required to comply with them. Compliance with the Group's anti-fraud and anti-bribery and corruption policies is monitored by Internal Audit. The Committee receives reports on non-compliance with these policies during the year, reviews Internal Audit 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 Chairman of the Audit Committee.

Alan Murray

Alan Murray
Chairman of the Audit Committee
September 28, 2020

Remuneration Committee

Jacky Simmonds
Remuneration Committee Chair

Remuneration Committee members

Membership	Meetings attended (eligibility)
Jacky Simmonds (Chair)	6 (6)
Tessa Bamford	6 (6)
Cathy Halligan	6 (6)
Alan Murray	6 (6)
Tom Schmitt	6 (6)
Nadia Shouraboura	6 (6)

Members who stepped down during the year

Geoff Drabble[1]	3 (3)
Darren Shapland[2]	3 (3)

1. Geoff Drabble attended all meetings which he was eligible to attend in his capacity as a Non Executive Director prior to becoming Chairman on November 21, 2019. Upon becoming Chairman Geoff Drabble stepped down as a member of the Committee, and continues to attend as an attendee.
2. Darren Shapland attended all meetings which he was eligible to attend prior to stepping down from the Board on November 21, 2019.

Remuneration Committee overview

– Jacky Simmonds has served as Chair of the Committee since August 1, 2014.

– During the year, Geoff Drabble stepped down from the Committee on becoming Chairman and Darren Shapland left the Committee when he stepped down from the Board.

– As at the date of this report, the Committee is made up of six independent Non Executive Directors. The Committee met six times during the year. Details of membership and attendance are set out in the table above.

– Other attendees at meetings include the Chairman, Group Chief Executive, Chief Human Resources Officer, Group General Counsel, Group Company Secretary, Group Head of Reward and Mercer Kepler (Remuneration Consultant).

– Mercer Kepler meets with the Committee at meetings without the presence of management on a periodic basis.

An overview of the Committee's area of responsibility is set out on page 67 and the Committee's Terms of Reference are available at **www.fergusonplc.com**

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended July 31, 2020.

Reflections on 2019/20

This year has been unprecedented for us and before I turn to executive pay, I want to briefly touch upon COVID-19 and its impact on our people and our business. At Ferguson, we continue to put the health and wellbeing of our associates and our customers first and this remains the most important priority. As both Kevin and Geoff have reported, the Board took a number of steps during the second half of 2019/20 to mitigate both the economic impact and adjust to new ways of working to safeguard our associates and protect our business.

Our associates have demonstrated enormous courage and dedication in their approach to supporting our customers in these exceptional circumstances. I would like to add my own thanks to those of my fellow Directors to all our 34,000 associates for their continued efforts in these challenging times.

The Committee reviewed executive remuneration arrangements regularly throughout this period to understand any potential impact and concluded that we did not need to make any changes in relation to executive pay. This is consistent with the approach taken for our associates. Therefore, the structure of and targets for 2019/20 incentives were unchanged from those agreed and set at the start of the year.

2019/20 performance and remuneration outcomes

Despite the impact of COVID-19 on our markets, performance for the year ended July 31, 2020 was strong in the USA, although performance in Canada and the UK was impacted. In the UK this was as a consequence of the more stringent local lockdown restrictions put in place. As a result, 2019/20 underlying trading profit delivered above the threshold performance level set and our strong cash-to-cash days performance resulted in the maximum performance level being exceeded. This demonstrates the robustness of our business model even in these challenging circumstances.

For our 2017 Long Term Incentive Plan ("LTIP") cycle, TSR over the three-year performance period was 34.8 per cent and ranked in the top quartile against our comparator group. Adjusted headline EPS growth was 23.5 per cent above US CPI and our three-year cumulative adjusted operating cash flow ("OpCF") was $5.379 billion, which exceeded the maximum performance target set. These elements will vest at 100 per cent, 76.7 per cent and 100 per cent, respectively.

For these performance outcomes, the Committee has confirmed:

– bonus payments for the year ended July 31, 2020 of 73 per cent of maximum for Kevin Murphy and 72 per cent of maximum for Mike Powell; and

– the LTIP granted for the performance period 2017-2020 will vest at 92.23 per cent of maximum.

This year the Committee made some minor adjustments in assessing performance against the bonus and LTIP targets to better align the incentive outcomes to the underlying performance of the Group. For the bonus, performance is measured at budgeted rates and was adjusted to exclude the impact of IFRS 16; and for the LTIP, the Committee excluded the impact on the performance assessment of exceptional cash flow, the impact of IFRS 16, the impact of the disposal of the Nordic business during the performance period and a 2017/18 funding contribution to the UK defined benefit pension plan. Further details can be found on pages 88 and 90.

The Committee also considered whether the outcomes for the annual bonus and LTIP were appropriate in the context of the underlying performance of the Group more generally and the experience of our stakeholders. The Committee agreed that the business has performed strongly over the past three years, and has proved resilient over the last 12 months. Accordingly, no discretion was exercised with regard to remuneration outcomes for the Executive Directors.

2019 Remuneration Policy

2019/20 was the first year of implementation for our 2019 Remuneration Policy. The Committee can confirm that the Policy was operated as intended during the year. While we recognize that all remuneration resolutions put forward at our 2019 AGM were passed, the Board was disappointed that a minority of shareholders voted against these resolutions, despite conducting extensive consultation with our major institutional shareholders prior to the proposals being finalized.

Following the AGM, I sought to engage further with several shareholders who we had identified as having voted against the resolutions. We wrote directly to these shareholders (representing about 12 per cent of the issued share capital) to clarify our position on the various components of total remuneration. The Committee reviewed the feedback received during this engagement and, as no new concerns were raised, concluded that the Remuneration Policy remained appropriate.

CFO succession

On May 26, 2020 it was announced that Mike Powell would step down as Group Chief Financial Officer and he will leave the Group on October 31, 2020. In light of this, the Committee did not award a salary increase to Mike, nor is he eligible for a bonus award for the period August 1 – October 31, 2020 and he will not be granted an LTIP award in 2020/21. All outstanding LTIP awards will lapse on October 31, 2020.

Bill Brundage has been appointed as Mike’s successor, effective November 1, 2020. On appointment, Bill will be paid an annual salary of $590,000 and will participate in the Company’s established bonus and long term incentive schemes. Further details can be found on page 84. As this was an internal promotion, there are no buy out arrangements.

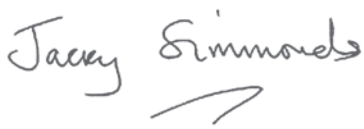
The Committee made the decision to set his salary on appointment at below the market median and to increase this over time as he develops into the role. Therefore it is the Committee’s intention to increase his salary by more than the average salary increase for the relevant general workforce, subject to his performance in the role, in both October 2021 and October 2022 to move him closer to the market median, consistent with our Remuneration Policy.

Other 2020/21 remuneration decisions

In accordance with our Policy, the Committee undertook an annual review of the Executive Directors’ base salaries for the coming year. The Committee awarded a salary increase of 2.0 per cent to Kevin Murphy, in line with the general level of increases awarded to other North American based associates in the Group. In addition, annual bonus arrangements will continue to operate along the same lines as for the year ended July 31, 2020, further details of which can be found on page 84.

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 84 and 85.

As the COVID-19 pandemic will continue to present many challenges to us we will keep our approach to remuneration under review so that we continue to drive our business forward and maintain alignment with the interests of our shareholders. Finally, and on behalf of the Committee, I thank you for your continued support.



Jacky Simmonds
Chair of the Remuneration Committee

Glossary of terms in Directors’ Remuneration Report

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

Remuneration at a glance

Ferguson remuneration principles

To provide remuneration packages that fairly reward Executive Directors and senior executives for the contribution they make to the business, having regard to the size and complexity of the Group's operations as well as the need to attract, retain and motivate executives of the highest quality;

To have remuneration packages which comprise salary, short-term bonuses, long term incentives, benefits-in-kind and pension provision; and

To aim to provide a total cash award of base salary and bonus around the median of the market, with the opportunity to earn a higher reward for sustained superior financial and individual performance.

Fixed
- Base salary
- Pension
- Benefits

Other
- Other remuneration

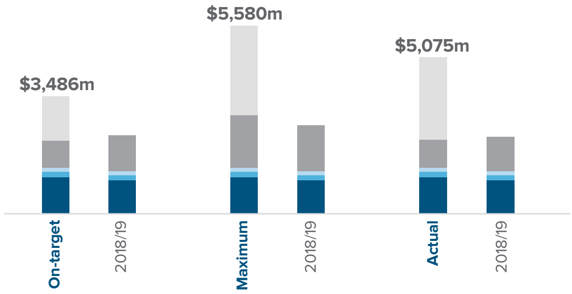
Variable

Short-term
- Annual bonus

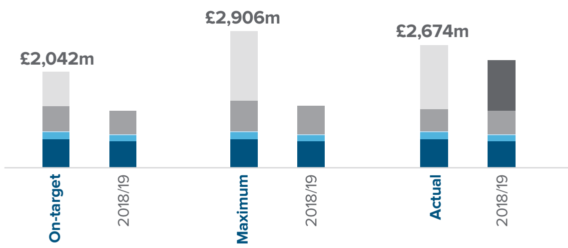
Long-term
- Long term incentive with two year post-vesting holding period

Remuneration for Executive Directors 2019/20

Kevin Murphy
Group Chief Executive ("CEO")



Mike Powell
Group Chief Financial Officer ("CFO")



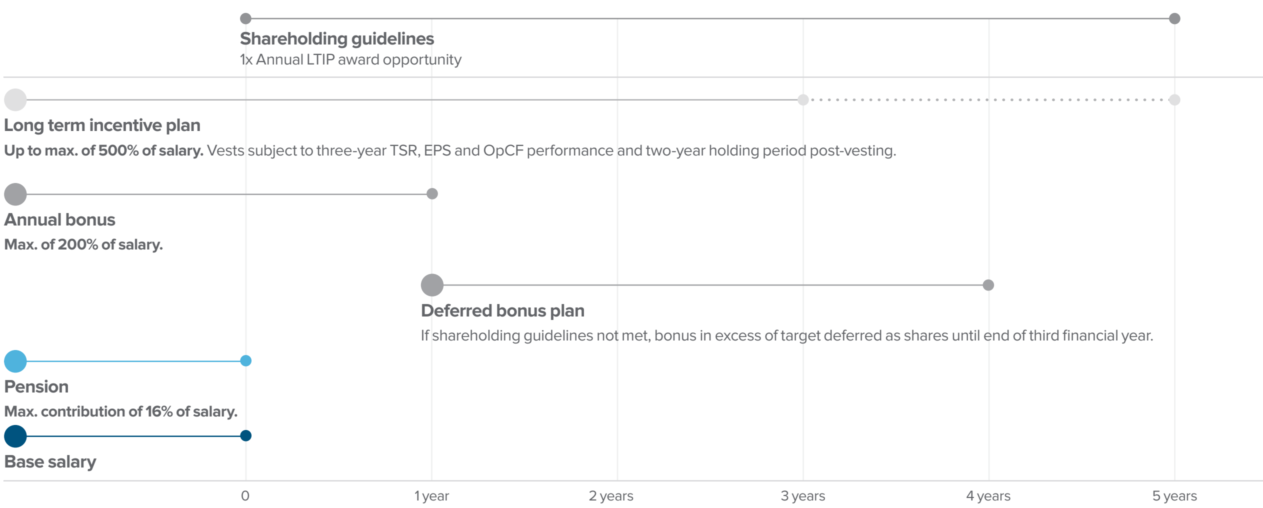
2019/20 breakdown

Key	Kevin Murphy: Percentage of maximum achieved (%)	Kevin Murphy: Maximum potential ($000)	Kevin Murphy: Actuals ($000)	Mike Powell: Percentage of maximum achieved (%)	Mike Powell: Maximum potential (£000)	Mike Powell: Actuals (£000)
	N/A	1,063	1,063	N/A	595	595
	N/A	170	170	N/A	149	149
	N/A	127	127	N/A	19	19
	73.1	1,562	1,14	72.0	654	471
[1]	92.2	2,658	2,572	92.2	1,489	1,438
	N/A	N/A	1[2]	N/A	N/A	2

1. The Actuals figures for long term incentive plan awards and their total remuneration figures include the value of dividend equivalents which are not included in the on-target or maximum charts.
2. The Actuals figure for Kevin Murphy above includes the "other" remuneration relating to the grant of an ESPP award detailed in the single figure table on page 87 and it is included in the chart above.

Remuneration Policy applicable to USA-based Executive Directors

All figures are maximum; actual figures applicable for the year ending July 31, 2021 for Kevin Murphy are: shareholding guidelines is 1x annual LTIP award opportunity; LTIP award is 350% of salary; annual bonus at maximum is 150% of salary; pension contribution is 16% of salary; and base salary is $1,122,000.



Implementation of Policy for the year ending July 31, 2021

Executive Directors

This section provides an overview of how the Committee will implement the Policy for the year ending July 31, 2021. As detailed in the Chair's statement, Mike Powell is expected to leave the Company with effect from October 31, 2020 and any payments detailed below will be paid pro rated to his date of departure. Any outstanding unvested share awards, other than his DBP awards, will lapse as of that date. For the year ending July 31, 2021 Mike will not receive a salary increase, he will not be considered for a bonus award and he will not receive a grant under the LTIP.

The Committee has reviewed the remuneration arrangements in relation to the appointment of Bill Brundage as Group Chief Financial Officer. All aspects of his reward package have been set, effective November 1, 2020, in line with the existing Remuneration Policy. As this was an internal promotion there are no buy out arrangements but, in accordance with the Remuneration Policy, Bill's entitlements under unvested share plan awards and other incentive arrangements granted prior to his appointment as a Director will be honored. Further details for 2020/21 are set out below.

Base salary

In line with the Policy, the Remuneration Committee undertook an annual review of the Executive Directors' base salaries during the year. The Committee agreed to an increase to the base salary level of Kevin Murphy from October 1, 2020 and no increase for Mike Powell.

	Annualized base salary		
	2020/21 (000)	Effective date of salary change	2019/20 (000)
K Murphy[1]	**$1,122.0** **(+2.0% increase)[3]**	October 1, 2020	$1,100.0
M Powell[2]	**£595.0** **(no increase)**	N/A	£595.0
B Brundage	**$590.0**	November 1, 2020	N/A

1. During 2019/20, Kevin Murphy received a salary of $975,000 per annum from August 1, to November 19, 2019. His salary was increased to $1.1 million per annum upon appointment as Group Chief Executive on November 19, 2019.
2. Mike Powell will receive his base salary up to his date of departure on October 31, 2020.
3. For context, the Group-wide average salary increase was 2.0 per cent.

Pension and benefits

USA-based Executive Directors (Kevin Murphy and, from his appointment as CFO, Bill Brundage) participate in the Ferguson defined contribution pension arrangement 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. Mike Powell will continue to receive a salary supplement of 25 per cent of base salary in lieu of membership of the Group pension scheme up to his date of departure, in line with the Remuneration Policy in effect upon his appointment. 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 87.

Annual bonus

The threshold, target and maximum bonus opportunities for 2020/21 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 underlying trading profit) and the remaining 20 per cent of the bonus opportunity is linked to personal strategic objectives.

Specific individual objectives were set at the beginning of the 2020/21 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 businesses and of management is reviewed at the end of the year when considering the award of bonuses and whether operational and personal objectives have been met.

The Board considers that the performance targets for 2020/21 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 2020/21 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 the LTIP awards (proposed to be granted during 2020/21) 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 Company 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]
30% and above	100%
Between 3% and 30%	0%-100%
At or below 3%	0%

1. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
2. Awards will vest on a straight-line basis between 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' forecast trading profit.

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]
$5.200 billion	100%
Between $4.610 billion and $5.200 billion	25%-100%
$4.610 billion	25%
Below $4.610 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 $5,379 billion, as set out on page 90.
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 (2020/21)

The following charts give an illustrative value of the remuneration package that Kevin Murphy would receive in accordance with the Policy based on:

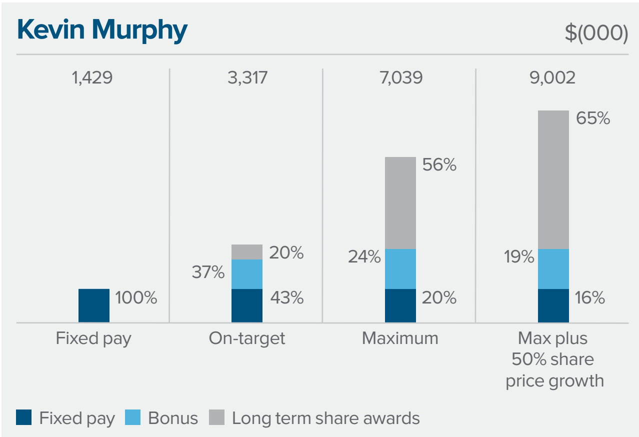
- **Fixed Pay**: (1) 2020/21 base salary, (2) 2019/20 benefits (as set out in the Remuneration table on page 87), (3) pension using the 2019 Policy and applied to 2020/21 base salary; and
- **Variable Pay**: (1) 2020/21 LTIP award using the 2019 Policy and (2) 2020/21 Bonus award using the 2019 Policy.

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 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 110 per cent (as a percentage of base salary).	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 of base salary.
Maximum	
Paid at 150 per cent (as a percentage of base salary).	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 of base salary.

1. The payment level for performance in line with threshold for the 2020/21 LTIP. Further details are set out on pages 84 and 85.
2. Awards will be granted by reference to a percentage of the Executive Directors' 2020/21 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 2020/21 (and those applied for 2019/20) is set out below:

	2020/21 (£000)[1,2]	2019/20 (£000)[2]
Chairman's fee	410.5	402.0
Non Executive Director base fee	71.5	70.0
Additional fees:		
Senior Independent Director	21.0	20.5
Chair of Audit Committee	21.0	20.5
Chair of Remuneration Committee	21.0	20.5
Employee Engagement Director	10.2	10.0

1. All increases to Non Executive Director/Chairman fees were broadly in line with the average salary increase awarded to the 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, 2020

Information

For the purposes of this Annual report on remuneration:

(1) any estimated share values are determined using a share price of 6,401.7 pence, being the average closing mid-market quotation for Ferguson plc shares for the three-month period ended July 31, 2020.

(2) the remuneration of Kevin Murphy is shown in USD and any sterling payments have been converted to USD based on a 12-month average exchange rate for the year ended July 31, 2020 of $1.2613:£1 (2019: $1.2878:£1).

Remuneration Committee

The Committee met regularly during the year. Details of meetings and attendance are shown in the table on page 81.

Principal areas of focus in 2019/20

Governance

- 2019 Remuneration Policy Review including consultation of shareholders and reviewing their feedback in the context of finalizing the proposed 2019 Policy.
- Review and approval of the 2019/20 Directors' Remuneration Report.
- Annual governance and compliance review including reviewing pay practices and methods for gathering the views of the workforce.
- Review and amendments to LTIP rules.
- Annual review of remuneration adviser performance.
- Annual review of terms of reference.
- Annual review of effectiveness of the Committee.
- Annual review of Directors' shareholdings against applicable shareholding guidelines.

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 key reward and US compensation practices.

Incentives

- Regular assessment of performance against 2019/20 annual bonus targets and objectives.
- Review of arrangements required due to the proposed demerger of the Wolseley UK business.
- Review of impact of COVID-19 pandemic on short and long term incentive arrangements.
- Regular review of performance against targets for outstanding LTIP and other discretionary share awards.
- Review and approval of 2018/19 annual bonus outcomes.
- Review and approval of LTIP structure and targets for 2019/20 awards.
- Confirmation of vesting of LTIP and other discretionary share plan awards that vested in 2019/20.
- Review and approval of process for 2019/20 grants under all-employee share plans.
- Review and approval of grant of LTIP and other discretionary share plan awards to senior executives, including those below Board level for 2020/21.
- Regular review of use and operation of discretionary share plans and all-employee share plans.
- Review and approval of annual bonus structure and targets for 2020/21.

Remuneration Committee effectiveness review

The annual review of the effectiveness of the Committee was conducted during the year and considered at the July 2020 meeting. The review concluded the Committee was working effectively and that the Committee should continue to develop its understanding of remuneration practices and governance trends in relevant markets and the challenges arising from the COVID-19 pandemic.

Advisers to the Committee

During the year, the Committee received advice and/or services from various parties. Details are set out below.

Mercer Kepler (which is part of the MMC group of companies) was appointed as the Committee's independent remuneration consultant in 2017 following a competitive tender process led by the Chair of the Committee. Mercer Kepler is a founding member and signatory to the UK Remuneration Consultants Group Code of Conduct which governs standards in the areas of transparency, integrity, objectivity, confidentiality, competence and due care. Mercer Kepler adheres to this Code of Conduct. The Committee has established arrangements to ensure that the advice received from Mercer Kepler is independent of the advice provided to the Company. The Chair of the Committee has direct contact with the lead Mercer Kepler partner to discuss performance. Mercer Kepler is appointed by the Committee and its performance, along with the quality and objectivity of its advice, is reviewed on an annual basis. The Committee reviewed the performance of, and advice provided by, Mercer Kepler in November 2019.

Mercer Kepler also provided remuneration consultancy services to the Company during the year. Fees are charged predominantly on a "time spent" basis and the total fees (including expenses) paid to Mercer Kepler for the advice provided to the Committee during the year were £115,849. Fees (including expenses) paid to Mercer Kepler for other remuneration-related services provided to the Company during the year were £19,160. Mercer Kepler do not have any other connections with any individual Directors of the Company.

Freshfields Bruckhaus Deringer LLP ("Freshfields") provided legal advice to the Committee during the year in connection with the Company's Remuneration Report. Fees are charged predominantly on a "time spent" basis and the total fees paid to Freshfields for the advice provided to the Committee during the year were £66,569. Freshfields was appointed by the Company and also provided other services (including legal, governance and share plan advice) to the Company during the year. The Committee is satisfied that the services provided to it by Freshfields are of a technical nature and did not create any conflict of interest and therefore the advice received from them was objective and independent. If a conflict of interest were to arise, the Committee would appoint separate legal advisers from those used by the Company.

The Committee also seeks internal support from the Group Chief Human Resources Officer, the Group Chief Executive, the Group General Counsel and the Group Company Secretary, together with other senior Group associates as necessary. Those who attend by invitation do not participate in discussions that relate to the details of their own remuneration.

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, 2020.

