FERGUSON

Results for the half year ended 31 January 2019

26 March 2019

SOLID FIRST HALF PERFORMANCE DRIVEN BY STRONG REVENUE GROWTH

$m	H1 2019	H1 2018	Change	Change (at constant exchange rates)	Organic change
Statutory financial results					
Revenue	10,847	10,027	+8.2%		
Profit for the period attributable to shareholders	586	458	+27.9%		
Basic earnings per share	254.5c	183.3c			
Interim dividend per share	63.1c	57.4c	+10.0%		
Alternative performance measures[1]					
Ongoing revenue	10,666	9,865	+8.1%	+8.9%	+6.5%
Ongoing gross margin	29.6%	29.5%			
Ongoing trading profit	744	691	+7.7%	+8.0%	
Headline earnings per share	241.9c	202.1c	+19.7%		
Net debt : EBITDA	1.1x	0.8x			
Trading days	127	128	(1)		

Highlights

- Ongoing revenue 8.1% ahead of last year including organic growth of 6.5%.
- Strong US organic revenue growth of 9.7% with continued market share gains and trading profit growth.
- Within our Blended Branches network organic revenue growth was strong in every region:
  - East +8.4%
  - West +10.1%
  - Central +9.2%
- US Waterworks business generated strong organic revenue growth of 7.8%.
- Solid trading performance in Canada and good progress on strategic initiatives in the UK.
- Completed a number of acquisitions including Blackman and Wallwork with 33 branches in NY and NJ.
- Exit of Dutch plumbing and heating business and other surplus assets generated $255 million of cash.
- Interim dividend of 63.1c up 10.0%.
- Strong balance sheet, net debt : EBITDA ratio of 1.1x.
- Proposal to move tax domicile to the UK.

1) The Group uses Alternative Performance Measures ("APMs"), which are not defined or specified under IFRS, to provide additional helpful information. These measures are not considered to be a substitute for IFRS measures and are consistent with how business performance is planned, reported and assessed internally by management and the Board. For further information on APMs, including a description of our policy, purpose, definitions and reconciliations to equivalent IFRS statutory measures see note 2 on pages 15 to 19.

FERGUSON

Results for the half year ended 31 January 2019

John Martin, Chief Executive, commented:

"Ferguson performed well in the first half with continued strong organic growth in the US of 9.7%. Growth in the US was widespread across all geographic regions, major business units and end-markets. In our Blended Branches network the East grew organic revenue 8.4%, with the West up 10.1% and the Central region was 9.2% ahead. The Waterworks business also made good progress generating organic revenue growth of 7.8%. In other geographies residential markets weakened in Canada and in the UK markets were flat.

"After a strong revenue performance in the first half our growth rate has moderated recently in line with conditions in our markets. While we still expect to generate further revenue growth in the second half, we have revised our estimates of Group organic revenue growth to between 3-5%. Consequently, we expect trading profit for the full year to be towards the lower end of the range of analysts' expectations[2].

"We will continue to execute our strategy of delivering excellent customer service to maximise profitable growth opportunities whilst remaining vigilant on costs. Our capital allocation policy is unchanged and we will continue to maintain a strong balance sheet."

[2] Current analysts' consensus for Group trading profit for 2019 is published on the Company's corporate website. The bottom of the range is $1,585 million and the average is $1,629 million.

For further information please contact

Ferguson plc

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There will be an analyst and investor presentation at 0830 (UK time) today at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. A live video webcast and slide presentation of this event will be available on www.fergusonplc.com. We recommend you register at 0815 (UK time). Photographs are also available at www.fergusonplc.com.

Financial results

Ferguson plc delivered a good trading result in the first half. In the USA, which accounts for 83% of ongoing revenue, markets remained good and the businesses continued to take market share. In Canada, residential markets weakened and in the UK plumbing and heating markets were flat.

Statutory results

Revenue of $10,847 million (2018: $10,027 million) was 8.2% ahead of last year which included the results of our Dutch plumbing and heating business which was sold during the period. Statutory profit before tax was $679 million (2018: $598 million) after exceptional charges. Profit attributable to shareholders increased to $586 million (2018: $458 million). The increase was driven by profit growth in the operating segments, an exceptional gain on the disposal of our Dutch business in continuing operations and exceptional gains on the disposal of Nordic properties within discontinued operations.