		Fixed remuneration				Variable remuneration				
	Year	Salary (000)	Taxable benefits[3] (000)	Pension benefits[4] (000)	Sub total (000)	Bonuses[5] (000)	Value of LTI vesting[6,7,8] (000)	Other[9,10] (000)	Sub total (000)	**Total remuneration (000)**
Executive Directors										
K Murphy	**2019/20**	**$1,062.8**	**$127.1**	**$170.0**	**$1,359.9**	**$1,141.5**	**$2,571.9**	**$1.4**	**$3,714.8**	**$5,074.7**
	2018/19	$975.0	$117.5	$156.0	$1,248.5	$1,035.8	–	$0.7	$1,036.5	$2,285.0
M Powell	**2019/20**	**£595.0**	**£18.7**	**£148.7**	**£762.4**	**£471.3**	**£1,438.0**	**£2.2**	**£1,911.5**	**£2,673.9**
	2018/19	£550.0	£18.8	£137.5	£706.3	£500.5	–	£1,254.7	£1,755.2	£2,461.5
Past Director										
J Martin[1]	**2019/20**	**£275.2**	**£27.8**	**£82.5**	**£385.5**	**£206.3**	**–**	**–**	**£206.3**	**£591.8**
	2018/19	£899.2	£52.0	£269.7	£1,220.9	£918.0	£3,936.7	–	£4,854.7	£6,075.6
Total[2]	**2019/20**	**£1,712.8**	**£147.2**	**£366.1**	**£2,226.1**	**£1,582.6**	**£3,477.1**	**£3.3**	**£5,063.0**	**£7,289.1**
	2018/19	£2,206.3	£162.0	£528.4	£2,896,7	£2,222.8	£3,936.7	£1,255.3	£7,414.8	£10,311.5
Total in USD (for information)	**2019/20**	**$2,160.3**	**$185.7**	**$461.8**	**$2,807.8**	**$1,996.1**	**$4,385.6**	**$4.1**	**$6,385.8**	**$9,193.6**

1. John Martin stepped down as a Director on November 19, 2019. The remuneration in this table includes his pro rated salary, bonus, benefits and pension benefits earned up to the date he stepped down. Payments up to July 31, 2020 including his value of LTI vesting are detailed in the Payments to past Directors section below.
2. For the purposes of the total remuneration figures shown for 2019/20 and 2018/19, payments made to Kevin Murphy shown in USD have been converted back into pounds sterling using the 12-month average exchange rate for the year ended July 31, 2020 ($1.2613: £1) and the 12-month average exchange rate for the year ended July 31, 2019 ($1.2878: £1).
3. For all Directors, their benefits during the year included private health insurance, car benefit (car allowance and/or car), and healthcare benefits. For Kevin Murphy, this also included life insurance premium contributions. For John Martin, up to November 19, 2019, this included the provision of a driver and associated tax gross up arrangement.
4. Kevin Murphy participates in the defined contribution pension arrangements of Ferguson Enterprises, LLC. receiving contributions of 16 per cent of base salary from Ferguson Enterprises LLC. The cost of employer contributions during the year was $170,047. During the year ended July 31, 2020, Mike Powell and John Martin received salary supplements in lieu of Group pension scheme membership.
5. Mike Powell's annual bonus payment for 2018/19 includes the face value of a nil cost option award of 85 shares in accordance with the terms of the DBP. This represents the amount in excess of target that was deferred into the DBP, as he had not met his shareholding guideline target at that time.
6. The LTIP grants made in October 2017 will vest overall at 92.23 per cent in October 2020. For further details on the percentage vesting see page 90.
7. The value of vested shares under the 2017/18 LTIP has increased by £345,322 for Kevin Murphy (equivalent to $435,555 at the average exchange rate for the year ended July 31, 2020 of $1.2613: £1) and £243,960 for Mike Powell 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 5,263.5 pence, being the average close price for the 10 dealing days prior to the award date. No discretion has been exercised by the Committee as a result of this share price appreciation.
8. Value shown for 2019/20 represents estimated value of LTIP awards granted in 2017 that will vest in October 2020. The estimate assumes 92.23 per cent overall vesting of LTIP awards using the three-month average share price noted on page 86 under the heading "Information". No discretion has been applied either for share price movements or for formulaic vesting outcomes. Value shown for 2018/19 represents the actual vesting of John Martin's LTIP award which vested in November 2019, trued up from the figure disclosed in last year's Annual report on remuneration to reflect the share price of 6,583 pence on the date of vesting (November 1, 2019).
9. Value shown for 2018/19 for Mike Powell represents the actual vesting of the PBBO awards which vested in November 2019, trued up from the figure disclosed in last year's Annual report on remuneration to reflect the share price of 6,583 pence on the date of vesting (November 1, 2019).
10. Both Kevin Murphy and Mike Powell were granted shares in all-employee share plans in the year. Kevin Murphy entered into a one-year ESPP savings contract and Mike Powell entered into a three-year sharesave contract, respectively. The values shown for 2019/20 and 2018/19 represents the gain, calculated as being the difference between the option price and the share price at the date the option price was set, on the maximum number of shares granted.

Payments for loss of office (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 and on page 92 and the payments to John Martin detailed below.

John Martin served as Group Chief Executive and as a Director until November 19, 2019 and continued to be an associate of the Group until September 3, 2020. Payments made to Mr Martin as an Executive Director are set out in the Remuneration table above. Mr Martin received payments as an associate in relation to salary, benefits and pension totaling £847,734 for the period November 20, 2019 to July 31, 2020. Additionally, details of an LTIP award granted to Mr Martin in October 2017 that is due to vest in October 2020 are disclosed on page 90. The estimated value at vesting is £2,920,003 using the three-month average share price noted on page 86 under the heading "Information".

Payments to Gareth Davis and Darren Shapland, who stepped down from the Board during the year, are set out in the Non Executive Directors' Remuneration table on page 92.

External directorships

Executive Directors are permitted to take on external non executive directorships. In order to avoid any conflicts of interest, all such appointments are subject to the approval of the Board. The Board believes that taking up an external non executive appointment helps bring a wider perspective to the Company and also assists in the development of business skills and experience.

During the year, Mike Powell was a non executive director and audit committee chairman of Low & Bonar plc but stepped down on May 12, 2020 and John Martin was a non executive director of Ocado plc. For the year ended July 31, 2020, Mike Powell received a fee of £63,472 for his services. For the period August 1, 2019 to November 19, 2019, John Martin received a fee of £19,680 for his services. The Company allowed both Mr Martin and Mr Powell to retain the fees paid to them during the year.

Additional disclosures in respect of the Remuneration table (Audited)

Annual bonus

The annual bonuses awarded to Executive Directors for the year ended July 31, 2020 are shown in the Remuneration table on page 87. 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 either for share price movements or for 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[1]	**Chief Executive Officer, USA (August 1, 2019 – November 18, 2019)**								
	Group underlying trading profit	$1,554m	$1,653m	$1,752m	$1,602m[3]	8.9%			16.8%
	USA underlying trading profit	$1,480m	$1,575m	$1,669m	$1,587m		54.7%		67.2%
	Group average cash-to-cash days[4]	57.3	56.3	55.3	54.8			5.6%	5.6%
	USA average cash-to-cash days[4]	58.1	57.1	56.1	53.6			22.4%	22.4%
	Personal objectives[5,8]	1/20	–	20/20	20/20			28.0%	28.0%
					Total achieved		**119.6%**		140.0%
K Murphy[1]	**Group Chief Executive (November 19, 2019 – July 31, 2020)**								
	Group underlying trading profit	$1,554m	$1,653m	$1,752m	$1,602m[3]	42.8%			90.0%
	Group average cash-to-cash days[4]	57.3	56.3	55.3	54.8			30.0%	30.0%
	Personal objectives[5,8]	1/20	–	20/20	20/20			30.0%	30.0%
					Total achieved	**102.8%**			150.0%
					Aggregate total achieved		**107.4%**		147.0%
M Powell	Group underlying trading profit	$1,554m	$1,653m	$1,752m	$1,602m[3]	37.0%			66.0%
	Group average cash-to-cash days[4]	57.3	56.3	55.3	54.8			22.0%	22.0%
	Personal objectives[6,8]	1/20	–	20/20	18.4/20			20.2%	22.0%
					Total achieved	**79.2%**			110.0%
Past Director									
J Martin	Group underlying trading profit	$1,554m	$1,653m	$1,752m	$1,602m[3]	41.5%			72.0%
	Group average cash-to-cash days[4]	57.3	56.3	55.3	54.8			24.0%	24.0%
	Personal objectives[7,8]	1/20	–	20/20	7.4/20			8.8%	24.0%
					Total achieved[9]	**74.3%**			120.0%

1. Bonus details for Kevin Murphy are separated to show outcomes against targets while in each role and also shows an aggregated outcome for the year.
2. Details of the performance measures and how they were set were disclosed in the Company's 2019 Annual Report and Accounts on page 95.
3. Actual Group underlying trading profit of $1,603 million (see note 2 to the consolidated financial statements on page 126) adjusted for the retranslation at Company budgeted foreign exchange rates for the year ended July 31, 2020.
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 ongoing business adjusted for the retranslation at Company budgeted foreign exchange rates for the year ended July 31, 2020.
5. Kevin Murphy's personal objectives were based on a co-ordinated enterprise solution for e-commerce, developing M&A opportunities and delivery of the next phase of the Company's technology strategy and roadmap.
6. Mike Powell's personal objectives were based on an assessment of the listing structure for recommendation to shareholders, UK business transformation, implementation of the demerger of Wolseley UK and corporate talent planning within the USA.
7. John Martin's personal objectives were based on leadership inputs to ensure the successful completion of the Wolseley UK demerger, completion of an effective handover of the CEO role and guidance on the listing structure review.
8. 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.
9. Bonus payable to John Martin was pro rated to the date he stepped down as a Director (November 19, 2019) and the pro rated figure total was 22.5% of salary.

Following a review, the Committee considers that Executive Directors' personal objectives for 2018/19 are no longer commercially sensitive and has approved the following disclosure:

Executive Director	Objective	Assessment	Payout of element
Kevin Murphy[1]	– Review Ferguson Enterprises B2C e-commerce strategy to include approach to branding, search, omnichannel, relationship with Ferguson.com and showrooms and own brand.	– Strategy developed and presented to the Board. Pilot programs successfully deployed and tested.	25.0%
	– Develop and deliver the first stage of the Company's technology strategy and roadmap.	– Resources made available and dedicated to the project. Vision and planning stages proceeded in line with plan and key deliverables implemented in the year.	40.0%
	– Ensure robust organic growth of own brand sales at an agreed level above the overall organic growth rate of the business to be measured straight-line from Ferguson Enterprises growth rate to the agreed level.	– Organic own brand sales increased by 15.5 per cent. This compared to organic sales growth of 6.2 per cent.	25.0%
	– Hosting of US shareholder meetings.	– Hosted a number of shareholder meetings with established and prospective shareholders. Positive feedback received from shareholders.	10.0%
			Total: 100.0%
Mike Powell	– Review and conclude the options for the future tax domicile of the Ferguson Group's parent company and implement by July 31, 2019, ensuring an appropriate strategy to engage with all relevant tax and regulatory authorities.	– The tax redomiciliation was concluded successfully. New corporate structure approved by shareholders and implemented in May 2019.	30.0%
	– Execute the Group's funding plan including the raising of an additional $750 million in the US bond market. Engage the credit rating agencies and complete the bondholder roadshow.	– The Group made its primary issue in the US bond market in October 2018. The amount to be raised was fully achieved.	30.0%
	– Review and appoint individuals to Wolseley UK financial leadership team and ensure resources are available to drive performance.	– Recruitment completed and new team in place. Wolseley UK finance team performing strongly in line with plan and prepared for demerger.	15.0%
	– Commence planning for the demerger of the UK business and a review of the Company's listing.	– Project plans in place for both. Good progress made and further work ongoing.	20.0%
			Total: 95.0%
Past Director			
John Martin	– Develop and deliver the first stage of the Company's technology strategy and roadmap.	– Resources made available and dedicated to the project. Vision and planning stages proceeded in line with plan and key deliverables implemented in the year.	35.0%
	– Ensure robust organic growth of own brand sales at an agreed level above the overall organic growth rate of the business to be measured straight-line from Ferguson Enterprises growth to the agreed level.	– Organic own brand sales increased by 15.5 per cent. This compared to organic sales growth of 6.2 per cent.	30.0%
	– Conclude an exit strategy for the Wolseley UK business by July 31, 2019.	– Exit strategy agreed. Intention to demerge Wolseley UK from the Ferguson Group announced on September 3, 2019.	35.0%
			Total: 100.0%

1. Kevin Murphy's objectives for 2018/19 relate to his role as Chief Executive Officer, USA.

Long term incentives

Long term incentives awarded to Executive Directors under the LTIP in October 2017 will vest in October 2020. The vesting of those awards is subject to the performance conditions shown in the tables that follow. 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 the Nordic business disposal and IFRS 16 (EPS and OpCF), for exceptional cash flow (OpCF only) and for the impact of a special pension funding contribution to the UK defined benefit pension plan (OpCF only). Further details and reconciliation to the consolidated financial statements are set out in the footnotes to the 2017/18 Awards table below.

Vested awards

LTIP

The performance conditions which applied to the awards made in October 2017 have been measured following the year-end and actual performance achieved is detailed below.

2017/18 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 $4.400 billion
Threshold	25%	At median	9%	$4.400 billion
Between threshold and maximum	25% – 100%	Between median and upper quartile	Between 9% and 30%	Between $4.400 billion and $4.900 billion
Maximum or above	100%	Upper quartile	30% and above	$4.900 billion
Actual performance achieved		84th percentile	23.5%	$5.379 billion
% of award subject to each performance condition vesting		100.0%	76.7%	100.0%
				Total percentage vesting[4]: 92.23%

1. Details of the performance measures and how they were set were disclosed in the Company's 2017 Annual Report and Accounts on page 73.
2. Headline earnings per share of 366.1 cents per share in 2016/17 and 511.6 cents per share in 2019/20 adjusted to include 24.0 cents in 2016/17 relating to the disposed Nordic business and to remove 7.1 cents in 2019/20 relating to the impact of IFRS 16. The growth in adjusted headline earnings per share from 390.1 cents in 2016/17 to 504.5 cents in 2019/20 was in excess of US inflation ("CPI") for the same period of 5.8 per cent.
3. Cash generated from operations, before interest and tax of $2.252 billion (2018/19: $1.609 billion and 2017/18: $1.323 billion) adjusted for items which are not considered part of the underlying business performance as agreed by the Remuneration Committee. These adjustments were to add back $94 million (2018/19: $94 million and 2017/18: $31 million) in relation to the cash flow lost due to the Nordic business being disposed of in 2017/18; $113 million (2018/19: $53 million and 2017/18: $59 million) of cash flow on exceptional items; $nil (2018/19: $nil and 2017/18: $99 million) in relation to a special funding contribution to the UK defined benefit pension plan; and to remove $348 million (2018/19: $nil and 2017/18: $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 for 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[3]	Value of shares vesting (£000)[4,5]
K Murphy[1]	32,915	92.23%	30,358	2,039.1
M Powell[1]	23,254	92.23%	21,447	1,438.0
Past Director				
J Martin[2]	47,219	92.23%	43,551	2,920.0

1. In accordance with shareholding guideline requirements, Kevin Murphy and Mike Powell will, while still Group associates, retain vested shares or hold vested but unexercised nil cost options for a holding period of two years from the vesting date.
2. As detailed on page 96 of the Company's 2019 Annual Report and Accounts, time pro ration has been 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 49,997 nil cost options.
3. The number of shares vested does not represent the product of their component parts in the table due to roundings.
4. Value determined using the share price noted on page 86 under the heading "Information".
5. Dividend equivalents have accrued on the 2017 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 303.09 pence per share. For Kevin Murphy, the dividend equivalents cash payment will be paid in US dollars at a value of 397.50 cents per share.

Unvested awards

LTIP

The following tables set out the performance conditions and indicative total percentage vesting for unvested awards under the LTIP made in 2018/19 and 2019/20 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.

2018/19 awards

	Performance required			
Performance level	% of award that would vest[1]	TSR relative to FTSE 100 at date of grant	Total margin of adjusted EPS growth over 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
Indicative total percentage vesting based on performance as at July 31, 2020				**76%**

1. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.
2. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
3. Cash generated from operations (before interest and tax) as presented in the audited annual Group cash flow statement in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).

2019/20 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	**Adjusted operating cash flow[3]**	**Below $4.292 billion**	**$4.292 billion**	**Between $4.292 billion and $4.832 billion**	**$4.832 billion**
	% of award that would vest[1]	0%	25%	25%–100%	100%
Indicative total percentage vesting based on performance as at July 31, 2020					**67%**

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 audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).

Deferred Bonus Plan

The DBP Awards of nil cost options granted to Mike Powell on October 30, 2017 (284 options), October 18, 2018 (1,095 options) and October 17, 2019 (85 options) will normally vest in August 2020, August 2021 and August 2022, respectively. These awards are not subject to performance conditions and will vest in accordance with the DBP rules.

Share awards exercised during the year

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

Director	All-employee	LTIP	OSP	PBBO	POSP	RSBO	Total[1,2]
K Murphy	65	–	5,574	–	12,876	–	18,515
M Powell	–	–	–	18,029	–	2,439	20,468
Past Director							
J Martin	–	56,268	–	–	–	–	56,268

1. The aggregate gain made on the exercise of options during the year by Kevin Murphy and John Martin was £1,126 and £3,704,228 respectively.
2. The aggregate value of assets received or receivable by Kevin Murphy and Mike Powell was £1,214,599 and £1,305,286 respectively.

Scheme interests awarded during the financial year (Audited)

Awards were made to Kevin Murphy and Mike Powell 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 91.

Director	Award	Type of award	Number of shares[1]	Face value[2,3] of award (£000)	Performance criteria period	Threshold performance	Performance conditions[5]
K Murphy	LTIP	Conditional shares	43,625	2,940.8	August 1, 2019 – July 31, 2022	0% of element 25% of element 25% of element	EPS TSR Cumulative OpCF
M Powell	LTIP	Nil cost options	26,481	1,785.1			
M Powell	DBP	Nil cost options	85	5.4	N/A[4]	N/A	N/A

1. Kevin Murphy and Mike Powell's LTIP awards granted during the financial year were based on a percentage of salary as follows: Kevin Murphy (350 per cent) and Mike Powell (300 per cent). The DBP award granted to Mike Powell during the year was based on the amount of annual bonus earned in 2018/19 that exceeded target.
2. The share price used to calculate the face value of the DBP award granted on October 17, 2019 was 6,376 pence and of the LTIP share awards granted on December 5, 2019 was 6,741 pence. For both DBP and LTIP awards this was the average share price over a 10 dealing day period immediately preceding the date of grant. The LTIP award made to Kevin Murphy was a conditional share award and there is no exercise price. The DBP award and LTIP award made to Mike Powell were in the form of nil cost options and, at vesting, the exercise price per share will be nil. Face value is calculated as required by the Regulations as the maximum number of shares at full vesting multiplied by either the share price at date of grant or the average share price used to determine the number of shares awarded. Dividend equivalents also accrue on the LTIP and DBP awards 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 and DBP scheme interests would be 0.03 per cent calculated as at July 31, 2020.
4. Mike Powell's DBP award will vest on August 1, 2022.

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, 2020. Non Executive Directors do not participate in variable remuneration arrangements.

Chairman and Non Executive Directors	Fees (£000) 2019/20	Fees (£000) 2018/19	Taxable benefits[1] (£000) 2019/20	Taxable benefits[1] (£000) 2018/19	Total remuneration (£000) 2019/20	Total remuneration (£000) 2018/19
Chairman						
G Drabble	**302.2**[2]	13.3	**10.8**	5.0	**313.0**	18.3
Non Executive Directors						
T Bamford	**70.0**	68.5	**6.8**	10.0	**76.8**	78.5
C Halligan	**70.0**	40.0	**27.7**	10.0	**97.7**	50.0
A Murray	**114.2**	83.3	**21.2**	12.5	**135.4**	95.8
T Schmitt	**70.0**	32.2	**23.6**	10.0	**93.6**	42.2
N Shouraboura	**70.0**	68.5	**16.1**	10.0	**86.1**	78.5
J Simmonds	**90.5**	88.5	**10.5**	5.0	**101.0**	93.5
Past Directors[3]						
G Davis	**201.0**	393.0	**11.5**	10.0	**212.5**	403.0
D Shapland	**27.7**	88.5	**2.1**	10.0	**29.8**	98.5
Total remuneration	**1,015.6**	875.8	**130.3**	82.5	**1,145.9**	958.3

1. The taxable benefits for the Non Executive Directors (including the Chairman) relate to (i) UK taxable benefits and (ii) a travel allowance of £2,500 (each way), where there is a need for intercontinental flight in excess of five hours (one way) based on the home location of the Non Executive Director or Chairman and the location of the Board (or Committee) meeting, up to a maximum of £30,000 per individual per annum. This allowance was introduced in November 2018.
2. The fees for Geoff Drabble reflect that he was a Non Executive Director for part of the financial year before taking over the role of Chairman.
3. Gareth Davis and Darren Shapland stepped down from the Board during the year ended July 31, 2020 and remuneration shown above is to the date of cessation for those individuals.

Board appointments and service agreements/letters of appointment

All Executive Directors are appointed to the Board from the relevant effective date of appointment set out in their service agreements. Appointment dates for all of the Non Executive Directors are set out in their letters of appointment. Further details are shown in the table below.

Board appointments

Director[2,3]	Effective date of appointment	Expiry of current term
Executive Directors		
K Murphy	August 1, 2017 and November 19, 2019 (as Group CEO)	
M Powell[1]	June 1, 2017	
Chairman		
G Drabble	May 22, 2019	May 22, 2022
Non Executive Directors		
T Bamford	March 22, 2011	March 22, 2021
C Halligan	January 1, 2019	January 1, 2022
A Murray	January 1, 2013	January 1, 2022
T Schmitt	February 11, 2019	February 11, 2022
N Shouraboura	July 1, 2017	July 1, 2021
J Simmonds	May 21, 2014	May 21, 2021

1. As announced on May 26, 2020, Mike Powell gave notice of his resignation and will leave the Company. His leaving date is October 31, 2020.
2. Details of all Directors can be found on pages 62 and 63. 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. Further details can be found on page 69.
3. 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.

Statement of shareholder voting

The following table shows the results of the full details of the voting outcomes in relation to Directors' remuneration at the AGM on November 21, 2019:

	Votes for	For %	Votes against	Against %	Total	Votes withheld (abstentions)
Remuneration Report	130,081,506	74.49	44,543,309	25.51	174,624,815	3,175,124
Remuneration Policy	124,039,675	70.29	52,431,270	29.71	176,470,945	1,328,995
LTIP Amendment	127,110,021	72.03	49,358,759	27.97	176,468,780	1,331,160

In response to the above voting results, and in accordance with the provisions of the Code, the Company provided an update via RNS to the London Stock Exchange on May 13, 2020. Following the AGM, the Board engaged with several shareholders who it identified as having voted against those resolutions and who despite our best efforts had not engaged with the Company during the earlier consultation process. The Company wrote directly to these shareholders representing about 12 per cent of issued share capital setting out its position.

During this engagement the Company sought to clarify its position on the various components of total compensation including fixed pay, bonus and Long Term Incentive Plans. No new concerns were raised during the engagement and the Board considers that the Remuneration Policy remains appropriate to reflect the size and scale of Ferguson. The Board will continue to review how it applies the Remuneration Policy over its three-year life, and takes into account all relevant factors in its decision-making.

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.

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, 2020 are set out below and any changes in interests since that date and up to the date of this Report are reflected in the footnotes.

				Unvested share awards		
				With performance conditions	Without performance conditions	
	Shares beneficially owned as at July 31, 2020	Shareholding guideline (as a multiple of salary/fees)[1,2]	Vested (unexercised) share awards[3,4]	LTIP[5]	DBP[3,5]	All-employee[5]
Executive Directors						
K Murphy	**40,654**	3.5	–	109,198	–	144
M Powell	**20,861**	3	–	72,978	1,464	446
Chairman and Non Executive Directors						
G Drabble	**4,983**	1	–	–	–	–
T Bamford	**1,940**	1	–	–	–	–
C Halligan	**425**	1	–	–	–	–
A Murray	**2,368**	1	–	–	–	–
T Schmitt	**1,350**	1	–	–	–	–
N Shouraboura	**–**	1	–	–	–	–
J Simmonds	**1,894**	1	–	–	–	–
Past Directors[6]						
G Davis	**14,538**	N/A	–	–	–	–
J Martin	**163,327**	N/A	–	97,496	–	–
D Shapland	**1,989**	N/A	–	–	–	–

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, 2020, Kevin Murphy, Mike Powell, Geoff Drabble, Cathy Halligan and Nadia Shouraboura had not met their shareholding guideline targets set for 2019/20. Shareholding guideline targets for Kevin Murphy as the newly appointed Group Chief Executive were set on December 1, 2019 and Kevin has until November 19, 2024 to meet his shareholding target. Shareholding guideline targets for Mike Powell and Nadia Shouraboura were set on August 1, 2017. Nadia Shouraboura has until July 1, 2022 to meet her shareholding target. Shareholding guideline targets for Geoff Drabble and Cathy Halligan were set on August 1, 2019 and they have until May 22, 2024 and November 21, 2024 respectively to meet their shareholding target. Shareholding guideline targets are 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 and 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 will be 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 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.
3. Mike Powell's DBP award in the form of a nil cost option over 284 shares was granted on October 30, 2017 and under normal circumstances would become exercisable on August 1, 2020. However, the exercise of the DBP award was delayed until September 29, 2020 following the announcement of the Company's Full Year Results due to the restrictions imposed by the Company's close period.
4. Details of share awards exercised in the year are detailed in the share awards exercised during the year table on page 92.
5. LTIP awards are subject to performance conditions but DBP and all-employee awards are not. LTIP awards were awarded in the form of conditional share awards to Kevin Murphy and in the form of nil cost options to Mike Powell. 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 awards are set out on page 91.
6. Shareholdings stated for past Directors are given as at the date on which the Director stepped down from the Board.

Relative importance of spend on pay

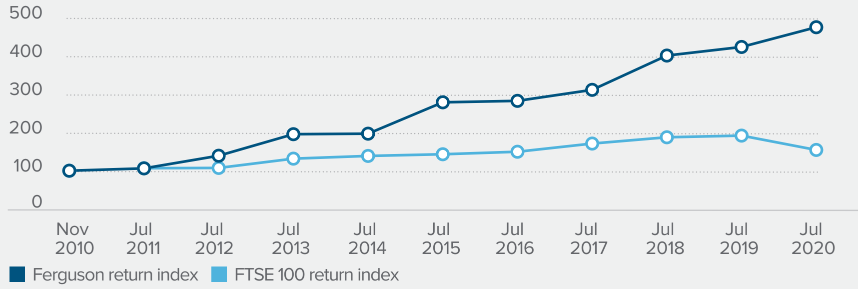
The following table sets out the amounts and percentage change in total associate remuneration costs, dividends and returns of capital for the year ended July 31, 2020 compared to the year ended July 31, 2019. Further details on associate remuneration, dividends and the share buy back program can be found in note 10, note 8 and note 24 of the consolidated financial statements on pages 135, 134 and 153 respectively.

	Year ended July 31, 2020 $m	Year ended July 31, 2019 $m	Percentage change
Total associate remuneration costs	**3,137**	3,163	(0.8)%
Ordinary dividends[1]	**466**	473	(1.5)%
Share buy back			
2019 Share buy back[2]	**350**	150	133.0%
2020 Share buy back[3]	**101**	–	100.0%

1. This disclosure is revised for this year and for future years to show dividends paid in relation to the relevant financial year, rather than those paid during the financial year.
2. The figures are not representative of an increase but show actual expenditure across two financial years in relation to a $500 million share buy back program announced by the Company on June 10, 2019.
3. The figure is not representative of an increase but shows the actual expenditure in the year in relation to a $500 million share buy back program announced by the Company on February 4, 2020. As announced on April 15, 2020 the share buy back program was suspended 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 from the creation of the holding company at the time of the redomiciliation to Switzerland in November 2010, to July 31, 2020. 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, 2010 to July 31, 2020.

	Group CEO[1]		2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Single figure of total remuneration (£000)[2]	I Meakins		2,011	5,603	5,109	5,890	3,901	3,375	1,768	–	–	–
	J Martin		–	–	–	–	–	–	3,746	3,952	6,076[3]	592
	K Murphy		–	–	–	–	–	–	–	–	–	4,023[4]
Annual bonus award rates against maximum opportunity	I Meakins		98%	85%	84%	97%	86%	55%	–	–	–	–
	J Martin		–	–	–	–	–	–	97%	95%	85%	23%[5]
	K Murphy		–	–	–	–	–	–	–	–	–	73%
Long term incentive vesting rates against maximum opportunity	I Meakins	LTIP	0%	76%	100%	88%	75%	47%	72%	–	–	–
		ESOP	0%	100%	100%	100%	100%	100%	100%	–	–	–
	J Martin	LTIP	–	–	–	–	–	–	72%	82%	96%	–
		ESOP	–	–	–	–	–	–	100%	–	–	–
	K Murphy	LTIP	–	–	–	–	–	–	–	–	–	92%

1. During the 10-year period, Ian Meakins was the Group Chief Executive 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 87.
3. The single figure of total remuneration for John Martin for the year ended July 31, 2019 has been adjusted respectively from the value of £5,512.1 million estimated in that year's report to reflect the actual value of LTIP at the date of vesting in November 2019.
4. The single figure shown for Mr Murphy in the 2019/20 financial year has been converted into pounds sterling using a 12-month average rate for the year ended July 31, 2020 of $1.2613: £1.
5. The percentage bonus figure for John Martin is reflective of the pro ration applied to his bonus when he stepped down as a Director on November 19, 2019.

Other information
Financials
Governance
Strategic report

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 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. The comparator group in previous years was UK-based associates. Pending the demerger of the UK business, the Committee has elected this year to disclose against US-based associates as a more suitable comparator group and to more accurately reflect the nature of the Company'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			
Kevin Murphy	9.0	8.2	10.4
Mike Powell	8.2	(0.8)	(5.8)
Chairman and Non Executive Directors			
G Drabble	341.1	115.4	N/A
T Bamford	2.2	(31.7)	N/A
C Halligan	2.2	177.2	N/A
A Murray	37.0	69.3	N/A
T Schmitt	2.2	135.6	N/A
N Shouraboura	2.2	61.4	N/A
J Simmonds	2.3	109.7	N/A
Past Directors[4]			
John Martin	2.0	(46.5)	(25.8)
Gareth Davis	2.3	15.4	N/A
Darren Shapland	2.3	(78.8)	N/A
Average for all US-based associates	3.4	(1.7)	2.9[5]

1. The figures for Kevin Murphy, Geoff Drabble and Alan Murray relate to changes in role during 2019/20: Kevin Murphy was promoted during the period from Chief Executive Officer USA to Group Chief Executive; Geoff Drabble became Chairman; and Alan Murray became Employee Engagement Director and Chairman of the Audit Committee. The figure for Mike Powell relates to the phased increase of salary as determined by the Committee for 2019/20 and as previously disclosed in last year's Report.
2. The figures for Non Executive Directors do not reflect any change in the benefits offered. It relates mainly to the travel allowance which had been introduced following the AGM in November 2019 and other benefits taxable in the UK since the redomicilation. Also those Non Executive Directors who joined the Company part way through 2018/19 (Geoff Drabble, Cathy Halligan and Tom Schmitt) will show a higher increase. In addition, benefits are higher for Geoff Drabble to reflect his promotion to the role of Chairman in 2019/20.
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. The percentage change in salary for past Directors reflects annualized values for 2019/20 remuneration. For the past Directors, the percentage change in benefits is reflective of the pro rated period the individual was a Director. For John Martin, the percentage change in annual bonus reflects annualized values. Where annualized values have been used, this is to enable a comparison with 2018/19 on a like-for-like basis.
5. This figure excludes a special recognition payment made in 2019/20 to certain eligible hourly associates of $1,000 (2018/19: $250).

Group Chief Executive pay ratio

The table below reports the pay ratio for 2019/20 as required under the Companies (Miscellaneous Reporting) Regulations 2018 which require us to provide this ratio against our UK workforce. The table also provides further information on the total pay figures and the salary component for each quartile associate.

Method	Group Chief Executive	25th percentile ratio	50th percentile ratio	75th percentile ratio
Option A		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

The pay ratios have been calculated using Option A which requires the calculation and ranking, from lowest to highest, of the pay and benefits of UK associates for the relevant financial year in order to identify those at the 25th, 50th and 75th percentiles. The Committee considered it to be the most appropriate and robust way to calculate the three ratios.

Due to the change of Group Chief Executive in the year, the Group Chief Executive values used are derived from the total single figure of remuneration table on page 87 for the periods that each of John Martin and Kevin Murphy held that role. Where required, Kevin Murphy's values are converted to GBP using the exchange rate set out on page 86 under the heading "Information".

UK associates' pay data as at July 31, 2020 uses associate pay 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, 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 associate population but do not include all UK associates as at July 31, 2020. For part-time UK 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.

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.

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, 2020, the Jersey Trust held 126,229 ordinary shares of 10 pence and $1,308 in cash; and the US Trust held 1,151,118 ordinary shares of 10 pence. The number of shares held by the Trusts represented 0.55 per cent of the Company’s issued share capital at July 31, 2020.

During the year, 307,345 ordinary shares were purchased by the US Trust for £19.9 million to ensure that it continued to have sufficient shares to satisfy share awards. The Company provided funds to the US Trust to enable it to make the purchases. The number of shares purchased represented 0.13 per cent of the Company’s issued share capital. No shares were acquired by the Jersey Trust during the year.

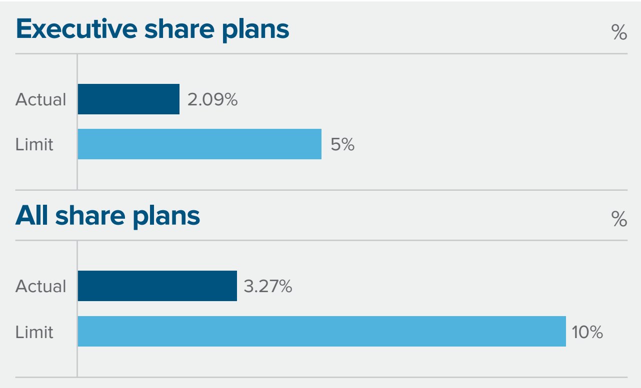
Further details of shares held by the Trusts can be found at note 24 on page 153 of the consolidated financial statements.

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 (5 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, 2020, the Company’s headroom was 2.91 per cent and 6.73 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, 2020

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

In accordance with Provision 40 of the Code, the Committee keeps the Policy under review in the context of the following six themes:

Clarity: The Committee believes the approach to disclosure is transparent, with clear rationale provided for decisions. The Committee remains committed to consulting with shareholders 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 ensured that remuneration arrangements do not 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.
Predictability and proportionality: 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.

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-calibre Executive Directors required to ensure the successful formation and delivery of the Group's strategy and management of its business in the international environment in which it operates.

Operation and opportunity

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

Framework to assess performance measures and for recovery of sums paid

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

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

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.

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 86 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.

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 favourable regimes that are available in the USA and the UK. For the USA, grants are currently made under the ESPP and in the UK, under a tax favoured schedule to the ISP.

Framework to assess performance measures and for recovery of sums paid

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

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

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.

2. Remuneration Policy tables continued

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

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 recognise the experience of the individual, time commitment of the role, and fee levels at comparable companies. Fee increases each year, if applicable, are normally effective at the same time as the effective annual salary review date for Ferguson employees.
- The fees payable to the Chairman and Non Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration.

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.

3. Legacy arrangements

In approving this 2019 Policy, authority is given to the Company for the duration of the 2019 Policy to honour commitments paid, promised to be paid or awarded to: (i) current or former Directors prior to the date of this 2019 Policy being approved (provided that such payments or promises are consistent with the 2019 Policy or were consistent with any Remuneration Policy of the Company which was approved by shareholders and was in effect at the time they were made); or (ii) an individual (who subsequently is appointed as a Director of the Company) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, was not paid, promised to be paid or awarded as financial consideration of that individual becoming a Director of the Company, even where such commitments are inconsistent with the provisions of the 2019 Policy.

For the avoidance of doubt, this includes: (1) all awards granted under the LTIP 2015, LTIP 2019, DBP 2016 and DBP 2019; (2) all awards granted under the Ordinary Share Plan 2011 and Performance Ordinary Share Plan 2016 to employees of the Company who were not Directors at the date of grant; and (3) all awards granted to Mike Powell upon joining Ferguson of either the Restricted Share Buy Out Awards or Performance Based Buy Out Award, as well as Deferred Bonus Plan Awards granted to him in November 2017 and October 2018.

4. Differences in Remuneration Policy for Executive Directors compared to other employees

The remuneration policy for other senior executives across the Group is broadly consistent with that for the Executive Directors, although there are differences in award opportunities as well as the performance linkage of incentives. Executives and senior managers with Group roles participate in long term incentive arrangements which reflect Group performance (and for some who have regional duties as well, also reflect regional performance). Executives and senior managers with regional roles participate in incentives that are linked to regional performance, thereby maximising participant line-of-sight and aligning pay outcome with their contribution to the success of their business area. In addition, the operation of the DBP is not cascaded into the organisation, reflecting local practice in the markets in which many senior executives are based (notably the USA).

Below the executive and senior manager populations, the wider employee population of the Group receives remuneration that is considered to be appropriate for their geographic location, role, level of responsibility and performance.

5. Recruitment policy

Executive Directors

As noted earlier, the Committee will consider the need to attract the best talent 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 honoured in accordance with the service contract and terms of incentive plans or letter of appointment. The Committee will take into consideration the circumstances and reasons for departure, health, length of service, performance and the duty (where applicable) for Directors to mitigate their own loss. Under this 2019 Policy the Committee may make any statutory payments it is required to make and/or settle claims brought against the Company in relation to a termination. In addition, the Committee may agree to payment of any other benefit in connection with stepping down from the Board (for example, outplacement counselling costs and disbursements (such as legal costs)) if considered to be appropriate and/or necessary and dependent on the circumstances of departure.

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 instalments subject to mitigation. – No payment will be made to Executive Directors in the event of gross misconduct.	Fees and expenses accrued up to the termination date only.
Post-termination covenants	– Non-compete and non-solicitation covenants apply after the termination date.	Not applicable.

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

The policy on loss of office and contractual provisions above would be applied to any new Director's service contract or letter of appointment.

Executive Directors

On loss of office, there is no automatic entitlement to a bonus. Executive Directors may receive a bonus in respect of the year of cessation of employment based on, and subject to, performance conditions and pro rated to reflect the actual period of service in the year of cessation (except pro ration may not be applied in exceptional circumstances such as death in service or ill-health). The Committee will take into account the reason for the Executive Director's departure and any other relevant factors when considering a bonus payment of a departing Executive Director. The Committee retains the discretion whether or not to require an Executive Director to defer any part of a bonus that is awarded on termination.

The treatment of leavers under the LTIP or any other awards under LTI plans, together with awards under all-employee plans and the DBP (if applicable), would be determined by the relevant leaver provisions in accordance with the plan rules.

Under the LTIP or any other awards under LTI plans, any unvested awards will lapse at cessation unless the individual has "good leaver" status (namely for reasons of death, redundancy, injury, disability, ill-health, employing business or company sold out of the Group and any other reason at the discretion of the Committee).

The Committee retains the discretion to determine when the awards should vest and performance conditions be tested; although this would normally be at the usual vesting date, the Committee may determine in certain circumstances to bring forward the performance test and date of vesting to the date of cessation, e.g. in circumstances such as death in service. In the event of a change of control or takeover, all long term incentive awards will vest subject to performance conditions being met. In relation to the LTIP, awards would generally be pro rated to reflect the period of service of the Executive Director; although, if the Committee considers it appropriate, the Committee has the discretion set out in the plan rules not to pro rate.

Under the all-employee plans, any unvested awards will lapse at cessation unless the individual has a "good leaver" status – for UK Executive Directors this will be specifically as prescribed by HMRC in the relevant section of the applicable plan rules and for Executive Directors in other jurisdictions as set out in the relevant section of the applicable plan rules.

Under the DBP, any unvested awards will be forfeited if an Executive Director ceases to be an employee of the Group by reason of misconduct or if the Company becomes aware, after termination, of facts or circumstances which would have entitled it to dismiss the Executive Director for misconduct. If an Executive Director ceases to be an employee for any other reason, an award shall vest in full at the end of the deferral period unless the reason for cessation is death or other circumstances which the Committee considers sufficiently exceptional, in which case the award shall vest in full at the date of death or cessation of employment.

7. Discretion, flexibility and judgement of the Committee

The Committee operates the annual bonus plan, DBP, LTIP and all-employee plans and other long term incentive plans, according to their respective rules and in accordance with tax authorities' rules where relevant. To ensure the efficient administration of those plans, the Committee may apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payment;
- determining the quantum of awards and/or payments (within the limits set out in the Policy table above);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances (e.g. change of control, changes to accounting rules, rights issues, corporate restructuring events, and special dividends);
- determining "good leaver" status for the purposes of the LTI plans and the DBP and applying the appropriate treatment; and
- undertaking the annual review of performance measures and weighting between them (within the limits set out in the Policy table), and setting targets for the annual bonus plan and LTIP from year to year.

If an event occurs which results in the performance conditions and/or targets of the annual bonus plan or LTIP being deemed no longer appropriate (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy. The use of the discretions referred to in the Remuneration Policy tables and above will be explained as appropriate in the Annual report on remuneration and may, as appropriate, be the subject of consultation with major shareholders.

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.

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 2020 AGM.

Authority to allot shares

At the 2019 AGM, authority was given to the Directors to allot new ordinary shares up to a nominal value of £15,164,986. The Directors intend to propose at the 2020 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 2021 AGM or, if earlier, at the close of business on the date which is 15 months after the date of the 2020 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 2021 AGM or, if earlier, at the close of business on the date which is 15 months after the date of the 2020 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 five 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 five 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 2019 AGM, authority was given to the Directors to purchase up to 22,747,479 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 2020 AGM.

During the year the Company undertook two $500 million share repurchase programs. These programs were announced on June 10, 2019 (the "2019 Buy Back Program") and February 4, 2020 (the "2020 Buy Back Program"), (together, the "Buy Back Programs"). The purpose of the Buy Back Programs was to reduce the issued share capital of Ferguson plc.

The 2019 Buy Back Program was completed during the year. From June 11, 2019 to December 16, 2019, 6,548,150 ordinary shares of 10 pence each had been purchased for a consideration of $500 million representing 2.82 per cent of the issued share capital of the Company as at July 31, 2020. All shares purchased were held in Treasury. In relation to the 2020 Buy Back Program, 1,133,791 ordinary shares of 10 pence each had been purchased for a consideration of $101 million representing 0.49 per cent of the issued share capital of the Company as at July 31, 2020. On April 15, 2020 the Company announced that the 2020 Buy Back Program had been suspended. All shares purchased were held in Treasury.

Additional details concerning the Buy Back Programs can be found in note 24 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, 2020 are provided in note 24 to the consolidated financial statements on pages 152 and 153.

In certain circumstances, it may be advantageous for the Company to purchase its own ordinary shares and the Company seeks authority on an annual basis to renew the Directors' limited authority to purchase the Company's ordinary shares in the market pursuant to Article 57 of the Companies (Jersey) Law 1991. It is intended that a special resolution will be proposed at the 2020 AGM to grant authority for the Company to purchase up to approximately 10 per cent of the Company's issued share capital, calculated at the latest practicable date prior to the publication of the Notice of AGM. The special resolution will set the minimum and maximum prices which may be paid. The Directors have no present intention of exercising this authority to purchase the Company's shares but will keep the matter under review. The 2020 Buy Back Program remains suspended and the Directors will continue to assess this as we gain further clarity on economic conditions. 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.

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 $600 million US bond issued in June 2020, the $500 million bank facility dated April 1, 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 $450 million US Private Placement Bonds issued on November 30, 2017, $800 million US Private Placement Bonds issued on September 1, 2015, the amended $600 million receivables facility agreement originally entered into on July 31, 2013 and the $281 million US Private Placement Bonds issued on November 16, 2005 which could, under specific circumstances, become repayable following a relevant change of control. There are no agreements between the Company and any Director that would provide compensation for loss of office or employment resulting from a change of control following a takeover bid, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest in those circumstances. All of the Company's share plans contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable for a limited period of time upon a change of control following a takeover, reconstruction or winding up of the Company (not being an internal 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. 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 110 and 97 of this Annual Report and Accounts respectively. The remaining disclosures required by the above Listing Rule are not applicable to the Company.

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 and the annual engagement survey.

The Board engages with associates during site visits and 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 24, 25 and 66. 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 20 and 21. The Group also has policies in place relating to the continuation of employment of, and appropriate retraining for, employees who become disabled, for giving full and fair consideration to applications for employment by disabled persons, having regard to their particular attributes and abilities, and for the training, career development and promotion of disabled employees.

Going concern statement

The Group's principal objective when managing cash and debt is to safeguard the Group's ability to continue as a going concern for the foreseeable future. The Group retains sufficient resources to remain in compliance with all the required terms and conditions within its borrowing facilities with material headroom and no material uncertainties have been identified. While there remains significant uncertainty as to the future of the COVID-19 pandemic, the Group continues to conduct ongoing risk assessments of the potential impact of the pandemic on its business operations and liquidity. The Group has also taken steps to enhance its operational resilience and position the business for the current operating environment. 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 53 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 Wolseley 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, 2020, 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 2020 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, 2020, 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. 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 24 to the consolidated financial statements on pages 152 and 153.

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

The Company also has a Level 1 American Depositary Receipt ("ADR") program in the USA managed by J.P. Morgan Chase Bank, N.A. The American Depositary Shares ("ADS"), which are evidenced by ADRs, are traded on the US over-the-counter market, where each ADS represents one-tenth of a Ferguson plc ordinary share. As announced on February 4, 2020, in the event of an additional listing of shares in the USA, the ADR Program would be canceled.

Substantial shareholdings

As at July 31, 2020, 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, 2020 and the date of this report.

Name of holder	Percentage of issued voting share capital[2]	Date notification received
BlackRock	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.

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:

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

– select suitable accounting policies and then apply them consistently;
– make 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
Mike Powell, Group Chief Financial Officer
Alan Murray, Senior Independent Director and Non Executive Director
Tessa Bamford, Non Executive Director
Cathy Halligan, Non Executive Director
Tom Schmitt, Non Executive Director
Nadia Shouraboura, Non Executive Director
Jacky Simmonds, Non Executive Director

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

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

The Directors' Report, comprising pages 4 to 112 was approved by the Board and signed on its behalf by:

Graham Middlemiss
Group Company Secretary
September 28, 2020

Financials

Group income statement

Year ended July 31, 2020

	Notes	2020 Before exceptional items $m	2020 Exceptional items (note 5) $m	2020 Total $m	2019 Before exceptional items $m	2019 Exceptional items (note 5) $m	2019 Total $m
Revenue	3	**21,819**	**–**	**21,819**	22,010	–	22,010
Cost of sales		**(15,395)**	**(3)**	**(15,398)**	(15,550)	(2)	(15,552)
Gross profit		**6,424**	**(3)**	**6,421**	6,460	(2)	6,458
Operating costs		**(4,882)**	**(117)**	**(4,999)**	(4,964)	(92)	(5,056)
Operating profit	3, 4	**1,542**	**(120)**	**1,422**	1,496	(94)	1,402
Finance costs	6	**(151)**	**–**	**(151)**	(86)	–	(86)
Finance income	6	**7**	**–**	**7**	12	–	12
Share of (loss)/profit after tax of associates		**(2)**	**–**	**(2)**	2	–	2
Gain on disposal of interests in associates and other investments		**–**	**7**	**7**	–	3	3
Impairment of interests in associates		**(22)**	**–**	**(22)**	(9)	–	(9)
Profit before tax		**1,374**	**(113)**	**1,261**	1,415	(91)	1,324
Tax	7	**(330)**	**23**	**(307)**	(282)	19	(263)
Profit from continuing operations		**1,044**	**(90)**	**954**	1,133	(72)	1,061
Profit from discontinued operations		**5**	**2**	**7**	6	41	47
Profit for the year attributable to shareholders of the Company		**1,049**	**(88)**	**961**	1,139	(31)	1,108
Earnings per share	9						
Continuing operations and discontinued operations							
Basic earnings per share				**427.5c**			481.3c
Diluted earnings per share				**423.5c**			477.8c
Continuing operations only							
Basic earnings per share				**424.4c**			460.9c
Diluted earnings per share				**420.4c**			457.5c

Alternative performance measures		2020	2019
Ongoing underlying trading profit	2	**1,595**	1,532
Non-ongoing underlying trading profit	2	**8**	74
Underlying trading profit	2, 3	**1,603**	1,606
Adjusted EBITDA from continuing operations	2	**1,797**	1,788
Headline earnings per share	2, 9	**511.6c**	517.4c

The Group adopted IFRS 16 "Leases" on August 1, 2019 applying the modified retrospective transition method. As a result, comparatives have not been restated and are shown on an IAS 17 "Leases" basis. See note 1 for further details.