Alternative performance measures

Ongoing revenue of $10,666 million (2018: $9,865 million) was 8.9% ahead at constant exchange rates and 6.5% ahead on an organic basis. Inflation in the first half was approximately 3%. Ongoing gross margins of 29.6% (2018: 29.5%) were 0.1% ahead of last year. Operating expenses in the ongoing business were 9.6% higher at constant exchange rates which included 3.8% from acquisitions.

Ongoing trading profit was $744 million (2018: $691 million), 8.0% ahead of last year at constant exchange rates. The ongoing trading margin was 7.0% (2018: 7.0%). There was one fewer trading day than last year which reduced trading profit by $12 million and there will be the same number of trading days in the second half as there were in the comparable period. Foreign exchange movements decreased ongoing revenue by $70 million and trading profit by $2 million.

Operating and financial review

Further details of the financial performance and market conditions in the Group's businesses are set out below.

First half regional analysis

$m	Revenue 2019	Revenue 2018	Change (at constant exchange rates)	Trading profit 2019	Trading profit 2018	Change (at constant exchange rates)
USA	8,874	7,912	+12.2%	700	647	+8.2%
UK	1,177	1,354	(10.4%)	30	38	(16.7%)
Canada	615	599	+7.8%	39	34	+17.1%
Central costs	-	-		(25)	(28)	
Group	10,666	9,865	+8.9%	744	691	+8.0%

Quarterly organic revenue growth

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	H1 2019
USA	+8.3%	+9.1%	+10.6%	+11.4%	+9.6%	+9.7%	+9.7%
UK[1]	+3.9%	(1.7%)	+0.7%	(0.1%)	+1.5%	(1.0%)	+0.3%
Canada	+7.2%	+9.9%	+4.7%	+6.3%	+3.3%	+0.5%	+2.1%
Group	+7.5%	+7.4%	+7.1%	+8.1%	+6.7%	+6.3%	+6.5%

[1] The UK revenue growth rate is presented on a like-for-like basis to remove the impact of closed branches and the exit of low margin business.

USA

The US business grew by 9.7% on an organic basis with acquisitions generating 3.2% of additional revenue growth. Price inflation was about 3%. US market growth continued to be good and was broadly based with all of our business units generating organic revenue growth in the first half.

Blended Branches grew well across all geographic regions including 8.4% in the East, 10.1% in the West and 9.2% in the Central region. Waterworks growth was good and Industrial and HVAC revenue growth was particularly strong. The growth rate in standalone eBusiness (formerly B2C) was lower as we continued to consolidate pay-per-click advertising spend around fewer trading websites.

The organic revenue growth by end market was as follows:

	% of US revenue	Market growth	**Organic revenue growth**
Residential	~50%	~6%	+8%
Commercial	~35%	~5%	+9%
Civil / Infrastructure	~7%	~5%	+7%
Industrial	~8%	~13%	+23%
		~6%	+9.7%

During the first half there was a small benefit in gross margins arising from recent acquisitions offset by the dilutive impact of the strong growth in the Industrial business. Operating expense growth included labour cost inflation of approximately 3.5% and distribution costs were particularly impacted by high inflation.

Ten bolt-on acquisitions were completed in the first half with total annualised revenues of $611 million. As previously announced these included Jones Stephens and Robertson Supply. In the second quarter we acquired Blackman Plumbing Supply, a distributor of plumbing, heating, industrial, waterworks and air conditioning supplies in Long Island, New York. We also bought Wallwork Bros. a supplier of heating and cooling products based in New York and New Jersey and James Martin, a small bathroom furniture business based in Dallas, Texas. We expect to incur integration costs of $15 million in FY19 which will be charged to trading profit, the majority of which relate to the Blackman and Wallwork businesses.

Trading profit of $700 million (2018: $647 million) was 8.2% ahead of last year and the trading margin was 7.9% (2018: 8.2%).