Group statement of comprehensive income

Year ended July 31, 2020

	Notes	2020 $m	2019 $m
Profit for the year		**961**	1,108
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain/(loss) on translation of overseas operations[1]		**57**	(86)
Exchange (loss)/gain on translation of borrowings and derivatives designated as hedges of overseas operations[1]		**(31)**	36
Cumulative currency translation differences on disposals[1]		**9**	1
Cumulative currency translation differences on disposal of interests in associates[1]		**–**	7
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of retirement benefit plans[2]	23	**(235)**	(36)
Tax credit on items that will not be reclassified to profit or loss[2]	7, 23	**44**	6
Other comprehensive expense for the year		**(156)**	(72)
Total comprehensive income for the year		**805**	1,036
Total comprehensive income attributable to:			
Continuing operations		**787**	993
Discontinued operations		**18**	43
Total comprehensive income for the year attributable to shareholders of the Company		**805**	1,036

1. Impacting the translation reserve.
2. Impacting retained earnings.

Group statement of changes in equity

Year ended July 31, 2020

	Notes	Share capital $m	Share premium $m	Reserves: Translation reserve $m	Reserves: Treasury shares $m	Reserves: Own shares $m	Reserves: Retained earnings $m	Non-controlling interest $m	Total equity $m
At July 31, 2018		45	67	(556)	(1,380)	(90)	5,972	(1)	4,057
Profit for the year		–	–	–	–	–	1,108	–	1,108
Other comprehensive expense		–	–	(42)	–	–	(30)	–	(72)
Total comprehensive income		–	–	(42)	–	–	1,078	–	1,036
Cancellation of Treasury shares	24	(4)	–	–	1,369	–	(1,365)	–	–
Group reconstruction		(11)	16,083	–	–	–	(16,072)	–	–
Capital reduction		–	(16,150)	–	–	–	16,150	–	–
Issue of share capital	24	–	9	–	–	–	–	–	9
Purchase of own shares by Employee Benefit Trusts	24	–	–	–	–	(38)	–	–	(38)
Issue of own shares by Employee Benefit Trusts	24	–	–	–	–	26	(26)	–	–
Credit to equity for share-based payments		–	–	–	–	–	34	–	34
Tax relating to share-based payments	7	–	–	–	–	–	6	–	6
Adjustment arising from change in non-controlling interest		–	–	–	–	–	–	1	1
Purchase of Treasury shares	24	–	–	–	(309)	–	–	–	(309)
Disposal of Treasury shares	24	–	–	–	15	–	(12)	–	3
Dividends paid	8	–	–	–	–	–	(449)	–	(449)
At July 31, 2019		30	9	(598)	(305)	(102)	5,316	–	4,350
Adjustment on adoption of IFRS 16	1	–	–	–	–	–	(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	24	–	–	–	–	(26)	–	–	(26)
Issue of own shares by Employee Benefit Trusts	24	–	–	–	–	40	(40)	–	–
Credit to equity for share-based payments		–	–	–	–	–	26	–	26
Tax relating to share-based payments	7	–	–	–	–	–	11	–	11
Purchase of Treasury shares	24	–	–	–	(292)	–	–	–	(292)
Disposal of Treasury shares	24	–	–	–	27	–	(16)	–	11
Dividends paid	8	–	–	–	–	–	(327)	–	(327)
At July 31, 2020		30	9	(563)	(570)	(88)	5,553	–	4,371

Group balance sheet

Year ended July 31, 2020

	Notes	2020 $m	2019 $m
Assets			
Non-current assets			
Intangible assets: goodwill	11	**1,721**	1,656
Intangible assets: other	12	**521**	423
Right of use assets	13	**1,111**	–
Property, plant and equipment	14	**1,389**	1,349
Interests in associates		**4**	29
Other financial assets		**12**	42
Retirement benefit assets	23	**–**	178
Deferred tax assets	15	**216**	164
Trade and other receivables	17	**377**	340
Derivative financial assets	21	**28**	10
		5,379	4,191
Current assets			
Inventories	16	**2,880**	2,821
Trade and other receivables	17	**3,042**	3,213
Current tax receivable		**–**	6
Other financial assets		**9**	9
Derivative financial assets	21	**11**	12
Cash and cash equivalents	18	**2,115**	1,133
		8,057	7,194
Assets held for sale		**20**	1
Total assets		**13,456**	11,386
Liabilities			
Current liabilities			
Trade and other payables	19	**3,591**	3,797
Current tax payable		**293**	251
Borrowings	20	**531**	52
Lease liabilities	13	**281**	–
Obligations under finance leases		**–**	2
Provisions	22	**53**	79
		4,749	4,181
Non-current liabilities			
Trade and other payables	19	**338**	292
Borrowings	20	**2,635**	2,292
Lease liabilities	13	**1,074**	–
Obligations under finance leases		**–**	4
Deferred tax liabilities	15	**26**	56
Provisions	22	**202**	186
Retirement benefit obligations	23	**61**	25
		4,336	2,855
Total liabilities		**9,085**	7,036
Net assets		**4,371**	4,350
Equity			
Share capital	24	**30**	30
Share premium		**9**	9
Reserves		**4,332**	4,311
Equity attributable to shareholders of the Company		**4,371**	4,350

The accompanying notes are an integral part of these consolidated financial statements. The consolidated financial statements on pages 114 to 157 were approved and authorized for issue by the Board of Directors on September 28, 2020 and were signed on its behalf by:

Kevin Murphy
Group Chief Executive

Mike Powell
Group Chief Financial Officer

Group cash flow statement

Year ended July 31, 2020

	Notes	2020 $m	2019 $m
Cash flows from operating activities			
Cash generated from operations	25	**2,252**	1,609
Interest received		**8**	13
Interest paid		**(167)**	(90)
Tax paid		**(225)**	(242)
Net cash generated from operating activities		**1,868**	1,290
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	26	**(351)**	(657)
Disposals of businesses (net of cash disposed of)		**7**	201
Purchases of property, plant and equipment		**(215)**	(382)
Net proceeds from the disposal of property, plant and equipment, assets held for sale and right of use assets		**13**	84
Purchases of intangible assets		**(87)**	(36)
Acquisition of associates and other investments		**(5)**	(11)
Disposal of interests in associates and other investments		**32**	18
Net cash used in investing activities		**(606)**	(783)
Cash flows from financing activities			
Proceeds from the issue of shares	24	**–**	9
Purchase of own shares by Employee Benefit Trusts	24	**(26)**	(38)
Purchase of Treasury shares		**(451)**	(150)
Proceeds from the sale of Treasury shares	24	**11**	3
Proceeds from loans and derivatives	27	**1,169**	757
Repayments of loans	27	**(566)**	(2)
Lease liability capital payments	27	**(295)**	–
Finance lease capital payments	27	**–**	(3)
Dividends paid to shareholders		**(327)**	(445)
Net cash (used in)/generated from financing activities		**(485)**	131
Net cash generated		**777**	638
Cash, cash equivalents and bank overdrafts at the beginning of the year	27	**1,086**	458
Effects of exchange rate changes		**4**	(10)
Cash, cash equivalents and bank overdrafts at the end of the year	27	**1,867**	1,086

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 170 and 171.

Ferguson plc is a public company limited by shares incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in the UK. It operates as the ultimate parent company of the Ferguson Group. Its registered office is 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands.

The consolidated financial statements have been prepared on a going concern basis (see page 110) and under the historical cost convention as modified by the revaluation of financial assets and liabilities measured at fair value.

Choices permitted by IFRS

The Group has elected to apply hedge accounting to some of its financial instruments.

Accounting developments and changes

On August 1, 2019, the Group adopted IFRS 16 "Leases". The standard makes changes to the treatment of leases in the financial statements, requiring the use of a single model to recognize a lease liability and a right of use asset for all leases, including those classified as operating under IAS 17 "Leases", unless the underlying asset has a low value or the lease term is 12 months or less. Rental charges in the income statement previously recorded under IAS 17 are replaced with depreciation and interest charges under IFRS 16 and right of use assets are subject to impairment reviews in accordance with IAS 36 "Impairment of Assets" replacing the previous requirement to recognize a provision for onerous lease contracts.

The Group has applied the modified retrospective transition method and has not restated comparatives for the year ended July 31, 2019. For the majority of leases, the right of use asset on transition has been measured as if IFRS 16 had been applied since the commencement of the lease, discounted using the Group's incremental borrowing rate as at August 1, 2019, with the difference between the right of use asset and the lease liability taken to retained earnings. For the remaining leases which relate to the Group's US fleet, where sufficient historic information has not been available, the right of use asset has been measured as equal to the lease liability on transition. The US fleet represented $252 million of the lease liability on transition.

The Group has elected to apply the following practical expedients on transition:

- To not reassess whether contracts are, or contain, a lease at the date of initial application;
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessment of whether leases are onerous in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review;
- Election to not apply the measurement requirements of the standard to leases where the term ends within 12 months of the date of initial application;
- Exclusion of initial direct costs from the measurement of the right of use asset at the date of initial application; and
- Use of hindsight, such as in determining the lease term.

The impact of the adoption of IFRS 16 on the income statement in the year ended July 31, 2020 was to decrease rental costs by $337 million, increase depreciation by $268 million and increase finance costs by $53 million. The impact on the cash flow statement was to increase cash generated from operations by $348 million, increase interest paid by $53 million and increase lease liability capital payments by $295 million. There was no impact on the net increase in cash, cash equivalents and bank overdrafts.

The impact of the adoption of IFRS 16 on the opening balance sheet at August 1, 2019 was as follows:

	$m
Right of use assets	**1,220**
Property, plant and equipment	**(6)**
Net deferred tax assets	**69**
Lease liabilities	**(1,481)**
Obligations under finance leases	**6**
Other	**5**
Net retained earnings adjustment	**(187)**

A reconciliation of the operating lease commitments previously reported under IAS 17 in the Group's Annual Report and Accounts for the year ended July 31, 2019 to the lease liability at August 1, 2019 under IFRS 16 is as follows:

	$m
Operating lease commitments at July 31, 2019	**1,126**
Leases of low value assets	**(20)**
Long-term leases that expire before July 31, 2020	**(12)**
Reasonably certain extension or termination options	**564**
Effect from discounting[1]	**(183)**
Lease liabilities due to initial application of IFRS 16 at August 1, 2019	**1,475**
Lease liabilities from finance leases under IAS 17 at July 31, 2019	**6**
Total lease liabilities at August 1, 2019	**1,481**

1. The weighted average incremental borrowing rate applied by the Group upon transition was 3.5 per cent.

The following other standards and amendments to existing standards became effective for the year ended July 31, 2020 and have not had a material impact on the Group's consolidated financial statements:

- IFRIC 23 "Uncertainty over Income Tax Treatments";
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation;
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRSs 2015-2017 Cycle; and
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement.

Critical accounting judgments

Impact of COVID-19

Management has exercised judgment in evaluating the impact of COVID-19 on the financial statements. Management assessed areas relevant for the Group which had the potential to be impacted such as: expected credit losses; inventory impairment; goodwill, intangible and tangible asset impairment; and deferred tax asset recognition. In light of the Group's strong and resilient performance during the period, management concluded there was no material impact in these areas and no new sources of estimation uncertainty.

1 – Accounting policies continued

Critical accounting judgments continued

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.

Basis of consolidation

The consolidated financial information includes the results of the parent company and entities controlled by the Company (its subsidiary undertakings and controlling interests) and its share of profit/(loss) after tax of its associates.

The financial performance of business operations 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, with the exception of gains or losses required under relevant IFRS accounting standards.

Discontinued operations

When the Group has disposed of, or classified as held for sale, a business component that represents a separate major line of business or geographical area of operations, it classifies such operations as discontinued in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The post-tax profit or loss of the discontinued operations are shown as a single line on the face of the income statement separate from the other results of the Group.

Foreign currencies

Items included in the financial statements of the parent and of each of the Group's subsidiary undertakings are measured using the currency of the primary economic environment in which the subsidiary undertaking operates (the "functional currency"). The consolidated financial statements are presented in US dollars, which is the presentational currency of the Group.

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, 2020, the translation reserve comprised $354 million in relation to pound sterling entities, $181 million in relation to US dollar entities and $28 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.

1 – Accounting policies continued

Accounting policies continued

Interests in associates continued

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.

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 rebates

The majority of volume-based rebates are determined by reference to guaranteed rates of rebate. These are calculated through a mechanical process with minimal judgment required to determine the amount recorded in the income statement.

A small proportion of volume-based rebates are subject to tiered targets where the rebate percentage increases as volumes purchased reach agreed targets within a set period of time. The majority of rebate agreements apply to purchases in a calendar year and therefore, for tiered rebates, 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 considers that a CGU is a business unit because independent cash flows cannot be identified below this level.

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.

1 – Accounting policies continued

Accounting policies continued

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 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.

Leases (applicable for the year ended July 31, 2020)

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-cancellable 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.

Operating leases (applicable for the year ended July 31, 2019)

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. The cost of operating leases (net of any incentives received from the lessor) is charged to the income statement on a straight-line basis over the period of the leases.

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.

Assets and disposal groups held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. Where a group of assets and their directly associated liabilities are to be disposed of in a single transaction, such disposal groups are also classified as held for sale. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition and management must be committed to and have initiated a plan to sell the asset or disposal group which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are not depreciated. Assets or disposal groups that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

1 – Accounting policies continued

Accounting policies continued

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 per cent is recognized against all 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.

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 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.

1 – Accounting policies continued

Accounting policies continued

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.

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 profit or loss over the period to maturity. Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are 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.

Ongoing and non-ongoing

The Group reports some financial measures excluding businesses that have been disposed of, closed or classified as held for sale or the Group is committed to exiting and uses the following terminology:

Non-ongoing operations are businesses, which do not meet the criteria to be classified as discontinued operations under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which have been disposed of, closed or classified as held for sale or the Group is committed to exiting. In 2020, the Group's UK business has been classified as non-ongoing and all comparatives have been restated for consistency and comparability. In 2019, the Group's Dutch business Wasco and UK business soak.com were also included in non-ongoing.

Ongoing operations are continuing operations excluding non-ongoing operations.

2 – Alternative performance measures continued

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 acquisitions, disposals, trading days and currency exchange rate fluctuations, divided by the preceding financial year's revenue at the current year's exchange rates.

A reconciliation of revenue using the above APMs to statutory revenue is provided below:

Revenue	Ongoing $m	Ongoing % growth	Non-ongoing $m	Continuing $m
Reported 2019 restated	**19,549**		**2,461**	**22,010**
Impact of exchange rate movements	**(20)**	**(0.1)**	**(51)**	**(71)**
Reported 2019 at 2020 exchange rates	**19,529**		**2,410**	**21,939**
Organic growth	**(26)**	**(0.1)**	**(348)**	**(374)**
Trading days	**81**	**0.4**	**11**	**92**
Acquisitions	**356**	**1.8**	**39**	**395**
Disposals	**–**	**–**	**(233)**	**(233)**
Reported 2020	**19,940**	**2.0**	**1,879**	**21,819**

Exceptional items

Exceptional items are those which are considered significant by virtue of their nature, size or incidence. These items are presented as exceptional within their relevant income statement category to assist in the understanding of the trading and financial results of the Group as these types of cost/credit do not form part of the underlying business.

Examples of items that are considered by the Directors for designation as exceptional items include, but are not limited to:

- restructuring costs within a segment which are both material and incurred as part of a significant change in strategy or due to the closure of a large part of a business and are not expected to be repeated on a regular basis;
- significant costs incurred as part of the integration of an acquired business and which are considered to be material;
- gains or losses on disposals of businesses 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.

Ongoing gross margin

The ratio of ongoing gross profit, excluding exceptional items, to ongoing revenue. Ongoing gross margin is used by management for assessing segment performance and is a key performance indicator for the Group (see page 16). A reconciliation of ongoing gross margin is provided below:

	2020 Gross profit $m	2020 Revenue $m	2020 Ongoing gross margin %	Restated 2019 Gross profit $m	Restated 2019 Revenue $m	Restated 2019 Ongoing gross margin %
Continuing	**6,421**	**21,819**		6,458	22,010	
Non-ongoing	**(441)**	**(1,879)**		(590)	(2,461)	
Exceptional items	**3**	**–**		2	–	
Ongoing	**5,983**	**19,940**	**30.0**	5,870	19,549	30.0

Trading profit/underlying trading profit and ongoing trading margin/ongoing underlying trading margin

Trading profit is defined as operating profit before exceptional items and the amortization and impairment of acquired intangible assets. Trading profit is used as a performance measure because it excludes costs and other items that do not form part of the trading business. Underlying trading profit is defined as trading profit excluding the impact of IFRS 16.

The ongoing trading margin is the ratio of ongoing trading profit to ongoing revenue. Ongoing underlying trading margin is the ratio of ongoing underlying trading profit to ongoing revenue and is used to assess business unit profitability and is a key performance indicator for the Group (see page 16).

Underlying trading profit and ongoing underlying trading margin are presented to allow better comparison between the year ended July 31, 2020 prepared under IFRS 16 and the year ended July 31, 2019 prepared under IAS 17.

2 – Alternative performance measures continued

Trading profit/underlying trading profit and ongoing trading margin/ongoing underlying trading margin continued

A reconciliation of underlying trading profit and trading profit to statutory operating profit and the calculation of ongoing trading margin are provided below:

	2020				Restated 2019		
		Ongoing	Non-ongoing	Continuing	Ongoing	Non-ongoing	Continuing
	$m	growth %	$m	$m	$m	$m	$m
Trading profit 2019	1,532		74	1,606	1,422	85	1,507
Impact of exchange rate movements	–		(1)	(1)	(1)	(5)	(6)
Trading profit 2019 at 2020 exchange rates	1,532		73	1,605	1,421	80	1,501
Growth at constant exchange rates	63	4.1	(65)	(2)	111	(6)	105
Underlying trading profit	1,595		8	1,603	1,532	74	1,606
Impact of IFRS 16	68		1	69	–	–	–
Trading profit	1,663		9	1,672	1,532	74	1,606
Exceptional items	(99)		(21)	(120)	(117)	23	(94)
Amortization of acquired intangible assets	(114)		(16)	(130)	(109)	(1)	(110)
Operating profit	1,450		(28)	1,422	1,306	96	1,402

Revenue, trading profit/underlying trading profit and trading margin/underlying trading margin are reconciled below:

	Revenue		Trading profit	Impact of IFRS 16	Underlying trading profit	Trading profit	Trading margin	Underlying trading margin	Trading margin
	2020 $m	Restated 2019 $m	2020 $m	2020 $m	2020 $m	Restated 2019 $m	2020 %	2020 %	Restated 2019 %
USA	18,857	18,358	1,654	(67)	1,587	1,508	8.8	8.4	8.2
Canada and Central Europe	1,083	1,191	44	(1)	43	67	4.1	4.0	5.6
Central and other costs	–	–	(35)	–	(35)	(43)	–	–	–
Total ongoing operations	19,940	19,549	1,663	(68)	1,595	1,532	8.3	8.0	7.8
UK	1,879	2,222	9	(1)	8	69	0.5	0.4	3.1
Soak.com	–	59	–	–	–	(4)	–	–	(6.8)
Canada and Central Europe	–	180	–	–	–	9	–	–	5.0
Total non-ongoing operations	1,879	2,461	9	(1)	8	74	0.5	0.4	3.0
Continuing operations	21,819	22,010	1,672	(69)	1,603	1,606	7.7	7.3	7.3

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:

	2020			2019		
	Continuing $m	Discontinued $m	Group $m	Continuing $m	Discontinued $m	Group $m
Operating profit	1,422	7	1,429	1,402	47	1,449
Exceptional items	120	(2)	118	94	(42)	52
Amortization of acquired intangible assets	130	–	130	110	–	110
Trading profit	1,672	5	1,677	1,606	5	1,611
Impact of IFRS 16	(69)	–	(69)	–	–	–
Underlying trading profit	1,603	5	1,608	1,606	5	1,611
Depreciation and impairment of property, plant and equipment	159	–	159	147	–	147
Amortization of non-acquired intangible assets	35	–	35	31	–	31
Impairment of assets held for sale	–	–	–	4	–	4
Adjusted EBITDA	1,797	5	1,802	1,788	5	1,793

2 – Alternative performance measures continued

Ongoing effective tax rate

The ongoing effective tax rate is the ratio of the ongoing tax charge to ongoing profit before tax and is used as a measure of the tax rate of the ongoing business. See reconciliation in note 7.

Headline profit after tax and headline earnings per share

Headline profit after tax is calculated as the profit from continuing operations after tax, before charges for 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 9.

Net debt

Net debt excluding lease liabilities comprises cash and cash equivalents, bank overdrafts, bank and other loans, derivative financial instruments and in the prior year obligations under finance leases under IAS 17. 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 27 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 (see page 17). The calculation of return on gross capital employed is shown below:

	2020 $m	2019 $m
Net debt excluding lease liabilities (note 27)	**1,012**	1,195
Lease liabilities (note 27)	**1,355**	–
Accumulated impairment losses of goodwill (note 11)	**140**	133
Accumulated amortization and impairment losses of acquired intangible assets (note 12)[1]	**811**	677
Shareholders' equity	**4,371**	4,350
Gross capital employed	**7,689**	6,355
Average gross capital employed[2]	**7,022**	6,138
Group trading profit[3]	**1,677**	1,611
Return on gross capital employed %	**23.9**	26.2

1. Excludes software.
2. Gross capital employed in 2018 was $5,921 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 Officer 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 has combined the Canada and Central Europe operating segments into one reportable segment as individually they do not meet the quantitative thresholds set out in IFRS 8 "Operating Segments" to be separately disclosed. In 2019, the Group disposed of its Dutch business, Wasco, which was the last of its Central European businesses.

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, 2019 and July 31, 2020 include changes in exchange rates, disposals, acquisitions, trading days and organic change.

Where businesses are disposed in the year, the difference between the revenue and trading profit in the current year up to the date of disposal and the revenue and trading profit in the equivalent portion of the prior year is included in organic change.

An analysis of the change in revenue by reportable segment for continuing operations is as follows:

	2019 $m	Exchange $m	Disposals $m	Acquisitions $m	Trading days $m	Organic change $m	**2020 $m**
USA	18,358	–	–	355	76	68	**18,857**
UK	2,281	(46)	(58)	39	11	(348)	**1,879**
Canada and Central Europe	1,371	(25)	(175)	1	5	(94)	**1,083**
Continuing operations	22,010	(71)	(233)	395	92	(374)	**21,819**

An additional disaggregation of revenue by end market for continuing operations is as follows:

	2020 $m	2019 $m
Residential	**10,087**	9,599
Commercial	**6,116**	6,054
Civil/Infrastructure	**1,315**	1,212
Industrial	**1,339**	1,493
USA	**18,857**	18,358
UK	**1,879**	2,281
Canada and Central Europe	**1,083**	1,371
Continuing operations	**21,819**	22,010

An analysis of the change in underlying trading profit/(loss) (note 2) by reportable segment for continuing operations is as follows:

	2019 $m	Exchange $m	Disposals $m	Acquisitions $m	Trading days $m	Organic change $m	**2020 $m**
USA	1,508	–	–	16	16	47	**1,587**
UK	65	(1)	3	6	1	(66)	**8**
Canada and Central Europe	76	(1)	(8)	–	1	(25)	**43**
Total reportable segments	1,649	(2)	(5)	22	18	(44)	**1,638**
Central and other costs	(43)	1	–	–	–	7	**(35)**
Continuing operations	1,606	(1)	(5)	22	18	(37)	**1,603**

3 – Segmental analysis continued

Underlying trading profit/(loss) (note 2) is the Group's measure of segment performance in 2020 and is comparable to trading profit/(loss) (note 2) in 2019. Trading profit/(loss) was the Group's segment measure of performance in 2019 and prior years, before the adoption of IFRS 16.
The reconciliation between underlying trading profit/(loss) by reportable segment and Group profit before tax for continuing operations is as follows:

	2020						2019			
	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	Trading profit/(loss) $m	Exceptional items $m	Amortization of acquired intangible assets $m	Operating profit/(loss) $m
USA	**1,587**	**67**	**1,654**	**(65)**	**(113)**	**1,476**	1,508	(63)	(102)	1,343
UK	**8**	**1**	**9**	**(21)**	**(16)**	**(28)**	65	(54)	–	11
Canada and Central Europe	**43**	**1**	**44**	**(7)**	**(1)**	**36**	76	34	(8)	102
Total reportable segments	**1,638**	**69**	**1,707**	**(93)**	**(130)**	**1,484**	1,649	(83)	(110)	1,456
Central and other costs	**(35)**	**–**	**(35)**	**(27)**	**–**	**(62)**	(43)	(11)	–	(54)
Group	**1,603**	**69**	**1,672**	**(120)**	**(130)**	**1,422**	1,606	(94)	(110)	1,402
Net finance costs						**(144)**				(74)
Share of (loss)/profit after tax of associates						**(2)**				2
Gain on disposal of interests in associates and other investments						**7**				3
Impairment of interests in associates						**(22)**				(9)
Profit before tax						**1,261**				1,324

Other information on assets and liabilities by segment is set out in the following tables:

	2020			2019		
	Segment assets[1] $m	Segment liabilities[1] $m	Segment net assets/ (liabilities) $m	Segment assets $m	Segment liabilities $m	Segment net assets/ (liabilities) $m
USA	**9,338**	**(4,402)**	**4,936**	8,252	(3,243)	5,009
UK	**1,093**	**(742)**	**351**	1,144	(553)	591
Canada and Central Europe	**603**	**(315)**	**288**	564	(267)	297
Total reportable segments	**11,034**	**(5,459)**	**5,575**	9,960	(4,063)	5,897
Central and other costs	**49**	**(132)**	**(83)**	97	(282)	(185)
Discontinued	**3**	**(9)**	**(6)**	4	(34)	(30)
Tax assets/(liabilities)	**216**	**(319)**	**(103)**	170	(307)	(137)
Net cash/(debt)	**2,154**	**(3,166)**	**(1,012)**	1,155	(2,350)	(1,195)
Group assets/(liabilities)	**13,456**	**(9,085)**	**4,371**	11,386	(7,036)	4,350

1. As at July 31, 2020, segment assets includes right of use assets and segment liabilities includes lease liabilities.

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.

	2020 $m	2019 $m
USA	**4,134**	3,036
UK	**357**	225
Canada and Central Europe	**255**	196
Group	**4,746**	3,457

	2020					2019			
	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 property, plant and equipment $m
USA	**66**	**107**	**79**	**86**	**199**	258	224	26	327
UK	**12**	**31**	**5**	**19**	**13**	–	–	8	33
Canada and Central Europe	**–**	**–**	**3**	**10**	**2**	1	–	2	11
Total reportable segments	**78**	**138**	**87**	**115**	**214**	259	224	36	371
Central and other costs	**–**	**–**	**–**	**–**	**–**	–	–	–	3
Group	**78**	**138**	**87**	**115**	**214**	259	224	36	374

	2020					2019			
	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 property, plant and equipment $m
USA	**–**	**113**	**26**	**226**	**131**	–	102	20	118
UK	**–**	**16**	**6**	**37**	**20**	–	–	8	21
Canada and Central Europe	**–**	**1**	**2**	**14**	**7**	–	8	2	8
Total reportable segments	**–**	**130**	**34**	**277**	**158**	–	110	30	147
Central and other costs	**22**	**–**	**1**	**1**	**1**	9	–	1	–
Group	**22**	**130**	**35**	**278**	**159**	9	110	31	147

4 – Operating profit

Amounts charged/(credited) in arriving at operating profit from continuing operations include:

	Notes	2020 $m	2019 $m
Amortization of acquired intangible assets	12	**130**	110
Amortization of non-acquired intangible assets	12	**35**	31
Depreciation of right of use assets	13	**268**	–
Impairment of right of use assets	13	**10**	–
Depreciation of property, plant and equipment	14	**154**	147
Impairment of property, plant and equipment	14	**5**	–
Impairment of assets held for sale		**–**	4
Loss/(gain) on disposal of businesses		**3**	(23)
Amounts included in cost of sales with respect to inventory		**15,237**	15,427
Staff costs	10	**3,137**	3,163
Operating lease rentals: land and buildings		**–**	252
Operating lease rentals: plant and machinery		**–**	88
Trade receivables impairment		**17**	11

During the year, the Group obtained the following services from the Company's auditor and its associates:

	2020 $m	2019 $m
Fees for the audit of the Company and consolidated financial statements	**1.7**	1.6
Fees for the audit of the Company's subsidiaries pursuant to legislation	**2.5**	2.2
Total audit fees	**4.2**	3.8
Audit related assurance services	**2.6**	0.3
Other assurance services	**0.9**	1.3
Total non-audit fees	**3.5**	1.6
Total fees payable to the auditor	**7.7**	5.4

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 74 to 80. 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:

	2020 $m	2019 $m
(Loss)/gain on disposal of businesses	**(3)**	23
Business restructuring	**(93)**	(108)
Other exceptional items	**(24)**	(9)
Total included in operating profit	**(120)**	(94)
Gain on disposal of interests in associates and other investments	**7**	3
Total included in profit before tax	**(113)**	(91)

For the year ended July 31, 2020, business restructuring principally comprises costs incurred in the USA, UK and Canada in respect of cost actions taken to ensure the business is appropriately sized for the post COVID-19 operating environment.

Other exceptional items principally relate to the proposed separation of the UK business and the Group's planned listing in the USA.

The gain on disposal of interests in associates and other investments relates to the sale of the Group's investment in Meier Tobler AG.

During the year, the cash flows relating to exceptional items were $113 million (2019: $53 million) used in respect of operating activities and $41 million (2019: $169 million) generated in respect of investing activities.

6 – Net finance costs

	2020 $m	2019 $m
Finance income	**7**	12
Interest cost on borrowings	**(108)**	(97)
Unwind of fair value adjustment to senior unsecured loan notes	**5**	6
Lease liability expense	**(53)**	–
Net interest income on defined benefit obligation (note 23)	**3**	5
Valuation gains on financial instruments	**2**	–
Finance costs	**(151)**	(86)
Total net finance costs	**(144)**	(74)

7 – Tax

The tax charge for the year comprises:

	2020 $m	2019 $m
Current year tax charge	**294**	306
Adjustments to tax charge in respect of prior years	**(16)**	4
Total current tax charge	**278**	310
Deferred tax charge/(credit): origination and reversal of temporary differences	**29**	(47)
Total tax charge	**307**	263

An exceptional tax credit of $23 million (2019: $19 million) was recorded against exceptional items. The deferred tax charge of $29 million (2019: credit of $47 million) includes a credit of $6 million (2019: charge of $3 million) resulting from changes in tax rates. A tax charge of $nil (2019: $4 million charge) arises on the profit from discontinued operations. Of this charge $nil (2019: $4 million) relates to exceptional items.

Tax on items charged to the Group statement of comprehensive income:

	2020 $m	2019 $m
Deferred tax credit on remeasurement of retirement benefit plans	**44**	6
Total tax on items credited to the Group statement of comprehensive income	**44**	6

Tax on items credited to equity:

	2020 $m	2019 $m
Current tax credit on share-based payments	**6**	5
Deferred tax credit on share-based payments	**5**	1
Total tax on items credited to equity	**11**	6

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, 2020, the Group has recognized provisions of $294 million (2019: $254 million) in respect of its uncertain tax positions. The total provision has increased by $40 million in the year due primarily to increases related to certain cross-border transfer pricing risks. Although there is uncertainty regarding the timing of the resolution of these matters, management do not believe that the Group's uncertain tax provisions constitute a major source of estimation uncertainty as they consider that there is no significant risk of a material change to its estimate of these provisions within the next 12 months.

7 – Tax continued

	2020					
	Ongoing profit/tax[7]		Non-ongoing and other profit/tax[8]		Total profit/tax from continuing operations	
Tax reconciliation:	$m	%	$m	%	$m	%
Profit before tax	**1,512**		**(251)**		**1,261**	
Expected tax at weighted average tax rate[1]	**(327)**	**21.6**	**61**	**(24.3)**	**(266)**	**21.1**
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods[2]	**(9)**	**0.6**	**11**	**(4.4)**	**2**	**(0.2)**
exceptional items which are non-tax deductible[3]	**–**	**–**	**1**	**(0.4)**	**1**	**(0.1)**
current year charge in relation to uncertain tax provisions[4]	**(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 non-tax deductible expenditure[5]	**(20)**	**1.3**	**(4)**	**1.6**	**(24)**	**1.9**
other	**(1)**	**0.1**	**(6)**	**2.4**	**(7)**	**0.6**
effect of tax rate changes[6]	**–**	**–**	**6**	**(2.4)**	**6**	**(0.5)**
Tax (charge)/credit / effective tax rate	**(376)**	**24.9**	**69**	**(27.5)**	**(307)**	**24.3**

	Restated 2019					
	Ongoing profit/tax[7]		Non-ongoing and other profit/tax[8]		Total profit/tax from continuing operations	
Tax reconciliation:	$m	%	$m	%	$m	%
Profit before tax	1,456		(132)		1,324	
Expected tax at weighted average tax rate[1]	(289)	19.8	69	(52.3)	(220)	16.6
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods[2]	(7)	0.5	9	(6.8)	2	(0.1)
exceptional items which are non-tax deductible[3]	–	–	(7)	5.3	(7)	0.6
current year charge in relation to uncertain tax provisions[4]	(35)	2.5	–	–	(35)	2.6
tax credits and incentives	4	(0.3)	–	–	4	(0.3)
non-taxable income	3	(0.2)	–	–	3	(0.2)
other non-tax deductible expenditure[5]	(11)	0.8	(5)	3.8	(16)	1.2
recognition of previously unrecognized deferred tax asset	–	–	11	(8.3)	11	(0.8)
other	(2)	0.1	–	–	(2)	0.1
effect of tax rate changes	(2)	0.1	(1)	0.7	(3)	0.2
Tax (charge)/credit / effective tax rate	(339)	23.3	76	(57.6)	(263)	19.9

1. This expected weighted average tax rate reflects the applicable statutory corporate tax rates on the accounting profits/losses in the countries in which the Group operates after intra-group financing. This results in interest deductions and lower taxable profits in many of the countries and therefore reduces the tax rate. The pre intra-group financing ongoing expected weighted average tax rate is 25.6 per cent (2019 restated: 26.8 per cent) and this is reduced to a post intra-group financing ongoing expected weighted average tax rate of 21.6 per cent (2019 restated: 19.8 per cent) following intra-group financing. The 1.8 per cent increase in the post intra-group financing ongoing expected weighted average tax rate is primarily due to tax reform.
2. This includes adjustments arising out of movements in uncertain tax provisions regarding prior periods and differences between the final tax liabilities in the tax computations and the tax liabilities provided in the consolidated financial statements.
3. This primarily relates to non-taxable disposal of businesses.
4. This reflects management's assessment of the potential tax liability for the current year in relation to open tax issues and audits.
5. This relates to certain expenditure for which no tax relief is available such as disallowable business entertaining costs and legal/professional fees.
6. This relates to the change of the deferred tax rate to 19 per cent from the previously enacted 17 per cent in the UK.
7. Ongoing profit means profit before tax, exceptional items, the amortization and impairment of acquired intangible assets and impairment of interests in associates for ongoing operations as defined in note 2. Ongoing tax is the tax expense arising on ongoing profit.
8. Non-ongoing and other profit or loss is profit or loss from non-ongoing operations as defined in note 2 and from the amortization and impairment of acquired intangible assets, impairment of interests in associates and exceptional items. Non-ongoing and other tax is the tax expense or credit arising on the non-ongoing and other profit or loss and includes other non-recurring tax items. In 2020, the non-ongoing and other credit of $69 million relates primarily to exceptional restructuring costs, tax deductible amortization in relation to intangible assets, non-taxable disposal of businesses and the amortization of loan premium.

8 – Dividends

Amounts recognized as distributions to equity shareholders:

	2020 $m	2019 $m
Final dividend for the year ended July 31, 2018: 131.9 cents per share	–	303
Interim dividend for the year ended July 31, 2019: 63.1 cents per share	–	146
Final dividend for the year ended July 31, 2019: 145.1 cents per share	327	–
Interim dividend for the year ended July 31, 2020: nil	–	–
Dividends paid	327	449

After careful consideration, the Board decided to withdraw the interim dividend for the year ended July 31, 2020 which was due for payment on April 30, 2020 due to the significant uncertainty around the impact and duration of the COVID-19 disruption.

Since the end of the financial year, the Directors have proposed a final ordinary dividend of $466 million (208.2 cents per share) which effectively reinstates the previously withdrawn interim dividend. 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, 2020.

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.

9 – Earnings per share

	2020			2019		
	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	961	427.5	423.5	1,108	481.3	477.8
Profit from discontinued operations	(7)	(3.1)	(3.1)	(47)	(20.4)	(20.3)
Profit from continuing operations	954	424.4	420.4	1,061	460.9	457.5
Non-recurring tax credit relating to changes in tax rates and other adjustments	(13)	(5.7)		(33)	(14.3)	
Amortization and impairment of acquired intangible assets and impairment of interests in associates (net of tax)	119	52.9		91	39.5	
Exceptional items (net of tax)	90	40.0		72	31.3	
Headline profit after tax from continuing operations	1,150	511.6		1,191	517.4	

The weighted average number of ordinary shares in issue during the year, excluding those held by Employee Benefit Trusts and those held by the Company as Treasury shares, was 224.8 million (2019: 230.2 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 226.9 million (2019: 231.9 million).

10 – Employee and key management information

	2020 $m	2019 $m
Wages and salaries	**2,840**	2,833
Social security costs	**187**	194
Pension costs – defined contribution plans	**81**	91
Pension costs – defined benefit plans (note 23)	**3**	11
Share-based payments	**26**	34
Total staff costs	**3,137**	3,163

Average number of employees	2020	2019
USA	**27,059**	27,447
UK	**5,031**	5,439
Canada and Central Europe	**2,473**	2,974
Central and other	**74**	79
Continuing operations	**34,637**	35,939

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)	2020 $m	2019 $m
Salaries, bonuses and other short-term employee benefits	**16**	13
Post-employment benefits	**1**	1
Share-based payments	**8**	11
Total compensation	**25**	25

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 81 to 108.

11 – Intangible assets – goodwill

	2020 $m	2019 $m
Cost		
At August 1	**1,789**	1,605
Exchange rate adjustment	**8**	(14)
Acquisitions	**78**	259
Adjustment to fair value on prior year acquisitions	**(14)**	(6)
Disposal of businesses	**–**	(55)
At July 31	**1,861**	1,789
Accumulated impairment losses		
At August 1	**133**	197
Exchange rate adjustment	**7**	(9)
Disposal of businesses	**–**	(55)
At July 31	**140**	133
Net book value at July 31	**1,721**	1,656

Goodwill and intangible assets acquired during the year have been allocated to the individual cash generating units or aggregated cash generating units (together "CGUs") which are deemed to be the smallest identifiable group of assets generating independent cash inflows. CGUs have been aggregated in the disclosure below at a segmental level except for certain CGUs in the USA which are considered to be significant (more than 10 per cent of the current year goodwill balance). Impairment reviews were performed for each individual CGU during the year ended July 31, 2020.

	2020				2019			
	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]				**991**				973
Waterworks				**183**				188
Rest of USA[1]				**353**				314
USA	**2.2**	**8.1**	**10.8**	**1,527**	2.2	9.3	12.6	1,475
UK	**1.5**	**7.7**	**9.4**	**55**	2.0	8.0	9.8	39
Canada	**1.3**	**7.8**	**10.8**	**139**	2.0	8.5	11.6	142
Total				**1,721**				1,656

1. Due to a reorganization of the reporting structure, a component of the eBusiness CGU has been reallocated to the Blended Branches CGU. As a result, the eBusiness CGU is no longer considered to be significant and is not disclosed separately. 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 2020.

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. The most recent strategic plans were approved by the Board in July 2020. The plans take into account the impact of COVID-19 on recent trading and reflect the Board's latest expectations of future trading activity in a post COVID-19 environment.

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 and the break-even point was considered for reasonableness in light of the recent impact of COVID-19 on the trading activities of the business. 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.

12 – 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 July 31, 2018	224	176	482	165	1,047
Exchange rate adjustment	(5)	(1)	(3)	–	(9)
Acquisitions	–	19	202	3	224
Adjustment to fair value on prior year acquisitions	–	–	7	–	7
Additions	36	–	–	–	36
Disposal of businesses	(12)	(2)	(15)	–	(29)
Disposals	(40)	–	–	–	(40)
At July 31, 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**
Accumulated amortization and impairment losses					
At July 31, 2018	153	72	420	94	739
Exchange rate adjustment	(3)	(1)	(3)	–	(7)
Amortization charge for the year	31	26	65	19	141
Disposal of businesses	(7)	(2)	(13)	–	(22)
Disposals	(38)	–	–	–	(38)
At July 31, 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**
Net book value at July 31, 2020	**141**	**107**	**230**	**43**	**521**
Net book value at July 31, 2019	67	97	204	55	423

At July 31, 2020, customer relationships net book value includes $80 million (2019: $93 million) in relation to the acquisition of Jones Stephens which had a remaining amortization period of 8 years (2019: 9 years).

13 – Leases

Movement in right of use assets for the year ended July 31, 2020 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
Net book value at August 1, 2019	940	280	1,220
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)
Exchange rate adjustment	8	–	8
Net book value at July 31, 2020	849	262	1,111

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, 2020 of 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, 2020 of 4.5 years.

The maturity of lease liabilities at July 31, 2020 was as follows:

	2020 $m
Due in less than one year	325
Due in one to two years	326
Due in two to three years	282
Due in three to four years	211
Due in four to five years	146
Due in over five years	218
Total undiscounted lease payments	1,508
Effect of discounting	(153)
Lease liabilities	1,355
Current lease liabilities	281
Non-current lease liabilities	1,074
Lease liabilities	1,355

At July 31, 2020 the Group was committed to future undiscounted lease payments of $nil relating to short-term leases.

Amounts charged/(credited) to the Group income statement during the year were as follows:

	2020 $m
Depreciation of right of use assets	268
Impairment of right of use assets	10
Short-term lease expense	15
Low value lease expense	16
Sublease income	(2)
Charged to operating costs	307
Charged to finance costs	53
Total amount charged to the Group income statement	360

13 – Leases continued

Operating lease commitments under IAS 17

Future minimum lease payments under non-cancelable leases for the year ended July 31, 2019 were as follows:

	2019 $m
Less than one year	342
After one year and less than five years	631
After five years	153
Total operating lease commitments	1,126

14 – 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 August 1, 2018	949	3	448	680	232	2,312
Exchange rate adjustment	(7)	–	(6)	(9)	(5)	(27)
Acquisitions	82	–	–	10	3	95
Additions	193	–	76	73	32	374
Disposal of businesses	(35)	–	–	(19)	(5)	(59)
Disposals and transfers	2	(2)	(20)	(56)	(38)	(114)
At 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**
Accumulated depreciation and impairment losses						
At August 1, 2018	259	–	322	481	164	1,226
Exchange rate adjustment	(2)	–	(3)	(7)	(4)	(16)
Depreciation charge for the year	31	–	31	61	24	147
Disposal of businesses	(8)	–	–	(9)	(3)	(20)
Disposals and transfers	(2)	–	(12)	(51)	(40)	(105)
At 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**
Net book value at July 31, 2020	**994**	**–**	**133**	**210**	**52**	**1,389**
Owned assets	906	–	160	203	74	1,343
Assets under finance leases	–	1	–	1	4	6
Net book value at July 31, 2019	906	1	160	204	78	1,349

15 – Deferred tax assets and liabilities

Deferred tax assets and liabilities, which are offset where the Group has a legally enforceable right to do so, are shown in the balance sheet after offset as follows:

	2020 $m	2019 $m
Deferred tax assets	216	164
Deferred tax liabilities	(26)	(56)
	190	108

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 losses $m	Trade and other payables $m	Other $m	Total $m
At July 31, 2018	(47)	23	34	–	–	36	(95)	87	22	28	88
Credit/(charge) to income	4	1	5	–	–	(4)	(21)	1	18	43	47
Credit to other comprehensive income	–	–	–	–	–	6	–	–	–	–	6
Credit to equity	–	1	–	–	–	–	–	–	–	–	1
Acquisitions	(31)	–	(4)	–	–	–	2	–	–	–	(33)
Disposal of businesses	–	–	–	–	–	–	–	–	–	1	1
Exchange rate adjustment	–	–	(4)	–	–	2	–	–	–	–	(2)
At 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

Legislation has been enacted in the UK to increase the standard rate of UK corporation tax from 17 per cent to 19 per cent with effect from April 1, 2020. Accordingly, the UK deferred tax assets and liabilities have been calculated based on a 19 per cent tax rate which materially reflects the rate for the period in which the deferred tax assets and liabilities are expected to reverse.

Net deferred tax assets have been 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 $369 million (2019: $367 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 $442 million (2019: $436 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.

16 – Inventories

	2020 $m	2019 $m
Goods purchased for resale	**3,089**	2,997
Inventory provisions	**(209)**	(176)
Net inventories	**2,880**	2,821

17 – Trade and other receivables

Current	2020 $m	2019 $m
Trade receivables	**2,604**	2,747
Less: provision for expected credit losses	**(36)**	(28)
Net trade receivables	**2,568**	2,719
Other receivables	**139**	143
Prepayments	**335**	351
	3,042	3,213
Non-current		
Other receivables	**377**	340

Included in prepayments is $289 million (2019: $277 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, 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**

At July 31, 2019	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	0.4%	0.9%	100%	
Gross trade receivables	1,934	799	14	2,747
Lifetime expected credit losses	(7)	(7)	(14)	(28)
Net trade receivables	1,927	792	–	2,719

No contracts contain a significant financing component and payment from customers is typically due within 30 to 60 days.

The contractual amount outstanding on trade receivables that were written off during the year and that are subject to enforcement activity was $12 million (2019: $12 million).

18 – Cash and cash equivalents

	2020 $m	2019 $m
Cash and cash equivalents	**2,115**	1,133

Included in the balance at July 31, 2020 is an amount of $248 million (2019: $18 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within bank overdrafts (note 20). These amounts are subject to a master netting arrangement.

At July 31, 2020, cash and cash equivalents included $93 million (2019: $87 million) which is used to collateralize letters of credit on behalf of Ferguson Insurance Limited.

19 – Trade and other payables

Current	2020 $m	2019 $m
Trade payables	**2,855**	2,885
Tax and social security	**114**	112
Other payables	**115**	116
Accruals and deferred income	**507**	684
	3,591	3,797
Non-current		
Other payables	**338**	292

Trade payables are stated net of $50 million (2019: $44 million) due from suppliers with respect to supplier rebates where an agreement exists that allows these to be net settled.

Accruals and deferred income includes $nil (2019: $159 million) payable in relation to the irrevocable and non-discretionary share buy back program announced in July 2019 and settled on September 24, 2019.

20 – Borrowings

	2020			2019		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Bank overdrafts	**248**	**–**	**248**	47	–	47
Senior unsecured loan notes	**283**	**2,635**	**2,918**	5	2,292	2,297
Total borrowings	**531**	**2,635**	**3,166**	52	2,292	2,344

In June 2020, the Group successfully issued $600 million of 10-year 3.25 per cent notes maturing in June 2030 in the USA bond market. At July 31, 2020 total USA bond debt was $1,350 million (2019: $750 million) which is held at par value.

The carrying value of the USPP senior unsecured loan notes of $1,568 million comprises a par value of $1,530 million and a fair value adjustment of $38 million (2019: $1,547 million, $1,530 million and $17 million respectively).

The Group applies fair value hedge accounting to debt of $355 million (2019: $355 million), swapping fixed interest rates into floating interest rates using a series of interest rate swaps.

Included in bank overdrafts at July 31, 2020 is an amount of $248 million (2019: $18 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within cash and cash equivalents (note 18). These amounts are subject to a master netting arrangement.

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 financial statements at the balance sheet date. The Group did not utilize the funds that were previously drawn down under the facility and Ferguson Finance Plc's CCFF eligibility expires 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, 2020 and July 31, 2019.

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:

	2020 $m	2019 $m
Due in one to two years	**–**	282
Due in two to three years	**250**	–
Due in three to four years	**150**	250
Due in four to five years	**150**	150
Due in over five years	**2,085**	1,610
Total	**2,635**	2,292

21 – 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:

	2020 $m	2019[2] $m
Financial assets		
Financial assets at fair value through profit and loss	**307**	267
Financial assets at fair value through other comprehensive income	**12**	27
Financial assets at amortized cost	**3,114**	3,258
Financial liabilities		
Financial liabilities at fair value through profit and loss	**265**	240
Financial liabilities at amortized cost[1]	**7,474**	5,569

1. As at July 31, 2020, financial liabilities at amortized cost include lease liabilities.
2. The financial asset and financial liability associated with the executive deferred compensation plan has been reclassified as at fair value through profit and loss and the comparatives have been restated for comparability.

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 $11 million (2019: $12 million) and the non-current element is $28 million (2019: $10 million). Total net derivative financial instruments is an asset of $39 million (2019: $22 million). No transfers between levels occurred during the current or prior year.