UK

Like-for-like revenue growth in the UK was 0.3%, and inflation was about 2-3%. Repairs, maintenance and improvement markets were flat. Gross margins were ahead due to improved product mix. Trading profit of $30 million was $8 million lower than last year. The trading margin was 2.5% (2018: 2.8%). We have continued to execute the restructuring programme including the exit of the national distribution centre, relocation of the support services office in Leamington Spa and completion of the roll out of the new Wolseley trading brand for our plumbing and heating business. Since the end of the period we have exited a small, non core business which accounted for about half the UK trading profit shortfall in the first half. In February, we also completed the sale of some surplus property assets in the UK for $43 million.

Canada

In Canada, organic revenue was 2.1% higher and price inflation was about 2-3% with markets weakening progressively throughout the period. In particular, residential markets slowed as a result of rising interest rates and government measures to restrict mortgage credit. Acquisitions contributed 5.8% of additional growth. Gross margins were ahead of last year and operating expenses were well controlled. Trading profit of $39 million was $5 million ahead of last year including a $2 million adverse impact from exchange rate movements. The trading margin was 6.3% (2018: 5.7%). As previously announced, we completed one acquisition in the first half with total annualised revenue of $11 million.

Central costs

Central costs in the first half were $25 million, $3 million lower than last year including the benefit of a $1 million favourable impact from exchange rate movements.

Non-ongoing operations

The Group disposed of its Dutch plumbing and heating business, the last of its Central European businesses, on 30 January 2019 for consideration of $111 million. The business contributed $181 million of revenue and $9 million of trading profit in the period up to the point of disposal.

Exceptional items

A total exceptional gain of $3 million (2018: exceptional charge of $46 million) included a $38 million gain on disposal of the Dutch plumbing and heating business and a $31 million charge relating to UK restructuring.

Finance costs

Net finance costs before exceptional items were $35 million (2018: $27 million).

Tax

The Group incurred a tax charge of $139 million (2018: $158 million) on profit before tax of $679 million (2018: $598 million). This includes an ongoing tax charge of $161 million (2018: $167 million) which equates to an ongoing effective tax rate of 22.7% (2018: 25.2%) on the ongoing trading profit less net finance costs of $709 million (2018: $664 million). The tax rate reduced during the first half as a result of the reduction in the US federal corporate income tax rate on 1 January last year.

Proposal to change the Group's headquarters and tax domicile

Ferguson is proposing to put in place a new corporate structure to change the Group's headquarters and the tax residence of its holding company from Switzerland to the UK. This will simplify the Group's corporate structure following recently announced Swiss tax reform which will reduce the benefits of continuing to be tax resident there. Approval will be sought from shareholders at a General Meeting to be held on 29 April 2019 with an effective date of 10 May 2019. If approved, the Company expects to maintain its previously announced guidance for an effective tax rate of 25-26% for the year ended 31 July 2020. Further details will be provided in due course.

Earnings per share

Total basic earnings per share were 254.5 cents (2018: 183.3 cents). Headline earnings per share increased by 19.7% to 241.9 cents (2018: 202.1 cents) mainly due to the increase in trading profit during the year and the lower share count as a result of last year's share buy back programme.

Cash flow

The Group continued to generate good cash flows with cash generated from operations of $287 million (2018: $390 million), after a seasonal working capital outflow of $503 million (2018: $398 million). Net interest and tax amounted to $166 million (2018: $129 million) and acquisitions amounted to $589 million (2018: $120 million). In line with our organic growth plans, capital investment increased to $244 million (2018: $175 million). Disposal proceeds principally relating to our Dutch plumbing and heating business and other surplus assets were $255 million (2018: $49 million). Ordinary dividends paid amounted to $300 million (2018: $248 million).

Net debt

The Group's net debt at 31 January 2019 was $1,885 million (31 January 2018: $1,401 million) and the ratio of net debt to the last twelve months EBITDA was 1.1x (31 January 2018: 0.8x). The Group has a strong liquidity position with credit facilities of $3.9 billion and aims to operate with a net debt to EBITDA ratio of between 1x and 2x. In October 2018 the Company raised $750 million of bond financing at 4.5% with a ten-year maturity.