The Group's executive deferred compensation plan comprises a financial asset of $268 million (2019: $245 million) which is measured at fair value through profit and loss using level 1 inputs and a financial liability of $265 million (2019: $240 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 $13 million (2019: $12 million) and the non-current element is $252 million (2019: $228 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 and prior year are measured using market derived valuation methods which are 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 $71 million (2019: $67 million) which has been discounted at a rate of 1.0 per cent (2019: 2.0 per cent) due to the long-term nature of the receivable. Other current assets and liabilities are either of short maturity or bear floating rate interest and their fair values approximate to book values. The only non-current financial assets or liabilities for which fair value does not approximate to book value are the USPP senior unsecured loan notes, which had a book value of $1,568 million (2019: $1,547 million) and a fair value (level 2) of $1,671 million (2019: $1,621 million), and the USA bond debt which had a book value of $1,350 million (2019: $750 million) and a fair value (level 1) of $1,488 million (2019: $789 million).

Disclosure of offsetting arrangements

The financial instruments which have been offset in the financial statements are disclosed below:

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	18	**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	20	**531**	–	**531**	**(248)**	**283**
Non-current liabilities						
Borrowings	20	**2,635**	–	**2,635**	–	**2,635**
		3,174	**(8)**	**3,166**	**(248)**	**2,918**
Closing net debt excluding lease liabilities	27	**(1,012)**	–	**(1,012)**	–	**(1,012)**

21 – Financial instruments and financial risk management continued

Disclosure of offsetting arrangements continued

At July 31, 2019	Notes	Gross balances[1] $m	Offset amounts[2] $m	Financial statements[3] $m	Cash pooling amounts[4] $m	Net total[5] $m
Financial assets						
Non-current assets						
Derivative financial assets		10	–	10	–	10
Current assets						
Derivative financial assets		23	(11)	12	–	12
Cash and cash equivalents	18	1,133	–	1,133	(18)	1,115
		1,166	(11)	1,155	(18)	1,137
Financial liabilities						
Current liabilities						
Derivative financial liabilities		11	(11)	–	–	–
Borrowings	20	52	–	52	(18)	34
Finance leases		2	–	2	–	2
Non-current liabilities						
Borrowings	20	2,292	–	2,292	–	2,292
Finance leases		4	–	4	–	4
		2,361	(11)	2,350	(18)	2,332
Closing net debt excluding lease liabilities	27	(1,195)	–	(1,195)	–	(1,195)

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 arrangement, or similar arrangement, not included in (3).
5. The net amount after deducting the amounts in (4) from the amounts in (3).

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, 2020 and July 31, 2019. 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 (borrowings disclosed in note 20 after deducting cash and bank balances) 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 USA bond debt are covenant free. The reconciliation of opening to closing net debt is detailed in note 27.

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, 2020, the maximum exposure to credit risk was $2,568 million (2019: $2,719 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. In some cases, protection is provided through credit insurance arrangements. All of the major businesses use professional and dedicated credit teams, in some cases field-based. Appropriate provisions are made for debts that may be impaired on a timely basis. Concentration of credit risk in trade receivables is limited as the Group's customer base is large and unrelated. Accordingly, the Group considers that there is no further credit risk provision required above the current provision for expected credit losses. The aging of trade receivables is detailed in note 17.

The Group has cash balances deposited for short periods with financial institutions and enters into certain contracts (such as interest rate swaps) which entitle the Group to receive future cash flows from financial institutions. These transactions give rise to credit risk on amounts due from counterparties with a maximum exposure of $1,873 million (2019: $1,089 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.

21 – Financial instruments and financial risk management continued

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:

	2020				2019			
	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 $m	Interest on debt $m	Total $m
Due in less than one year	**2,889**	**561**	**148**	**3,598**	3,133	2	85	3,220
Due in one to two years	**34**	**291**	**131**	**456**	53	282	97	432
Due in two to three years	**20**	**507**	**117**	**644**	26	1	86	113
Due in three to four years	**15**	**345**	**103**	**463**	15	250	78	343
Due in four to five years	**14**	**286**	**92**	**392**	14	150	74	238
Due in over five years	**211**	**2,245**	**285**	**2,741**	184	1,601	295	2,080
Total	**3,183**	**4,235**	**876**	**8,294**	3,425	2,286	715	6,426

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 (2019: £800 million) revolving credit facility that matures in March 2025, a $500 million bi-lateral facility that matures in March 2021 (2019: $nil), and a $600 million (2019: $600 million) securitization facility that matures in December 2021. This facility is secured against the trade receivables of Ferguson Enterprises, LLC. All facilities were undrawn at July 31, 2020 and July 31, 2019. During the year, as a result of COVID-19, the Group introduced measures to preserve its liquidity such as suspension of the $500 million share buy back program announced in February 2020, withdrawing the interim dividend due for payment in April 2020 and pausing acquisition activity which remains an important part of the Group's strategy.

The maturity profile of the Group's undrawn facilities is as follows:

	2020 $m	2019 $m
Less than one year	**500**	–
Between one and two years	**600**	–
Between two and three years	**–**	600
Between three and four years	**–**	973
Between four and five years	**1,100**	–
After five years	**–**	–
Total	**2,200**	1,573

At July 31, 2020 the Group has total available facilities, excluding bank overdrafts, of $5,118 million (2019: $3,870 million), of which $2,918 million is drawn (note 20) and $2,200 million is undrawn (2019: $2,297 million and $1,573 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 86 per cent (2019: 83 per cent) of the Group's revenue is in US dollars. Within each country it operates, the Group does not have significant transactional foreign currency cash flow exposures. However, those that do arise may be hedged with either forward contracts or currency options. The Group does not normally hedge profit translation exposure since such hedges have only a temporary effect.

The Group's policy is to adjust the currencies in which its net debt is denominated materially to match the currencies in which its trading profit is generated. Details of average exchange rates used in the translation of overseas earnings and of year-end exchange rates used in the translation of overseas balance sheets for the principal currencies used by the Group are shown in the five-year summary on page 169. The net effect of currency translation was to decrease revenue by $71 million (2019: decrease by $174 million) and to decrease trading profit by $1 million (2019: decrease by $6 million). These currency effects primarily reflect a movement of the average US dollar exchange rate against pounds sterling and Canadian dollars as follows:

	2020 Strengthening of USD	2019 Strengthening of USD
Pounds sterling	**2.1%**	4.4%
Canadian dollars	**1.6%**	3.8%

21 – Financial instruments and financial risk management continued

Foreign currency risk continued

Net debt excluding lease liabilities by currency was as follows:

	2020			2019				
	Interest rate swaps $m	Cash and borrowings $m	Total $m	Interest rate swaps $m	Finance lease obligations $m	Cash and borrowings $m	Currency bought forward $m	Total $m
US dollars	**39**	**(1,186)**	**(1,147)**	18	(3)	(1,465)	–	(1,450)
Pounds sterling	**–**	**(38)**	**(38)**	–	(3)	85	3	85
Other currencies	**–**	**173**	**173**	–	–	169	1	170
Total	**39**	**(1,051)**	**(1,012)**	18	(6)	(1,211)	4	(1,195)

Currency bought forward comprises short-term foreign exchange contracts which were designated and effective as hedges of overseas operations.

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 $368 million (2019: $327 million). The loss on translation of those financial instruments into US dollars of $31 million (2019: $36 million gain) has been taken to the statement of comprehensive income. There was no hedge ineffectiveness in the year.

Interest rate risk

At July 31, 2020, 85 per cent (2019: 80 per cent) 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, including the effect of interest rate swaps, is set out below:

	2020			2019		
	Floating $m	Fixed $m	Total $m	Floating $m	Fixed $m	Total $m
US dollars	**1,284**	**(2,431)**	**(1,147)**	384	(1,834)	(1,450)
Pounds sterling	**(38)**	**–**	**(38)**	88	(3)	85
Other currencies	**173**	**–**	**173**	170	–	170
Total	**1,419**	**(2,431)**	**(1,012)**	642	(1,837)	(1,195)

The Group's weighted average cost of debt is 5.4 per cent. Fixed rate borrowings at July 31, 2020 carried a weighted average interest rate of 3.7 per cent fixed for a weighted average duration of 7.0 years (2019: 3.9 per cent for 7.8 years). Floating rate borrowings, excluding overdrafts, at July 31, 2020 had a weighted average interest rate of 1.7 per cent (2019: 3.7 per cent).

The Group holds interest rate swap contracts comprising fixed interest receivable on $355 million of notional principal. These contracts expire between November 2023 and November 2026 and the fixed interest rates range between 3.3 per cent and 3.5 per cent. These swaps were designated as a fair value hedge against a portion of the Group's outstanding debt.

Monitoring interest rate and foreign currency risk

The Group monitors its interest rate and foreign currency risk by reviewing the effect on financial instruments over various periods of a range of possible changes in interest rates and exchange rates. The financial impact for reasonable approximation of possible changes in interest rates and exchange rates are as follows. The Group has estimated that an increase of one per cent in the principal floating interest rates to which it is exposed would result in a credit to the income statement of $14 million (2019: $6 million). The Group has estimated that a weakening of the US dollar by 10 per cent against financial instruments denominated in a foreign currency in which the Group does business would result in a charge to the translation reserve of $52 million (2019: $10 million credit). 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.

22 – Provisions

	Environmental and legal $m	Ferguson Insurance $m	Restructuring $m	Property provisions $m	Other provisions $m	Total $m
At July 31, 2018	82	74	51	16	51	274
Utilized in the year	(5)	(18)	(22)	(1)	(4)	(50)
Changes in discount rate	5	–	–	–	–	5
(Credit)/charge for the year	(1)	22	13	1	6	41
Acquisition of businesses	2	–	–	–	–	2
Exchange rate adjustment	(1)	(1)	(2)	(1)	(2)	(7)
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**

Provisions have been analyzed between current and non-current as follows:

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**

At July 31, 2019	Environmental and legal $m	Ferguson Insurance $m	Restructuring $m	Property provisions $m	Other provisions $m	Total $m
Current	12	6	25	5	31	79
Non-current	70	71	15	10	20	186
Total provisions	82	77	40	15	51	265

The environmental and legal provision includes $72 million (2019: $70 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 1.0 per cent (2019: 2.0 per cent). This amount has been actuarially determined as at July 31, 2020 based on advice from independent professional advisers. The Group has insurance that it currently believes significantly covers the estimated liability and accordingly an insurance receivable of $71 million (2019: $67 million) has been recorded in other receivables. Based on current estimates, the amount of performing insurance cover significantly exceeds the expected level of future claims and no material profit or cash flow impact is therefore expected to arise in the foreseeable future. Due to the nature of these provisions, the timing of any settlements is uncertain.

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.

Restructuring provisions include branch closure costs. The weighted average maturity of these obligations is approximately two years.

Property provisions include dilapidations on leased properties. The weighted average maturity of these obligations is approximately two years.

Other provisions include warranty costs relating to businesses disposed of. The weighted average maturity of these obligations is approximately two years.

23 – Retirement benefit obligations

(i) Long term benefit plans provided by the Group

The principal UK defined benefit plan is the Wolseley Group Retirement Benefits Plan which provides benefits based on final pensionable salaries. The assets are held in separate trustee administered funds. The Group contribution rate is calculated on the Projected Unit Credit Method and agreed with an independent consulting actuary. The plan was closed to new entrants in 2009, it was closed to future service accrual in December 2013, when it was replaced by a defined contribution plan, and during October 2016, it was closed for future non-inflationary salary accrual.

In 2017, the Group secured a buy-in insurance policy with Pension Insurance Corporation for the UK defined benefit plan. This policy covered all of the benefits provided by the plan to pensioner members at the time. The insurance asset is valued as exactly equal to the insured liabilities. The deferred members of the plan at the time were not covered by this policy.

In 2019, the Group offered some deferred members of the UK defined benefit plan an enhanced transfer value to settle their benefits accrued under the plan.

The principal plans operated for USA employees are defined contribution plans, which are established in accordance with USA 401k rules. Companies contribute to both employee compensation deferral and profit sharing plans.

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. Most investment strategies have significant allocations to equities, with the intention that this will result in the ongoing cost to the Group of the post-employment plans being lower over the long term and within acceptable boundaries of risk.

For the UK plan, the buy-in insurance policy represents approximately 30 per cent of the plan assets. For the remaining assets, the strategy is to invest in a balanced portfolio of equities, government bonds, corporate bonds and securitized fixed income assets. 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 has a relatively balanced investment in equity securities, growth assets and debt instruments. Due to the long-term nature of the plan liabilities, the trustees of the pension plan consider the investment allocation an appropriate balance between higher return growth assets and lower risk assets which provide protection against the inflation and interest risk inherent in the plan's underlying liabilities.

Interest risk

A decrease in the bond interest rate will increase the UK plan liability and this will be partially offset by an increase in the value of the plan's debt investments.

Longevity risk

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the UK plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

23 – Retirement benefit obligations continued

(ii) Financial impact of plans

As disclosed in the Group balance sheet	2020 $m	2019 $m
Non-current asset	–	178
Non-current liability	(61)	(25)
Net (liability)/asset	(61)	153

	2020			2019		
Analysis of Group balance sheet net (liability)/asset	UK $m	Non-UK $m	Total $m	UK $m	Non-UK $m	Total $m
Fair value of plan assets	2,012	110	2,122	1,788	116	1,904
Present value of defined benefit obligations	(2,039)	(144)	(2,183)	(1,610)	(141)	(1,751)
Net (liability)/asset	(27)	(34)	(61)	178	(25)	153

Analysis of total expense recognized in the Group income statement	2020 $m	2019 $m
Administrative costs	3	2
Exceptional settlement losses, past service costs and administrative costs	–	9
Charged to operating costs (note 10)	3	11
Credited to finance costs (note 6)	(3)	(5)
Total expense recognized in the Group income statement	–	6

Expected employer contributions to the defined benefit plans for the year ending July 31, 2021 are $15 million.

The remeasurement of the defined benefit net liability is included in the Group statement of comprehensive income.

Analysis of amount recognized in the Group statement of comprehensive income	2020 $m	2019 $m
The return on plan assets (excluding amounts included in net interest expense)	96	134
Actuarial (loss)/gain arising from changes in demographic assumptions	(62)	38
Actuarial loss arising from changes in financial assumptions	(211)	(210)
Actuarial (loss)/gain arising from experience adjustments	(58)	2
Remeasurement of retirement benefit plans	(235)	(36)
Tax	44	6
Total amount recognized in the Group statement of comprehensive income	(191)	(30)

The cumulative amount of actuarial losses recognized in the Group statement of comprehensive income is $759 million (2019: $524 million).

23 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

The fair value of plan assets is as follows:

	2020 UK $m	2020 Non-UK $m	2020 Total $m	2019 UK $m	2019 Non-UK $m	2019 Total $m
At August 1	**1,788**	**116**	**1,904**	1,824	121	1,945
Interest income	**39**	**3**	**42**	48	4	52
Employers' contributions	**15**	**–**	**15**	34	1	35
Benefit payments	**(64)**	**(9)**	**(73)**	(110)	(10)	(120)
Remeasurement gain:						
Return on plan assets (excluding amounts included in net interest expense)	**94**	**2**	**96**	132	2	134
Exchange rate adjustment	**140**	**(2)**	**138**	(140)	(2)	(142)
At July 31	**2,012**	**110**	**2,122**	1,788	116	1,904
Actual return on plan assets	**133**	**5**	**138**	180	6	186

Employers' contributions included special funding contributions of $13 million (2019: $32 million).

The plan assets were invested in a diversified portfolio comprised of:

		2020 UK $m	2020 Non-UK $m	2020 Total $m	2019 UK $m	2019 Non-UK $m	2019 Total $m
Equity type assets	quoted	**165**	**65**	**230**	241	69	310
Government bonds	quoted	**566**	**23**	**589**	495	25	520
Corporate bonds	quoted	**385**	**12**	**397**	142	12	154
Cash		**44**	**–**	**44**	85	–	85
Insurance policies		**609**	**–**	**609**	580	–	580
Securitized fixed income assets		**167**	**–**	**167**	154	–	154
Other		**76**	**10**	**86**	91	10	101
Total fair value of assets		**2,012**	**110**	**2,122**	1,788	116	1,904

The present value of defined benefit obligations is as follows:

	2020 UK $m	2020 Non-UK $m	2020 Total $m	2019 UK $m	2019 Non-UK $m	2019 Total $m
At August 1	**1,610**	**141**	**1,751**	1,631	140	1,771
Current service costs (including administrative costs)	**3**	**–**	**3**	4	–	4
Past service costs	**–**	**–**	**–**	7	–	7
Interest cost	**35**	**4**	**39**	42	5	47
Benefit payments	**(64)**	**(9)**	**(73)**	(110)	(10)	(120)
Remeasurement loss/(gain):						
Actuarial loss/(gain) arising from changes in demographic assumptions	**62**	**–**	**62**	(38)	–	(38)
Actuarial loss arising from changes in financial assumptions	**202**	**9**	**211**	199	11	210
Actuarial loss/(gain) arising from experience adjustments	**57**	**1**	**58**	1	(3)	(2)
Exchange rate adjustment	**134**	**(2)**	**132**	(126)	(2)	(128)
At July 31	**2,039**	**144**	**2,183**	1,610	141	1,751

23 – 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:

	2020 $m	2019 $m
Amounts arising from wholly unfunded plans	**3**	3
Amounts arising from plans that are wholly or partly funded	**2,180**	1,748
Total present value of defined benefit obligations	**2,183**	1,751

(iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2020		2019	
	UK %	Non-UK %	UK %	Non-UK %
Discount rate	**1.5**	**2.4**	2.2	2.9
Inflation rate	**2.9**	**2.0**	3.2	2.0
Increase to deferred benefits during deferment	**2.1**	**n/a**	2.1	n/a
Increases to pensions in payment	**2.6**	**2.0**	2.8	2.0
Salary increases	**2.1**	**2.5**	2.1	2.5

The life expectancy assumptions used to estimate defined benefit obligations are:

	2020		2019	
	UK Years	Non-UK Years	UK Years	Non-UK Years
Current pensioners (at age 65) – male	**22**	**22**	21	22
Current pensioners (at age 65) – female	**25**	**24**	23	24
Future pensioners (at age 65) – male	**23**	**23**	23	23
Future pensioners (at age 65) – female	**26**	**26**	25	25

The weighted average duration of the defined benefit obligation is 21.1 years (2019: 22.0 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 (increase)/decrease on the Group's defined benefit plan net liability of reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	2020			2019		
	Change	UK $m	Non-UK $m	Change	UK $m	Non-UK $m
Discount rate	**+0.25%**	**88**	**5**	+0.25%	71	5
	(0.25)%	**(96)**	**(5)**	(0.25)%	(77)	(4)
Inflation rate	**+0.25%**	**(85)**	**–**	+0.25%	(64)	–
	(0.25)%	**75**	**4**	(0.25)%	64	3
Life expectancy	**+1 year**	**(56)**	**(5)**	+1 year	(34)	(3)

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.

24 – Share capital

(i) Ordinary shares in issue

On May 10, 2019, pursuant to a Scheme of Arrangement under Article 125 of the Companies (Jersey) Law 1991, a new parent company was introduced which is now called Ferguson plc (the "Company"). The previous parent company has been renamed as Ferguson Holdings Limited ("Old Ferguson").

	2020		2019	
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 (2019: 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:

	2020	2019
Number of ordinary $11\frac{227}{563}$ pence shares in Old Ferguson in issue at August 1	**–**	252,602,622
Cancellation of Treasury shares	**–**	(20,611,650)
Group reconstruction	**–**	(231,990,972)
Number of ordinary $11\frac{227}{563}$ pence shares in Old Ferguson in issue at July 31	**–**	–
Number of ordinary 10 pence shares in the Company in issue at August 1	**232,171,182**	–
Initial subscriber shares issued on March 8, 2019	**–**	2
Group reconstruction	**–**	231,990,972
Redemption of initial subscriber shares	**–**	(2)
New shares issued to settle options	**–**	180,210
Number of ordinary 10 pence shares in the Company in issue at July 31	**232,171,182**	232,171,182

During the year, the Company issued nil (2019: 180,210) ordinary shares with a nominal value of 10 pence per share to participants in the long term incentive plans and all-employee sharesave plans. Consideration received, net of transaction costs, amounted to $nil (2019: $9 million).

24 – Share capital continued

(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:

	2020 Number of shares	2020 Cost $m	2019 Number of shares	2019 Cost $m
Treasury shares held by Old Ferguson at August 1	–	–	20,777,872	1,380
Disposal of Treasury shares to settle share options	–	–	(166,222)	(11)
Cancellation of Treasury shares	–	–	(20,611,650)	(1,369)
Treasury shares held by Old Ferguson at July 31	–	–	–	–
Treasury shares held by the Company at August 1	**2,036,945**	**146**	–	–
Treasury shares purchased under irrevocable commitment from prior year	**2,139,221**	**159**	–	–
		305		
Treasury shares purchased	**3,452,349**	**292**	2,090,371	150
Disposal of Treasury shares to settle share options	**(348,293)**	**(27)**	(53,426)	(4)
Treasury shares held by the Company at July 31	**7,280,222**	**570**	2,036,945	146
Treasury shares purchase irrevocably committed to at July 31		–		159
Treasury shares total cost at July 31		**570**		305

Consideration received in respect of shares transferred to participants in certain long term incentive plans and all-employee plans amounted to $11 million (2019: $3 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:

	2020 Number of shares	2020 Cost $m	2019 Number of shares	2019 Cost $m
Own shares in Old Ferguson at August 1	–	–	1,426,605	90
New shares purchased	–	–	540,000	38
Exercise of share options	–	–	(396,192)	(26)
Group reconstruction	–	–	(1,570,413)	(102)
Own shares in Old Ferguson at July 31	–	–	–	–
Own shares in the Company at August 1	**1,563,778**	**102**	–	–
Group reconstruction	–	–	1,570,413	102
New shares purchased	**307,345**	**26**	–	–
Exercise of share options	**(593,776)**	**(40)**	(6,635)	–
Own shares in the Company at July 31	**1,277,347**	**88**	1,563,778	102

Consideration received in respect of shares transferred to participants in the discretionary share option plans and long term incentive plans amounted to $nil (2019: $nil). At July 31, 2020, the shares held in the trusts had a market value of $114 million (2019: $117 million).

Dividends due on shares held by the Employee Benefit Trusts are waived in accordance with the provisions of the trust deeds.

25 – Reconciliation of profit to cash generated from operations

Profit for the year is reconciled to cash generated from continuing and discontinued operations as follows:

	2020 $m	2019 $m
Profit for the year attributable to shareholders	961	1,108
Net finance costs	144	70
Share of loss/(profit) after tax of associates	2	(2)
Gain on disposal of interests in associates and other investments	(7)	(3)
Impairment of interests in associates	22	9
Tax charge	307	267
Loss/(gain) on disposal and closure of businesses and revaluation of assets held for sale	3	(53)
Amortization of acquired intangible assets	130	110
Amortization of non-acquired intangible assets	35	31
Depreciation and impairment of right of use assets	278	–
Depreciation and impairment of property, plant and equipment	159	147
Gain on disposal of property, plant and equipment, assets held for sale and right of use assets	(3)	(7)
Decrease/(increase) in inventories	19	(172)
Decrease/(increase) in trade and other receivables	210	(132)
(Decrease)/increase in trade and other payables	(9)	227
Decrease in provisions and other liabilities	(25)	(25)
Share-based payments	26	34
Cash generated from operations	2,252	1,609

26 – Acquisitions

The Group acquired the following businesses during the year ended July 31, 2020, which are all engaged in the distribution of plumbing and heating products and were acquired to support growth in the USA and UK. All transactions have been accounted for by the acquisition method of accounting.

Name	Date of acquisition	Country of incorporation	Shares/asset deal	Acquired %
Continental Product Engineering Ltd	August 2019	UK	Shares	100
Process Instruments & Controls, LLC	September 2019	USA	Assets	100
S. W. Anderson Sales Corporation	November 2019	USA	Shares	100
Columbia Pipe & Supply Co	March 2020	USA	Shares	100
Rencor Controls, Inc	March 2020	USA	Assets	100
MFP Design, LLC	March 2020	USA	Assets	100

26 – Acquisitions continued

The assets and liabilities acquired and the consideration for all acquisitions in the year are as follows:

	2020 $m	2019 $m
Intangible assets		
Software	**13**	–
Trade names and brands	**34**	19
Customer relationships	**101**	202
Other	**3**	3
Right of use assets	**30**	–
Property, plant and equipment	**19**	95
Inventories	**58**	122
Trade and other receivables	**62**	93
Cash, cash equivalents and bank overdrafts	**6**	11
Obligations under finance leases	**–**	(3)
Lease liabilities	**(30)**	–
Trade and other payables	**(28)**	(71)
Deferred tax	**(11)**	(33)
Provisions	**(2)**	(2)
Total	**255**	436
Goodwill arising	**78**	259
Consideration	**333**	695
Satisfied by:		
Cash	**321**	656
Deferred consideration	**12**	39
Total consideration	**333**	695

The fair values acquired are provisional figures, being the best estimates currently available. Further adjustments may be necessary when additional information is available for some of the 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 $185 million to revenue, $15 million to trading profit, $17 million loss to the Group's operating profit, $24 million loss to the Group's profit before tax and $18 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 $21,993 million, continuing trading profit would have been $1,686 million, continuing operating profit would have been $1,419 million, continuing profit before tax would have been $1,253 million and continuing profit after tax would have been $949 million.