Pension obligations

At 31 January 2019 the Group's net pension position was an asset of $154 million (2018: net asset of $48 million).

IFRS 16 lease accounting

IFRS 16 will be applied in the year ended 31 July 2020. The standard has no impact on the way the Group is run, cash payments made for leases, our capital allocation policy or the plans and financial ambitions of Ferguson. It does, however, have an impact on the way assets, liabilities and the income statement of the Group will be presented from next year. Indicative guidance on the impact on the Group's financial statements is disclosed in Note 1 on page 14. The current year results will be unaffected.

Shareholder returns

In December the Group paid a final dividend of 131.9 cents per share (2018: 73.33 pence per share) amounting to $300 million. This included an upwards rebasing of 10% reflecting the Group's excellent track record of cash generation and the ongoing strength of the balance sheet. An interim dividend of 63.1 cents per share (2018: 57.4 cents per share) representing an increase of 10% will be paid on 30 April 2019 to shareholders on the register on 5 April 2019.

Our investment priorities remain focused on investing in organic growth, maintaining and growing the ordinary dividend in line with earnings through the cycle and investing in bolt-on acquisitions that meet our investment criteria. Any surplus cash after meeting these investment needs will be returned to shareholders promptly.

Board changes

In January 2019 Cathy Halligan was appointed to the Board as a Non Executive Director. Cathy, a US Citizen, has extensive digital transformation and marketing experience. She currently serves on the Board of two NASDAQ listed companies: Ultra Beauty Inc., an omni-channel retailer; and FLIR Systems Inc., a global thermal imaging, infrared technology company. Cathy also worked for Walmart Inc, for 5 years where she held Executive roles across marketing and e-commerce. In February, Tom Schmitt was appointed as a Non Executive Director. Tom, a US citizen, has considerable operational experience running large international logistics and supply chain businesses most notably at Schenker AG and FedEx corporation. He is currently CEO and Director of Forward Air Corporation, the NASDAQ-listed premium ground transportation company.

Outlook

After a strong revenue performance in the first half our growth rate has moderated recently in line with conditions in our markets. While we still expect to generate further revenue growth in the second half, we have revised our estimates of Group organic revenue growth to between 3-5%. Consequently, we expect trading profit for the full year to be towards the lower end of the range of analysts' expectations[2].

Principal risks and uncertainties

The principal risks and uncertainties which affect the Group are:

New competitors and technology	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.
Market conditions	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. The impact of Brexit on the Group's performance is expected to be immaterial.
Pressure on margins	The Group's ability to maintain attractive profit margins can be affected by a range of factors. These include levels of demand and competition in our markets, the arrival of new competitors with new business models, the flexibility of the Group's cost base, changes in the cost of commodities or goods purchased, customer or supplier consolidation or manufacturers shipping directly to customers. There is a risk that the Group may not identify or respond effectively to changes in these factors. If it fails to do so, the amount of profit generated by the Group could be significantly reduced.
Information and technology	With the appointment of a new Chief Information Officer, the Group now 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 (IT) risks are categorised as strategic and operational. Strategic risks are threats that could prevent execution of the IT strategic plan such as inadequate leadership, poor allocation/management of resources and/or poor execution of the organisational change of management necessary to adopt and apply new business processes. Operational risks include business disruption resulting from system failures, fraud or criminal activity. This includes security threats and/or failures in the ability of the organisation to operate, recover and restore operations after such disruptions. While cyber security threats have resulted in minimal impact to date, this risk continues to persist and evolve.
Health and safety	The nature of Ferguson's operations can expose its associates, contractors, customers, suppliers and other individuals to health and safety risks. Health and safety incidents can lead to loss of life or severe injuries.
Regulations	The Group's operations are affected by various statutes, regulations and standards in the countries and markets in which it operates. The amount of such regulation and the penalties can vary. While the Group is not engaged in a highly regulated industry, it is subject to the laws governing businesses generally, including laws relating to competition, product safety, data protection, labour and employment practices, accounting and tax standards, international trade, fraud, bribery and corruption, land usage, the environment, health and safety,

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

Talent management and retention	As the Group develops new business models and new ways of working, it needs to develop suitable skill-sets within the organisation. Furthermore, as the Group continues to execute a number of strategic change programmes, it is important that existing skill-sets and talent are retained. Failure to do so could delay the execution of strategic change programmes, result in a loss of "corporate memory" and reduce the Group's supply of future leaders.
Macro political tax risk	The wider macro political and economic situation is uncertain in many of the territories in which Ferguson operates and changes could affect the Group's future tax rate. A combination of growing international trade pressures, withdrawal of quantitative easing by central banks and rising debt levels, is creating political uncertainty which could lead to changes to the prevailing tax regime. As a result, we anticipate that the effective tax rate may increase over the medium term.

The 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.

Statement of Directors' responsibilities

The Directors confirm, to the best of their knowledge, that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report and Accounts.

The Directors of Ferguson plc are listed in the Ferguson plc Annual Report and Accounts 2018. A list of current Directors is maintained on the Ferguson plc website: www.fergusonplc.com.

By order of the Board,

John W Martin	**Mike Powell**
Group Chief Executive	Group Chief Financial Officer

Notes to statement

1. About Ferguson

Ferguson plc is the world's largest specialist trade distributor of plumbing and heating products to professional contractors principally operating in North America and the UK. Revenue for the year ended 31 July 2018 was $20.8 billion and ongoing trading profit was $1.5 billion. Ferguson plc is listed on the London Stock Exchange (LSE: FERG) and is in the FTSE 100 index of listed companies. For more information, please visit www.fergusonplc.com or follow us on Twitter https://twitter.com/Ferguson_plc.

2. Financial calendar

Q3 IMS for the period ending 30 April 2019	10 June 2019*
Full Year Results for the year ended 31 July 2019	1 October 2019
Annual General Meeting	21 November 2019

* Please note change of date

3. Timetable for the interim dividend

The timetable for payment of the interim dividend is as follows:

Ex dividend date:	4 April 2019
Record date:	5 April 2019
Payment date:	30 April 2019

The dividend is declared in US dollars but will be paid in sterling, shareholders can elect to receive the dividend in US dollars. A dividend reinvestment plan is in operation. Those shareholders who have not elected to receive dividends in US dollars or elected to participate in the dividend reinvestment plan, and who would like to make an election with respect to the 2019 interim dividend, may do so by contacting Equiniti on 0371 384 2934 (or if outside the UK +44 (0) 121 415 7011). The last day for election for the proposed interim dividend is 9 April 2019 and any requests should be made in good time ahead of that date.

4. Legal disclaimer

Certain information included in this announcement is forward-looking and involves known and unknown risks, assumptions and uncertainties that could cause actual results or outcomes to differ from those expressed or implied in any forward-looking statement. There forward-looking statements are based on the Company’s current belief and expectations about future events and 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, prospects, growth, strategies, expected expenditures and divestments, risks associated with changes in economic conditions, the strength of the plumbing and heating and building materials market in North America and Europe, fluctuations in product prices and changes in exchange and interest rates. Forward-looking statements are sometimes identified by the use of forward-looking terminology, including terms such as "believes", "estimates", “continues”, "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations thereon or comparable terminology. Forward-looking statements are not guarantees of future performance and actual events or results may differ materially from any estimates or forecasts indicated, expressed or implied in such forward looking statements. All forward-looking statements in this announcement are based upon information known to the Company on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date of this announcement. 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 applicable law, (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 update publicly or revise any forward-looking statement, whether as a result of new information, change in events or otherwise. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

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Condensed consolidated income statement (unaudited)