The net outflow of cash in respect of the purchase of businesses is as follows:

	2020 $m	2019 $m
Purchase consideration	**321**	656
Deferred and contingent consideration in respect of prior year acquisitions	**36**	12
Cash consideration	**357**	668
Cash, cash equivalents and bank overdrafts acquired	**(6)**	(11)
Net cash outflow in respect of the purchase of businesses	**351**	657

27 – Reconciliation of opening to closing net debt

	Cash and cash equivalents (note 18) $m	Bank overdrafts (note 20) $m	Total cash, cash equivalents and bank overdrafts $m	Derivative[1] financial instruments (note 21) $m	Loans[1] (note 20) $m	Obligations[1] under finance leases $m	Net debt excluding lease liabilities $m	Lease[1] liabilities (note 13) $m	Net debt including lease liabilities $m
At July 31, 2018	833	(375)	458	(2)	(1,530)	(6)	(1,080)	–	(1,080)
Cash movements									
Proceeds from loans and derivatives			–	(7)	(750)	–	(757)	–	(757)
Repayments of loans			–	–	2	–	2	–	2
Finance lease capital payments			–	–	–	3	3	–	3
Changes in net debt due to disposal of businesses			(1)	–	–	–	(1)	–	(1)
Changes in net debt due to acquisition of businesses			11	–	–	(3)	8	–	8
Other cash flows			628	–	–	–	628	–	628
Non-cash movements									
Fair value and other adjustments			–	25	(26)	–	(1)	–	(1)
Exchange movements			(10)	6	7	–	3	–	3
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)**

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, 2020, was $377 million.

28 – Related party transactions

The Group purchases goods and services from a company which is an indirect wholly owned subsidiary of a company whose chief executive officer is also a Ferguson Non Executive Director. In the year ended July 31, 2020, the Group purchased goods and services totaling $18 million (2019: $7 million) from and owed $nil (2019: $nil) to this company. The goods and services are purchased on an arm's-length basis.

There are no other related party transactions requiring disclosure under IAS 24 "Related Party Disclosures" in the years ended July 31, 2020 and July 31, 2019 other than the compensation of key management personnel which is set out in note 10.

29 – 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.

30 – 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, 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent 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 30; 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. 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.

While the Company is not a public interest entity subject to European Regulation 537/2014, the Directors have decided that the Company should follow the same requirements as if that Regulation applied to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Valuation and existence of inventory; – Revenue recognition; and – First year adoption and reporting of IFRS 16
Materiality	The materiality that we used for the Group financial statements was $55 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 two components, Canada and UK and in two head office companies. Our components within the scope of our audit represent 100% of the Group's revenue, 98% of the Group's profit before tax and 99% 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 level at which we set materiality, to be 5% of forecast profit before tax, whereas in the prior year it was determined to be approximately 5% of profit before tax excluding exceptional items and impairment of interests in associates; – a change in the scope of our audit work in the UK from a full-scope audit to an audit of certain specified account balances due to a reduction in the scale and significance of the UK business to the Group in the current year; – appropriateness of supplier rebates is no longer a key audit matter as the Group has further improved its estimation methodology in the current year and we no longer consider the accrual for tiered rebates to be overly prudent, reducing the level of required audit procedures; – inventory remains a key audit matter but it has been expanded to capture all of our procedures over valuation and existence in the current year, given the extent of our audit work in that area. It was previously just focused on the provision for slow-moving and obsolete inventory; – our audit of revenue has become a more significant area of audit focus in the current year as a result of our reduced materiality level, our evaluation of the design and implementation of controls and increased levels of substantive testing; and – the first year adoption and disclosure of IFRS 16 has required a significant level of audit effort auditing the initial adoption assumptions and the first year of reporting under this new standard.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of the COVID-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 53 to 59 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 54 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 54 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and existence of inventory

Key audit matter description

The Group had inventories of $2,880 million at July 31, 2020, held in distribution centres and numerous branches, and across multiple product lines. Details of its valuation are included in the Audit Committee Report on page 77 and the accounting policies in note 1 to the consolidated financial statements.

Inventories are carried at the lower of cost and net realisable value. As a result, the Directors apply judgement in determining the appropriate values for slow-moving or obsolete items. As outlined in Note 16 to the consolidated financial statements, inventories are net of a provision of $209 million, which is primarily driven by comparing the level of inventory held to future projected sales.

Given the highly disaggregated nature of the inventory balance across the Group's distribution centre and branch locations, management employs a range of inventory counting procedures to record the existence and condition of inventory. These include perpetual cycle count controls and full wall-to-wall counts, which vary by business and by location. Approximately half of the Group's inventory is subject to perpetual cycle counting programmes, and the other half is subject to wall-to-wall counting, typically twice per year. In the current year, as a result of localised lockdowns in place as a result of COVID-19, management has had to modify the nature and timing of its inventory count procedures for those locations normally subject to a full wall-to-wall counts prior to year-end.

Management's revised approach to inventory counting in the current year has meant increased audit effort has been required to validate the existence and condition of inventory, through observation of management's own count processes and performing our own independent counting.

We still consider the assessment of inventory provisions to require judgement based on the size of the balance held at year-end and the manual intervention required in the provision calculation.

As a result of the above factors the audit of the valuation and existence of inventory has had a significant effect on the overall audit strategy, the allocation of resources and the efforts of the engagement team.

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:

Valuation

- evaluated the design and implementation of relevant inventory controls operating across the Group, including those at a sample of distribution centres, warehouses and branches;
- formed an expectation of the inventory obsolescence reserve at year-end based on prior year ratios and compared the Group's inventory obsolescence balance against our expectation;
- performed analytics to determine whether there is any significant change in the product lines requiring provision and whether there is any indication the provision may be overstated as a result;
- tested the data included in the provision models by agreeing a sample of historic demand to supporting evidence of the sale;
- extended management's model to include older historic data and extrapolated the demand trend-lines to assess whether management's assumptions do not result in a material difference in the level of provision required;
- compared the net realisable value, obtained through a detailed review of sales subsequent to the year-end, to the cost price of a sample of inventories and comparison to the associated provision to assess whether inventory provisions are complete; and
- assessed the basis on which the cost of inventory had been determined, including selecting a sample of inventory items and agreeing the basis for determining inventory cost to supporting audit evidence, such as purchase invoices.

Existence

- evaluated the design and implementation of relevant inventory controls operating across the Group, including those at a sample of distribution centres, warehouses and branches;
- evaluated the design and implementation of the general IT controls associated with the relevant IT systems for inventory, including the system responsible for managing the perpetual cycle count programme;
- physically observed management's count procedures over inventory close to the year-end date and performed independent count procedures in relation to 59 locations across the Group, including distribution centres and branches. Two locations were observed on a virtual basis, using a live video feed;
- performed procedures to roll forward or roll back the results of our independent test counting to the balance sheet date; and
- considered the results of our independent counts, including investigating any variations and considering the impact in the context of the inventory balance as a whole.

Key observations

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, 2020.

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.

Revenue recognition

Key audit matter description

Revenue from continuing operations was $21,819 million for the year ended July 31, 2020.

As disclosed in the Group's accounting policy note on revenue (Note 1), revenue is recognised when the customer obtains control of the goods. This is considered to be the point where goods are delivered to or collected by the customer.

The revenue population typically comprises high volume, low value transactions and as such, the Group has no contracts with an expected duration of more than one year. The majority of the Group's revenues occur through its branch network and control of the goods passes on the same day, requiring little estimation or judgement.

Based on the nature of the Group's revenues, the results of our audit work from prior years and a detailed risk assessment in the current year, we have rebutted the presumed risk of fraud in revenue recognition.

Our audit of revenue is one of the key determinants of our overall audit strategy, has involved a significant allocation of resources throughout the audit and has represented one of the key areas of focus in directing the efforts of the engagement team. It has become a more significant area of audit focus in the current year as a result of our reduced materiality level, our evaluation of the design and implementation of controls and increased levels of substantive testing. It has therefore been included as a key audit matter.

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:

- evaluated the design and implementation of relevant controls over the revenue cycle throughout the Group, evaluating the design and implementation of relevant IT system general IT controls;
- tested a sample of revenue transactions during the period to supporting invoices and bills of lading and/or cash receipts;
- tested the completeness of revenue by agreeing a sample of cash receipts back to the general ledger to determine whether they had been appropriately recorded;
- tested the cut-off of revenue at year-end, by agreeing a sample of revenue transactions to proof of deliveries on either side of the year-end to determine whether they had been recorded in the correct period;
- tested a sample of manual adjustments to revenue by agreeing to supporting evidence and to determine whether they had been appropriately approved; and
- assessed whether the disclosures within the financial statements are in compliance with the requirements of IFRS 15.

Key observations

We are satisfied that revenue is not materially misstated and the disclosures made by management are in accordance with the requirements of IFRS 15.

As part of our audit, we highlighted areas in the Group's control environment which require further enhancement. Further detail on these can be found in the Audit Committee report on page 80. As a result, we adopted a fully substantive approach to the audit of revenue.

First year adoption and reporting of IFRS 16

Key audit matter description

As outlined in Note 1 to the financial statements, IFRS 16 has come into effect for the Group for the year ended July 31, 2020 and has superseded the previous lease accounting standard IAS 17.

The Group has adopted IFRS 16 using the modified retrospective approach with the cumulative effect of initially applying the standard recognised at the date of initial application. Management recorded an opening adjustment which created a $1,220 million right of use asset and $1,481 million lease liability.

As outlined in Note 1 to the financial statements on page 119, on transition the Group applied significant judgement in recognising reasonably certain extension or termination options on its leases, totalling $564 million. The majority of these related to property lease extension options. This represents a critical accounting judgement for the group, as outlined on page 120.

The Group also had to make judgements and estimates around which practical expedients to apply, and what discount rates to use in determining the lease liability and right of use asset.

The Group's principal accounting policy on IFRS 16 is disclosed on page 122.

The associated audit work on the adoption of the standard, the assumptions made on transition about reasonably certain lease extension or termination options, current year movements in the balance and the adoption disclosures required a significant allocation of resources and has been a key area of focus in directing the efforts of the engagement team.

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:

Opening transition adjustment

- challenged the reasonably certain lease extension/termination assumptions for properties, particularly in the US, with reference to historical data demonstrating the Group's past history of extension or termination and through review of the Group's strategic plan. We tested the underlying data by agreeing to supporting evidence;
- tested the equivalent extension assumptions for the US vehicle lease portfolio, with reference to past activity;
- in conjunction with our valuation specialists, tested management's methodology in calculating the incremental borrowing rate;
- tested the mechanical accuracy of the calculation by selecting a sample of leases, tracing key inputs to original contracts and comparing our recalculation to management's lease schedule;
- tested the reconciliation from IAS 17 operating lease commitment disclosures to IFRS 16 opening balances recognised.

Current year accounting and disclosures

- evaluated the design and implementation of the Group's controls over IFRS 16;
- in conjunction with our valuation specialists, tested management's methodology in calculating the incremental borrowing rate;
- tested the movements in the IFRS 16 balances during the year; and
- assessed whether the disclosures within the financial statements are appropriate in light of the requirements of IAS 1 'Presentation of Financial Statements' and IFRS 16.

Key observations

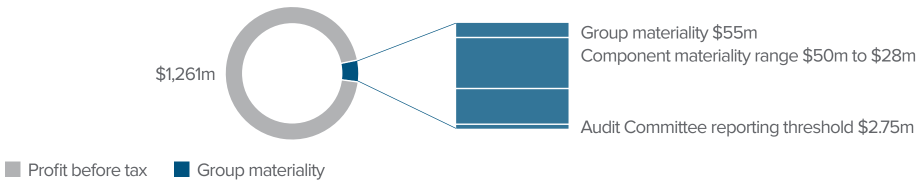
We conclude that the amounts recognised on adoption and the disclosures made within the financial statements are appropriate and in accordance with IFRS 16.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	$55 million (2019: $70 million)	$28 million (2019: $28 million)
Basis for determining materiality	Materiality was originally determined on the basis to be 5% of forecast profit before tax, which represents a reduction from the prior year when it was determined to be approximately 5% of profit before tax excluding exceptional items and impairment of interests in associates. In the current year, we changed our benchmark to be a closer representation of statutory performance rather than adjusting for certain items. Our materiality also reflects the uncertainty over the Group's actual profit outturn prior to year-end, given wider macroeconomic factors due to COVID-19. As a result, it equates to 4.4% of the final profit before tax.	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 performance materiality was set at 65% of Group materiality for the 2020 audit (2019: 70%). 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 environment; and
- our assessment of the Group's overall control environment in light of COVID-19.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $2.75 million (2019: $3.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment we focused our Group audit scope primarily on the audit work performed at components in the USA, Canada and the UK. Full scope audits were performed by local component auditors in the US, whilst specified account balance audits were performed by local component auditors in Canada and the UK and in two head office companies. The Company is located in the UK and is audited directly by the Group audit team. Our audit work on the three components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from $28 million to $50 million (2019: $28 million to $60 million).

Our components within the scope of our audit represent 100% of the Group's revenue (2019: 99%), 98% of the Group's profit before tax (2019: 96%) and 99% of the Group's net assets (2019: 93%).

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.

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 sent our component teams detailed instructions, included them in our team briefings and discussed their risk assessment. We also provided direction on enquiries made by the component auditors through online and telephone conversations. All the findings noted were discussed with the component auditors in detail and further procedures to be performed were issued where relevant.

In response to the COVID-19 pandemic, which limited our ability to make component visits, more frequent calls were held between the Group and component teams and remote access to relevant documents was provided. Given the pandemic, the majority of our year-end 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. Other than the two instances where we needed to perform virtual stock counts, we were able to perform our procedures without needing to make substantial changes to our planned approach.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of the Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, 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 involving 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 and identified the greatest potential for fraud in classification of exceptional items. 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 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.

In addition to the above, 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.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the 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 5 years, covering the years ending July 31, 2016 to July 31, 2020.

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 for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Waller

Ian Waller
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Recognised Auditor
London, UK

September 28, 2020

Company income statement

Year ended July 31, 2020

	Notes	2020 $m	2019[1] $m
Administrative expenses		**(38)**	(14)
Operating loss		**(38)**	(14)
Income from shares in Group undertakings[2]		**14,028**	–
Impairment of investments	3	**(11,276)**	–
Profit/(loss) on ordinary activities before interest		**2,714**	(14)
Interest receivable and similar income		**17**	3
Interest payable and similar charges		**(7)**	–
Profit/(loss) for the financial year/period		**2,724**	(11)

1. For the period from March 8, 2019 to July 31, 2019.
2. Includes $13,107 million distribution in specie, see note 3 on pages 166 and 167 for details.

Company statement of changes in equity

Year ended July 31, 2020

	Notes	Called up share capital $m	Share premium $m	Treasury shares reserve $m	Own shares reserve $m	Retained earnings $m	Total shareholders' equity $m
Loss for the period		–	–	–	–	(11)	(11)
Scheme of Arrangement		30	16,150	–	–	–	16,180
Capital reduction		–	(16,150)	–	–	16,150	–
Issue of share capital	7	–	9	–	–	–	9
Credit to equity for share-based payments	10	–	–	–	–	9	9
Purchase of Treasury shares		–	–	(309)	–	–	(309)
Disposal of Treasury shares	8	–	–	4	–	(2)	2
At July 31, 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**

Company balance sheet

Year ended July 31, 2020

	Notes	2020 $m	2019 $m
Fixed assets			
Investments in subsidiaries	3	**18,037**	16,180
		18,037	16,180
Current assets			
Debtors: amounts falling due within one year	4	**5**	–
Cash at bank and in-hand		**1**	–
		6	–
Current liabilities			
Creditors: amounts falling due within one year	5	**(21)**	(300)
Net current liabilities		**(15)**	(300)
Net assets		**18,022**	15,880
Capital and reserves			
Called up share capital	6	**30**	30
Share premium	7	**9**	9
Treasury shares reserve	8	**(570)**	(305)
Own shares reserve	9	**(111)**	–
Retained earnings		**18,664**	16,146
Total shareholders' equity		**18,022**	15,880

The accompanying notes are an integral part of these Company financial statements.

The Company financial statements on pages 164 to 167 were approved by the Board of Directors on September 28, 2020 and were signed on its behalf by:

Kevin Murphy
Group Chief Executive

Mike Powell
Group Chief Financial Officer

Other information
Financials
Governance
Strategic report

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 26 New Street, St Helier, Jersey, JE2 3RA, 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 131, note 8 (Dividends) on page 134, note 24 (Share capital) on pages 152 and 153 and note 30 (Events after the reporting period) on page 157 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 at July 31, 2020.

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. company of the Ferguson Group of companies.

3 – Fixed asset investments

Cost	2020 $m	2019 $m
At August 1	**16,180**	–
Scheme of Arrangement	**–**	16,180
Dividend in specie	**13,107**	–
Additions	**4,956**	–
Disposals	**(16,206)**	–
At July 31	**18,037**	16,180
Accumulated impairment losses		
At August 1	**–**	–
Impairment charge for year	**(11,276)**	–
Disposals	**11,276**	–
At July 31	**–**	–
Net book value at July 31, 2020	**18,037**	16,180
Net book value at July 31, 2019	**16,180**	–

On December 9, 2019 the Company received a dividend in specie from Ferguson Holdings Limited of its shares in Wolseley Limited at the fair value at that date of $13,107 million. A provision for impairment was subsequently recorded against the Company's investment in Ferguson Holdings Limited.

On December 9, 2019 the Company disposed of its investment in Ferguson Holdings Limited to Wolseley Limited in exchange for an issue of new ordinary shares in Wolseley Limited.

All of the above investments are in unlisted shares. The Directors believe that the carrying value of the investments at July 31, 2020 is supported by the recoverable amount of their underlying assets.

3 – Fixed asset investments continued

The Company's direct holdings in subsidiary undertakings as at July 31, 2020 were as follows:

Company	Country of incorporation	Principal activity	Ordinary shares held %
Wolseley Limited	England and Wales	Investment	100

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed on pages 170 and 171 of the Ferguson plc Annual Report.

4 – Debtors: amounts falling due within one year

	2020 $m	2019 $m
Other debtors	1	–
Amounts owed by Group companies	4	–
Total	5	–

The fair value of amounts included in debtors approximates to book value.

5 – Creditors: amounts falling due within one year

	2020 $m	2019 $m
Bank overdrafts	–	1
Other creditors	1	159
Amounts owed to Group companies	20	140
Total	21	300

In 2019, other creditors comprised $159 million payable in relation to the irrevocable and non-discretionary share buy back program.

The fair value of amounts included in creditors approximates to book value. Amounts owed to Group companies are interest bearing, carrying an interest rate of 0.3 per cent and are payable on demand.

6 – Share capital

Details of the Company's share capital are set out in note 24 on pages 152 and 153 to the Ferguson plc consolidated financial statements.

7 – Share premium account

Details of new share capital subscribed are set out in note 24 on pages 152 and 153 to the Ferguson plc consolidated financial statements.

8 – Treasury shares

Details of Treasury shares are set out in note 24 on pages 152 and 153 to the Ferguson plc consolidated financial statements.

9 – Own shares reserve

During the year, 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, 2020 and amount to $111 million.

9 – Own shares reserve continued

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

10 – Share-based payments

The net profit and loss charge to the Company for equity-settled share-based payments was $nil (2019: $nil). The Company charged the full amount incurred for equity-settled share-based payments of $26 million (2019: $9 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 23 on pages 148 to 151 to the Ferguson plc consolidated financial statements.

12 – Employees, employee costs and auditor's remuneration

There were no employees or direct employment costs in 2020 or 2019. 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 131 to the Ferguson plc consolidated financial statements.

13 – Dividends

Details of the Company's dividends are set out in note 8 on page 134 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 per cent owned.

15 – Events after the reporting period

Details of events after the reporting period are given in note 30 on page 157 to the Ferguson plc consolidated financial statements.

Five-year summary

	2020 $m	2019 $m	2018 $m	2017 $m	2016 $m
Revenue					
USA	**18,857**	18,358	16,670	15,193	13,808
UK	**1,879**	2,281	2,568	2,548	2,915
Canada and Central Europe	**1,083**	1,371	1,514	1,543	1,602
Continuing operations	**21,819**	22,010	20,752	19,284	18,325
Underlying trading profit[1]					
USA	**1,587**	1,508	1,406	1,224	1,132
UK	**8**	65	73	96	108
Canada and Central Europe	**43**	76	83	71	77
Central and other costs	**(35)**	(43)	(55)	(50)	(66)
Continuing operations	**1,603**	1,606	1,507	1,341	1,251
Impact of IFRS 16	**69**	–	–	–	–
Amortization of acquired intangible assets	**(130)**	(110)	(65)	(81)	(70)
Impairment of goodwill and acquired intangible assets	**–**	–	–	–	(125)
Exceptional items	**(120)**	(94)	(82)	218	(6)
Operating profit	**1,422**	1,402	1,360	1,478	1,050
Net finance costs	**(144)**	(74)	(53)	(54)	(71)
Share of (loss)/profit after tax of associates	**(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	**1,261**	1,324	1,187	1,423	979
Tax	**(307)**	(263)	(346)	(370)	(307)
Profit from continuing operations	**954**	1,061	841	1,053	672
Profit/(loss) from discontinued operations	**7**	47	426	(133)	159
Profit for the year attributable to shareholders of the Company	**961**	1,108	1,267	920	831
Ordinary dividends	**(327)**	(449)	(390)	(328)	(350)
Special dividend	**–**	–	(974)	–	–
Total dividends	**(327)**	(449)	(1,364)	(328)	(350)
Net assets employed					
Intangible fixed assets	**2,242**	2,079	1,716	1,413	1,460
Right of use assets	**1,111**	–	–	–	–
Property, plant and equipment	**1,389**	1,349	1,086	1,068	1,897
Other net assets, excluding liquid funds	**1,996**	2,117	2,336	2,768	1,721
	6,738	5,545	5,138	5,249	5,078
Financed by					
Share capital	**30**	30	45	45	45
Share premium	**9**	9	67	67	67
Retained earnings and other reserves	**4,332**	4,311	3,946	4,431	3,728
Equity attributable to shareholders of the Company	**4,371**	4,350	4,058	4,543	3,840
Net debt[1]	**1,012**	1,195	1,080	706	1,238
Lease liabilities	**1,355**	–	–	–	–
Net assets employed	**6,738**	5,545	5,138	5,249	5,078

Continuing operations (unless otherwise stated)	2020	2019	2018	2017	2016
Organic revenue growth (ongoing)[1]	**(0.1)%**	5.8%	9.7%	7.0%	4.4%
Gross margin (before exceptional items)	**29.4%**	29.4%	29.2%	29.0%	28.6%
Underlying trading margin[1]	**7.3%**	7.3%	7.3%	7.0%	6.8%
Headline earnings per share[1]	**511.6c**	517.4c	444.4c	366.1c	342.7c
Basic earnings per share from continuing and discontinued operations	**427.5c**	481.3c	515.7c	366.1c	327.8c
Dividends per share (in respect of the financial year)	**208.2c**	208.2c	189.3c	156.4c	132.1c
Special dividend per share	**–**	–	400.0c	–	–
Cover for ordinary dividends	**2.5**	2.5	2.3	2.3	2.6
Return on gross capital employed[1]	**23.9%**	26.2%	22.7%	18.6%	17.5%
Cash generated from operations from continuing and discontinued operations ($m)	**2,252**	1,609	1,323	1,410	1,488
Average number of employees	**34,637**	35,939	34,056	33,511	32,269
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)	**224.8**	230.2	245.7	251.3	253.5
Number of branches at year-end					
Continuing operations	**2,194**	2,259	2,280	2,310	2,498
Discontinued operations	**–**	–	–	239	256
Total branches	**2,194**	2,259	2,280	2,549	2,754
Pounds sterling translation rate					
Income statement	**0.79**	0.78	0.74	0.79	0.68
Balance sheet	**0.76**	0.82	0.76	0.76	0.76
Canadian dollars translation rate					
Income statement	**1.35**	1.32	1.27	1.32	1.33
Balance sheet	**1.34**	1.32	1.30	1.25	1.30

1. Alternative performance measures, see note 2 on pages 124 to 127.

Group companies

The Ferguson Group comprises a large number of companies. This list includes only those subsidiaries owned by the Company at July 31, 2020 which in the Directors' opinion principally affect the figures shown in the consolidated financial statements. A full list of subsidiary undertakings is detailed in the second list below and on the next page.