Half year to 31 January 2019

Half year to 31 January	Notes	2019 Before exceptional items $m	2019 Exceptional items (note 4) $m	2019 Total $m	2018 Before exceptional items $m	2018 Exceptional items (note 4) $m	2018 Total $m
Continuing operations							
Revenue	3	**10,847**	**–**	**10,847**	10,027	–	10,027
Cost of sales		**(7,653)**	**(1)**	**(7,654)**	(7,084)	(3)	(7,087)
Gross profit		**3,194**	**(1)**	**3,193**	2,943	(3)	2,940
Operating costs:							
amortisation of acquired intangible assets	9	**(44)**	**–**	**(44)**	(30)	–	(30)
other		**(2,441)**	**1**	**(2,440)**	(2,245)	(43)	(2,288)
Operating costs		**(2,485)**	**1**	**(2,484)**	(2,275)	(43)	(2,318)
Operating profit	3	**709**	**–**	**709**	668	(46)	622
Net finance costs	5	**(35)**	**–**	**(35)**	(27)	–	(27)
Share of profit after tax of associates		**2**	**–**	**2**	3	–	3
Gain on disposal of interests in associates		**–**	**3**	**3**	–	–	–
Profit before tax		**676**	**3**	**679**	644	(46)	598
Tax	6	**(143)**	**4**	**(139)**	(165)	7	(158)
Profit from continuing operations		**533**	**7**	**540**	479	(39)	440
Profit from discontinued operations		**1**	**45**	**46**	37	(19)	18
Profit for the period attributable to shareholders of the Company		**534**	**52**	**586**	516	(58)	458
Earnings per share	8						
Continuing operations and discontinued operations							
Basic earnings per share				**254.5c**			183.3c
Diluted earnings per share				**252.8c**			182.0c
Continuing operations only							
Basic earnings per share				**234.5c**			176.1c
Diluted earnings per share				**233.0c**			174.9c

Alternative performance measures			
Trading profit from ongoing operations	2	**744**	691
Trading profit from non-ongoing operations	2	**9**	7
Trading profit from continuing operations	2, 3	**753**	698
Adjusted EBITDA from continuing operations	2	**842**	782
Headline earnings per share	2, 8	**241.9c**	202.1c

Condensed consolidated statement of comprehensive income (unaudited)

Half year to 31 January 2019

Half year to 31 January	**2019 $m**	2018 $m
Profit for the period	**586**	458
Other comprehensive (expense)/income:		
Items that may be reclassified subsequently to profit or loss:		
Exchange (loss)/gain on translation of overseas operations[1]	**(9)**	114
Exchange gain/(loss) on translation of borrowings and derivatives designated as hedges of overseas operations[1]	**4**	(24)
Cumulative currency translation differences on disposal of interests in associates[1]	**7**	–
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (loss)/gain on retirement benefit plans[2]	**(32)**	68
Income tax charge on retirement benefit plans[2]	**(1)**	(12)
Other comprehensive (expense)/income for the period	**(31)**	146
Total comprehensive income for the period attributable to shareholders of the Company	**555**	604

1. Impacting the translation reserve.
2. Impacting retained earnings.

Condensed consolidated statement of changes in equity (unaudited)

				Reserves					
	Notes	**Share capital $m**	**Share premium $m**	**Translation reserve $m**	**Treasury shares $m**	**Own shares $m**	**Retained earnings $m**	**Non-controlling interest $m**	**Total equity $m**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**586**	**–**	**586**
Other comprehensive income/(expense)		**–**	**–**	**2**	**–**	**–**	**(33)**	**–**	**(31)**
Total comprehensive income		**–**	**–**	**2**	**–**	**–**	**553**	**–**	**555**
Purchase of own shares by Employee Benefit Trusts		**–**	**–**	**–**	**–**	**(38)**	**–**	**–**	**(38)**
Issue of own shares by Employee Benefit Trusts		**–**	**–**	**–**	**–**	**25**	**(25)**	**–**	**–**
Credit to equity for share-based payments		**–**	**–**	**–**	**–**	**–**	**21**	**–**	**21**
Tax relating to share-based payments		**–**	**–**	**–**	**–**	**–**	**(3)**	**–**	**(3)**
Disposal of Treasury shares		**–**	**–**	**–**	**9**	**–**	**(8)**	**–**	**1**
Dividends paid	7	**–**	**–**	**–**	**–**	**–**	**(303)**	**–**	**(303)**
Net change to equity		**–**	**–**	**2**	**9**	**(13)**	**235**	**–**	**233**
At 1 August 2018		**45**	**67**	**(556)**	**(1,380)**	**(90)**	**5,972**	**(1)**	**4,057**
At 31 January 2019		**45**	**67**	**(554)**	**(1,371)**	**(103)**	**6,207**	**(1)**	**4,290**