Principal subsidiary undertakings

Company name	Principal activity	Country of incorporation
Ferguson Enterprises, LLC	Operating company	USA
Ferguson Finance (Switzerland) AG	Financing company	Switzerland
Ferguson Finance plc	Financing company	England and Wales
Ferguson Global AG	Operating company	Switzerland
Ferguson Group Services Limited	Service company	England and Wales
Ferguson Insurance Limited	Operating company	Isle of Man
Ferguson US Holdings, Inc.	Investment company	USA
Wolseley Canada Inc.	Operating company	Canada
Wolseley Capital, Inc.	Financing company	USA
Wolseley Limited	Investment company	England and Wales
Wolseley UK Limited	Operating company	England and Wales

1. All shareholdings in the above mentioned companies are held by intermediate subsidiary undertakings except Wolseley 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, 2020. The country of incorporation and the effective percentage of equity owned (if less than 100 per cent) is also detailed below. Unless otherwise noted, the share capital comprises ordinary shares which are indirectly held by Ferguson plc.

Fully owned subsidiaries

A. C. Electrical Holdings Limited (England)[(viii)(18)]
A. C. Electrical Wholesale Limited (England)[(iii)(18)]
A C Ferguson Limited (Scotland)[(ii)(iii)(15)]
Advancechief Limited (England)[(ii)(iii)(2)]
AMRE Supply Canada Inc. (Canada)[(ix)(9)]
British Fittings Central Limited (England)[(ii)(iii)(2)]
British Fittings Company (North Eastern) Limited (England)[(ii)(viii)(2)]
British Fittings Group Limited (England)[(ii)(viii)(2)]
British Fittings Limited (England)[(ii)(iii)(2)]
Broughton's Limited (England)[(ii)(iii)(2)]
Build.com, Inc. (USA)[(ix)(1)]
Builder Center Limited (England)[(ii)(iii)(2)]
Building and Engineering Plastics Limited (England)[(ii)(iii)(2)]
Caselco Limited (England)[(ii)(iii)(2)]
Clawfoot Supply, LLC (USA)[(x)(1)]
Clayton International, LLC (USA)[(x)(1)]
Columbia Pipe & Supply, LLC (USA)[(x)(1)]
Continental Product Engineering Limited (England)[(iii)(18)]
Crew-Davis Limited (England)[(ii)(iii)(2)]
DBS Holdings, Inc. (USA)[(ix)(1)]
Energy & Process Corporation (USA)[(ix)(1)]
FEI Ventures, LLC (USA)[(x)(1)]
Ferguson Enterprises, LLC (USA)[(ix)(1)]
Ferguson Finance (Switzerland) AG (Switzerland)[(iii)(3)]
Ferguson Finance plc (England)[(iii)(2)]
Ferguson Fire & Fabrication, Inc. (USA)[(iii)(1)]
Ferguson Global AG (Switzerland)[(iii)(3)]
Ferguson Group Services Limited (England)[(iii)(2)]
Ferguson Holding A/S (Denmark)[(iii)(13)]
Ferguson Holdings (Switzerland) AG (Switzerland)[(iii)(3)]
Ferguson Holdings Limited (Jersey)[(iii)(11)]
Ferguson Insurance Limited (Isle of Man)[(viii)(19)]
Ferguson Nordic Holdings ApS (Denmark)[(iii)(13)]
Ferguson Panama, S.A. (Panama)[(ix)(4)]
Ferguson Property (Finland) Oy (Finland)[(iii)(xv)(21)]
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 US Holdings, Inc. (USA)[(iii)(1)]
Ferguson Winnersh Limited (England)[(ii)(iii)(2)]
Fusion Provida Holdco Limited (England)[(iii)(18)]
Fusion Provida UK Limited (England)[(iii)(18)]
G. L. Headley Limited (England)[(ii)(iii)(2)]
Glegg & Thomson Limited (Scotland)[(ii)(iii)(15)]
Hall & Co. Limited (England)[(ii)(iii)(18)]
Heating Replacement Parts & Controls Limited (England)[(ii)(iii)(2)]
Heatmerchants Limited (England)[(ii)(iii)(2)]
HM Wallace, Inc. (USA)[(iii)(1)]
HP Logistics, Inc. (USA)[(ix)(1)]
H P Products Corporation (USA)[(ix)(1)]
James Electric Motor Services Ltd. (Canada)[(ix)(9)]
James Martin Signature Vanities, LLC (USA)[(x)(1)]
Jones Stephens Corp. (USA)[(ix)(1)]
Julise Limited (England)[(ii)(iii)(2)]
King & Company (1744) Limited (England)[(ii)(iii)(2)]
Living Direct, Inc. (USA)[(ix)(1)]
M. A. Ray & Sons Limited (England)[(ii)(iii)(2)]
Matera Paper Company, Inc. (USA)[(ix)(1)]
Max Industries, LLC (USA)[(x)(1)]
Melanie Limited (England)[(ii)(iii)(2)]
Millennium Lighting, Inc. (USA)[(ix)(1)]
MPS Builders Merchants Limited (England)[(iii)(18)]
Ningbo Ferguson Global Company Limited (China)[(iii)(16)]
Nu-Way Heating Plants Limited (England)[(ii)(iii)(2)]
O.B.C. Limited (Northern Ireland)[(ii)(iii)(7)]
Parts Center Limited (England)[(ii)(iii)(2)]
P.D.M. (Plumbers Merchants) Limited (Scotland)[(ii)(iii)(xiv)(15)]
Pipeline Controls Limited (England)[(ii)(iii)(2)]
Power Equipment Direct Inc. (USA)[(ix)(1)]
Promandis Limited (England)[(ii)(iii)(2)]
Reay Electrical Distributors Limited (England)[(ii)(iii)(2)]

Fully owned subsidiaries continued

Rosco Industrial Limited (Scotland)[(ii)(iii)(15)]
Safe Step Walk In Tub, LLC (USA)[(x)(22)]
Sellers of Leeds (Group Services) Limited (England)[(ii)(iii)(2)]
Sellers of Leeds International Limited (England)[(ii)(iii)(2)]
Sellers of Leeds Limited (England)[(viii)(18)]
SEMSCO Barbados, LLC (USA)[(ii)(x)(10)]
Shanghai Du Te International Trading Company (China)[(iii)(17)]
Stock Loan Services, LLC (USA)[(x)(1)]
T & R Electrical Wholesalers Ltd (England)[(iii)(18)]
Tellum Construction, LLC (USA)[(x)(1)]
Thames Finance Company Limited (England)[(ii)(iii)(2)]
Thomson Brothers Limited (Scotland)[(iii)(15)]
Uni-Rents Limited (England)[(ii)(iii)(2)]
Utility Power Systems Limited (England)[(vi)(18)]
Wholesale Supplies (C.I.) Ltd (Jersey)[(iii)(v)(8)]
William Wilson & Co. (Aberdeen) Limited (Scotland)[(ii)(iii)(15)]
William Wilson (Rugby) Limited (England)[(ii)(iii)(2)]
William Wilson Holdings Limited (Scotland)[(iii)(vi)(15)]
William Wilson Ltd (Scotland)[(iii)(15)]
WM. C. Yuille & Company Limited (Scotland)[(ii)(iii)(15)]
Wolseley (Barbados) Ltd (Barbados)[(ix)(1)]
Wolseley Bristol Limited (England)[(ii)(iii)(2)]
Wolseley Canada Inc. (Canada)[(ix)(9)]
Wolseley Capital, Inc. (USA)[(ix)(1)]
Wolseley Centers Limited (England)[(ii)(iii)(2)]
Wolseley Centres Limited (England)[(ii)(iii)(2)]
Wolseley DC Plan Trustees Limited (England)[(iii)(18)]
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)[(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)]
Wolseley Group Holdings Limited (England)[(iii)(2)]
Wolseley Group Limited (England)[(i)(iii)(18)]
Wolseley Holdings (Ireland) Unlimited Company (Republic of Ireland)[(ii)(iii)(xiii)(5)]
Wolseley Holdings Canada Inc. (Canada)[(ix)(9)]
Wolseley Industrial Canada Inc. (Canada)[(iii)(9)]
Wolseley Integrated de Mexico, S.A. de C.V. (Mexico)[(iv)(20)]
Wolseley Integrated Services Inc. (Canada)[(ix)(9)]
Wolseley Investments Limited (England)[(ii)(iii)(2)]
Wolseley Limited (England)[(i)(iii)(iv)(2)]
Wolseley NA Construction Services, LLC (USA)[(x)(1)]
Wolseley Overseas Limited (England)[(iii)(2)]
Wolseley Pension Trustees Limited (England)[(ii)(vi)(2)]
Wolseley Properties Limited (England)[(ii)(iii)(2)]
Wolseley (Shanghai) Holdings AG (Switzerland)[(iii)(3)]
Wolseley Trinidad Ltd (Trinidad and Tobago)[(iii)(12)]
Wolseley UK Directors Limited (England)[(ii)(iii)(18)]
Wolseley UK Finance Limited (Guernsey)[(ii)(iii)(xiii)(14)]
Wolseley UK Limited (England)[(viii)(18)]
Wolseley Utilities Limited (England)[(iii)(18)]
Wolseley-Hughes Limited (England)[(ii)(iii)(2)]
Wolseley-Hughes Merchants Limited (England)[(ii)(iii)(2)]

Associated undertakings

Group Silverline Limited (England)[(xi)(23)]
GTP Services, LLC (USA)[(xii)(24)]

Notes:
(i) Directly owned by Ferguson plc.
(ii) Dormant.
(iii) Ownership held in ordinary shares.
(iv) Ownership held in class of A shares.
(v) Ownership held in class of B shares.
(vi) Ownership held in classes of A and B shares.
(vii) Ownership held in classes of A, B, C and D shares.
(viii) Ownership held in 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.
(xv) Voluntary liquidation in progress.

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) 47 Esplanade, St Helier, Jersey, JE1 0BD, Jersey.
(9) 880 Laurentian Drive, Burlington ON L7N 3V6, Canada.
(10) 9501 Highway, 92 East, Tampa FL FL 33610, United States of America.
(11) 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands.
(12) Building no 6, Fernandes Industrial Centre, Eastern Main Road, Laventille, Port of Spain, Trinidad and Tobago .
(13) Sundkrogsgade 21, 2100, København, Denmark.
(14) Glategny Court, Glategny Esplanade, St Peter Port, GY1 1WR, Guernsey.
(15) Hareness Road, Altens Industrial Estate, Aberdeen, AB12 3QA, United Kingdom.
(16) Room 1203, Building 1 (Beilun Financial Building), 527 Baoshan Road, Xinqi, Beliun District, Ningbo, China.
(17) Room 306-1 Building 2, 3000 Yixian Road, Baoshan district, Shanghai, China.
(18) 2 Kingmaker Court, Warwick Technology Park, Gallows Hill, Warwickshire, CV34 6DY, United Kingdom.
(19) Tower House, Loch Promenade, Douglas, Isle of Man, IM1 2LZ, Isle of Man.
(20) Carretera a General Cepeda 8395, Derramadero, Coahuila, 25300, Mexico.
(21) Bulevardi 1, FI-00100 Helsinki, Finland.
(22) 402 BNA Drive, Suite 350, Nashville, TN 37217, United States of America.
(23) Boundary Way, Lufton Trading Estate, Yeovil, Somerset, BA22 8HZ, United Kingdom.
(24) 9375 Spruce Mountain Rd., Larkspur, CO 80118, United States of America.

Shareholder information

This section provides shareholders with key information to assist in the management of their shareholding. If you have any questions which are not answered below or on the Ferguson plc website **www.fergusonplc.com**, you can contact Equiniti (our registrar) or Ferguson's Investor Relations department at investor@fergusonplc.com

Financial calendar

Key dates for the remainder of calendar year 2020 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.

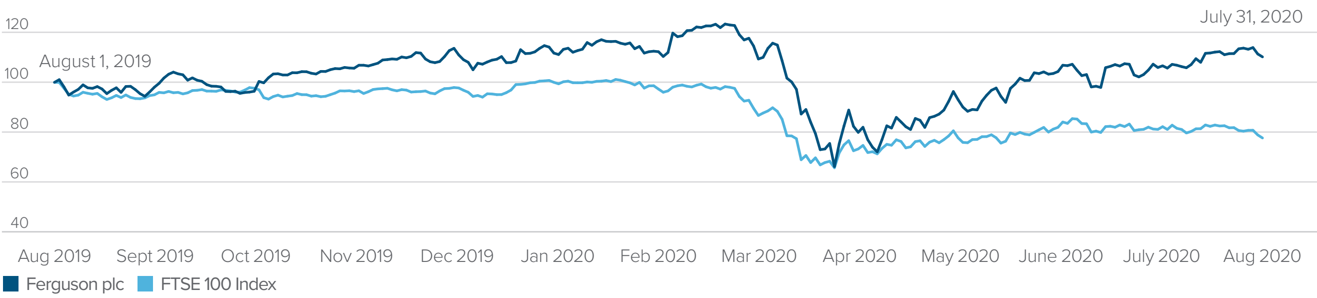
December 3, 2020	Ferguson plc 2020 Annual General Meeting
December 11, 2020	2020 final dividend payment date

Ferguson shares

Share price history

Set out below is a graph showing the performance of Ferguson's share price (using normalized share price data) compared to the FTSE 100 Index during the financial year.

FTSE 100 Index – Ferguson and FTSE 100



Recent share capital history

Since 2009, there have been six events affecting the share capital of Ferguson plc:

2019 – Scheme of arrangement and redomiciliation and consequential redenomination of shares as 10 pence.

2018 – Special dividend, share consolidation and consequential redenomination of shares as $11^{227/563}$ 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 and ADRs

Ferguson shares are listed on the London Stock Exchange using code "FERG".

Ferguson also has an ADR program which trades under the symbol "FERGY". The ADRs are listed on the premier tier of the over-the-counter market "OTCQX". For further information please contact the ADR Depositary:

J.P. Morgan Depositary Receipts
383 Madison Avenue, Floor 11
New York, NY 10179
Email enquiries: adr@jpmorgan.com

Telephone: Within the USA toll free: +1 800 990 1135
Outside the USA: +1 651 453 2128
Global Invest Direct: +1 800 428 4267
Website: **www.adr.com**

Dividend

Proposed final dividend
208.2 cents per share

The Directors have recommended a final dividend of 208.2 cents per share. Payment of this dividend is subject to approval at the 2020 AGM. Dividends will be declared in US dollars and shareholders will be able to elect to receive payment in US dollars.

Key dates for this dividend

Ex-dividend date	November 12, 2020
Record date	November 13, 2020
Last day for DRIP and USD currency elections	November 27, 2020
AGM (to approve final dividend)	December 3, 2020
USD/pounds sterling exchange rate announcement	December 4, 2020
Payment date	December 11, 2020
DRIP certificates posted/CREST accounts credited	December 16, 2020

Dividend history

Details of dividends paid in the financial years 2018/19 and 2019/20 are set out below. For details of other historical payments, please refer to the Ferguson plc website **www.fergusonplc.com** under “Dividends” in the “Shareholder Centre” section.

Financial year	Dividend period	Dividend amount (per share)	Record date	Payment date	DRIP share price
2019/20	Final 2019	145.10 cents[1]	October 25, 2019	November 28, 2019	£69.4581
2018/19	Interim 2019	63.10 cents[2]	April 5, 2019	April 30, 2019	£54.4866

1. Shareholders who elected to receive the 2019 final dividend of 145.10 cents per share in pounds sterling received 112.46 pence per share.
2. Shareholders who elected to receive the 2019 interim dividend of 63.10 cents per share in pounds sterling received 48.11 pence per share.

Dividend payment

1. Direct payment to your bank: You are encouraged to receive your dividends directly to your bank or building society account. This is more convenient and helps reduce the risk of checks becoming lost or delayed in the post. The associated dividend confirmation will still be sent direct to your registered address. To switch to this method of payment you can download a dividend mandate form from the Shareview website (**www.shareview.co.uk**). Alternatively, you can contact Equiniti by telephone who will also be able to assist with any questions you may have.

2. USD election: Dividends are declared in US dollars. However, the default payment currency remains in pounds sterling. Should you wish to elect to receive your dividend in US dollars, further information can be found on the Ferguson plc website, Shareview website or you can contact Equiniti by telephone.

3. Overseas payment service: If you wish to receive your dividends in a currency other than pounds sterling or US dollars, Equiniti offers an Overseas Payment Service which is available in certain countries. This may make it possible to receive dividends direct into your bank account in your local currency[1]. Further information can be found on the Ferguson plc website, Shareview website or you can contact Equiniti by telephone.

4. Dividend Reinvestment Plan (“DRIP”): The Company offers a DRIP which gives shareholders the opportunity to use their dividend to purchase further Ferguson shares. Instead of receiving cash, shareholders receive as many whole shares as can be bought with their dividend, taking into account related purchase costs. Any residual cash will be carried forward and added to their next dividend.

If you wish to join the DRIP, you can download copies of the DRIP terms and conditions and the DRIP mandate form from the Shareview website. Simply complete the DRIP mandate form and return it to Equiniti. Should you have any questions on the DRIP or wish for a paper mandate form to be sent to you, please contact Equiniti on 0371 384 2934. Please note that if you wish to join the DRIP in time for the 2020 final dividend, our Registrars, Equiniti, must have received the instruction by November 27, 2020. Instructions received by Equiniti after this date will be applied to the next dividend.

1. Please note that a payment charge would be deducted from each individual payment before conversion into your local currency.

Shareholder communications

Annual General Meeting ("AGM")

The 2020 AGM will be held on Thursday, December 3, 2020. Please consult the 2020 Notice of AGM and **www.fergusonplc.com** for details regarding the 2020 AGM.

Website

See page 175 for further details about the Ferguson plc website.

Annual Report

Ferguson publishes an Annual Report every year. It is sent to shareholders through the post as a printed document unless the shareholder has chosen to receive e-communications (see below).

E-communications

The Company offers shareholders the opportunity to access shareholder documents, such as Annual Reports and notices of AGM, via e-communications rather than receiving printed documents in the post. You will be notified by email as soon as shareholder documents are available on the website.

Managing your shares

Share registration enquiries

To manage your shareholding, please contact Equiniti. They will be able to assist you in various matters including:

- changing your registered name and address;
- consolidating share certificates;
- managing your dividend payments;
- notifying the death of a shareholder;
- registering a lost share certificate and obtaining a replacement;
- registering for electronic communications; and
- transferring your shares.

You can contact Equiniti in writing, by telephone or online. Further contact details are set out below. Please use your shareholder reference number when contacting Equiniti. This can be found on your share certificate or dividend confirmation.

If you are not already registered to view your shareholding online, you will need to register via Equiniti's Shareview website.

Equiniti

Address: Equiniti (Jersey) Limited, c/o Equiniti (0049)
PO Box 75
26 New Street
St Helier
Jersey JE4 8PP
Channel Islands

Telephone: 0371 384 2934 and from outside the UK +44 (0)121 415 7011

Website: **www.equiniti.com**
Shareview website: **www.shareview.co.uk**

Share dealing

If you wish to buy or sell Ferguson shares and hold a share certificate, you can do this:

- by using the services of a stockbroker or high street bank; or
- through telephone or online services.

Equiniti also offer a share dealing service to UK-based shareholders. Further details of their telephone, internet and postal dealing services can be obtained from their Shareview website (**www.shareview.co.uk**) or by calling 03456 037 037.

Group information

Company details

Registered Office

Ferguson plc
26 New Street
St Helier
Jersey
JE2 3RA
Channel Islands

Registration No. 128484 Jersey

Registered in the UK as Ferguson Group Holdings, United Kingdom Establishment No. BR021199

Corporate Headquarters and Group Services Office

Ferguson plc
1020 Eskdale Road
Winnersh Triangle
Wokingham
RG41 5TS
United Kingdom

Telephone: +44 (0) 118 927 3800

Website

www.fergusonplc.com

Company contacts

Investor relations (investor@fergusonplc.com)

Group Director of Communications and Investor Relations – Mark Fearon

Company secretariat

Group Company Secretary – Graham Middlemiss

Company advisers

Auditor

Deloitte LLP

Corporate brokers

Barclays
JP Morgan Cazenove

Financial adviser

Rothschild & Co

Public relations

Brunswick Group LLP

Solicitor

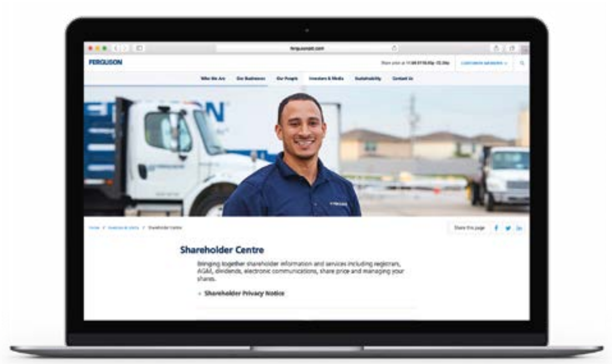
Carey Olsen Jersey LLP
Freshfields Bruckhaus Deringer LLP

Stay informed

Main corporate site

www.fergusonplc.com

Key sections include Our businesses, Investors and media and Sustainability. There is also information on our strategy and links to our business unit websites. Site tools include information pack download, alert services and an option to receive content feeds.



Shareholder information section

www.fergusonplc.com/en/investors-and-media/shareholder-centre.html

Visit our Investor and media 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.

Forward-looking statements

Certain information included in this Annual Report and Accounts is forward-looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward-looking statements. Forward-looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of expected future revenues, financing plans, expected expenditures and divestments, risks associated with changes in market conditions and pressures on margins, changes in the level of litigation, employee motivation, the performance and resilience of the Company's systems and infrastructure, the level of government regulation and financial risks (such as fluctuations in exchange and interest rates), and potential impacts of the COVID-19 pandemic on our business operations, financial results and financial position on the global economy.

Forward-looking statements can be identified by the use of forward looking terminology, including terms such as "believes", "estimates", "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. All forward-looking statements in this Annual Report and Accounts are based upon information known to the Company on the date of this Annual Report and Accounts. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward-looking statements, which speak only at their respective dates.

Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules, the Prospectus Rules, the Disclosure Guidance and the Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Nothing in this Annual Report and Accounts shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

Credits

Design and production: Radley Yeldar
www.ry.com

Photography: Andy Wilson and Scott K. Brown Photography, Inc

Paper

In this year's report we have opted to print on Amadeus Silk paper and cover board with Revive Uncoated paper, made from 100% post-consumer waste, used in the financial section.

Amadeus Silk and Revive Uncoated are made from FSC® certified fibre.

Both products are fully biodegradable and recyclable and produced in mills which hold IS0 9001 and ISO 14001 accreditation.

MIX
Paper from responsible sources
FSC® C022913
www.fsc.org

Printing

This publication is printed by 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.

WORLD LAND TRUST™
CARBON BALANCED PAPER
www.carbonbalancedpaper.com
CBP00019082504183028

FERGUSON

Ferguson plc

Registered Office

26 New Street
St Helier
Jersey
JE2 3RA
Channel Islands

Registration No. 128484 Jersey

Registered in the UK as Ferguson Group Holdings, UK Establishment No. BR021199

Corporate Headquarters and Group Services Office

1020 Eskdale Road
Winnersh Triangle
Wokingham RG41 5TS
Telephone +44 (0) 118 927 3800

www.fergusonplc.com

Follow us on Twitter

@Ferguson_plc