				Reserves					
	Notes	Share capital $m	Share premium $m	Translation reserve $m	Treasury shares $m	Own shares $m	Retained earnings $m	Non-controlling interest $m	Total equity $m
Profit for the period		–	–	–	–	–	458	–	458
Other comprehensive income		–	–	90	–	–	56	–	146
Total comprehensive income		–	–	90	–	–	514	–	604
Purchase of own shares by Employee Benefit Trusts		–	–	–	–	(34)	–	–	(34)
Issue of own shares by Employee Benefit Trusts		–	–	–	–	23	(23)	–	–
Credit to equity for share-based payments		–	–	–	–	–	16	–	16
Tax relating to share-based payments		–	–	–	–	–	(1)	–	(1)
Purchase of Treasury shares		–	–	–	(335)	–	–	–	(335)
Disposal of Treasury shares		–	–	–	18	–	(9)	–	9
Dividends paid	7	–	–	–	–	–	(248)	–	(248)
Net change to equity		–	–	90	(317)	(11)	249	–	11
At 1 August 2017		45	67	(746)	(743)	(76)	5,996	(3)	4,540
At 31 January 2018		45	67	(656)	(1,060)	(87)	6,245	(3)	4,551

Condensed consolidated balance sheet (unaudited)

Half year to 31 January 2019

As at 31 July 2018 $m		Notes	As at 31 January 2019 $m	As at 31 January 2018 $m
	Assets			
	Non-current assets			
1,408	Intangible assets: goodwill	9	**1,632**	1,249
308	Intangible assets: other	9	**440**	264
1,086	Property, plant and equipment	9	**1,316**	1,122
64	Interests in associates		**41**	209
11	Financial assets		**38**	11
193	Retirement benefit assets		**171**	70
130	Deferred tax assets		**124**	149
328	Trade and other receivables		**332**	316
17	Derivative financial assets		**7**	13
3,545			**4,101**	3,403
	Current assets			
2,516	Inventories		**2,915**	2,590
3,094	Trade and other receivables		**2,970**	2,781
10	Current tax receivable		**12**	–
–	Derivative financial assets		**3**	7
833	Cash and cash equivalents	11	**699**	2,308
6,453			**6,599**	7,686
151	Assets held for sale		**51**	1,587
10,149	**Total assets**		**10,751**	12,676
	Liabilities			
	Current liabilities			
3,341	Trade and other payables		**3,034**	2,847
188	Current tax payable		**189**	167
2	Derivative financial liabilities		**–**	–
383	Loans and bank overdrafts	15	**302**	2,178
3	Obligations under finance leases		**2**	4
95	Provisions		**89**	118
4	Retirement benefit obligations		**6**	7
4,016			**3,622**	5,321
	Non-current liabilities			
298	Trade and other payables		**295**	277
17	Derivative financial liabilities		**7**	10
1,522	Loans	15	**2,280**	1,533
3	Obligations under finance leases		**3**	4
42	Deferred tax liabilities		**75**	11
179	Provisions		**168**	162
15	Retirement benefit obligations		**11**	15
2,076			**2,839**	2,012
–	Liabilities held for sale		**–**	792
6,092	**Total liabilities**		**6,461**	8,125
4,057	**Net assets**		**4,290**	4,551
	Equity			
45	Share capital		**45**	45
67	Share premium		**67**	67
3,946	Reserves		**4,179**	4,442
4,058	**Equity attributable to shareholders of the Company**		**4,291**	4,554
(1)	Non-controlling interest		**(1)**	(3)
4,057	**Total equity**		**4,290**	4,551

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated cash flow statement (unaudited)

Half year to 31 January 2019

Half year to 31 January	Notes	2019 $m	2018 $m
Cash flows from operating activities			
Cash generated from operations	10	**287**	390
Interest received		**5**	3
Interest paid		**(43)**	(31)
Tax paid		**(128)**	(101)
Net cash generated from operating activities		**121**	261
Cash flows from investing activities			
Acquisitions of businesses (net of cash acquired)	12	**(589)**	(120)
Disposals of businesses (net of cash disposed of)	13	**199**	(40)
Purchases of property, plant and equipment		**(230)**	(139)
Proceeds from sale of property, plant and equipment and assets held for sale		**38**	89
Purchases of intangible assets		**(14)**	(36)
Acquisition of associates and other investments		**(9)**	(35)
Disposal of interests in associates		**18**	–
Net cash used in investing activities		**(587)**	(281)
Cash flows from financing activities			
Purchase of own shares by Employee Benefit Trusts		**(38)**	(34)
Purchase of Treasury shares		**–**	(335)
Proceeds from the sale of Treasury shares		**1**	9
Proceeds from borrowings and derivatives		**754**	746
Repayments of borrowings		**(2)**	(256)
Finance lease capital payments		**(1)**	(3)
Dividends paid to shareholders		**(300)**	(248)
Net cash generated/(used) from financing activities		**414**	(121)
Net cash used		**(52)**	(141)
Effects of exchange rate changes		**(3)**	(5)
Net decrease in cash, cash equivalents and bank overdrafts		**(55)**	(146)
Cash, cash equivalents and bank overdrafts at the beginning of the period		**458**	586
Cash, cash equivalents and bank overdrafts at the end of the period	11	**403**	440

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2019

1. Basis of preparation

The Company is incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in Switzerland.

The condensed consolidated interim financial statements for the six months ended 31 January 2019 were approved by the Board of Directors on 25 March 2019. The condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those set out in the Group's Annual Report and Accounts for the year ended 31 July 2018.

The condensed consolidated interim financial statements are unaudited. The financial information for the year ended 31 July 2018 does not constitute the Group's statutory financial statements. The Group's statutory financial statements for that year have been filed with the Jersey Registrar of Companies and received an unqualified auditor's report.

Going concern

The condensed consolidated interim financial statements have been prepared on a going concern basis. The Directors of the Company are confident, on the basis of current financial projections and facilities available and after considering sensitivities, that the Group has sufficient resources for its operational needs and will remain in compliance with the financial covenants in its bank facilities for at least the next 12 months.

Accounting developments and changes

On 1 August 2018 the Group adopted IFRS 15 "Revenue from Contracts with Customers" applying the modified retrospective approach which does not require the restatement of comparatives. The standard introduces revised principles for the recognition of revenue with a new five-step model that focuses on the transfer of control instead of a risks and rewards approach. The adoption of IFRS 15 has not had a material impact on the Group's consolidated financial statements and there is no adjustment required to opening retained earnings. The presentation of the provision for sales returns has changed from a net basis to a gross basis on the balance sheet, with a liability for expected refunds to customers included within trade and other payables and an associated asset for the value of returned goods included within inventory.

On 1 August 2018 the Group adopted IFRS 9 "Financial Instruments". The standard makes changes to the classification and measurement of financial assets and liabilities, revises the requirements of hedge accounting and introduces a new impairment model for financial assets. The adoption of IFRS 9 has not had a material impact on the Group's consolidated financial statements, comparatives have not been restated and there is no adjustment required to opening retained earnings.

IFRS 16 "Leases" is effective for the Group for the year ending 31 July 2020 and represents a change to the treatment of leases in the financial statements. The Group will be required to apply a single model to recognise a lease liability and a right of use asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The right of use asset will be depreciated on a straight-line basis and interest will be charged on the lease liability.

The Group intends to use the modified retrospective approach to transition. Based on the Group's current lease portfolio, it is estimated that the impact on the opening balance sheet at the date of initial application of 1 August 2019 will be the creation of a right of use asset of approximately $1.0 billion and a lease liability of approximately $1.2 billion. The net impact on earnings in the first year of adoption (year ended 31 July 2020) is not expected to be material to the Group, however, adjusted EBITDA will improve due to the reduction in rental charges which will be broadly offset in the income statement by an increase in depreciation and interest charges. The actual impact on the opening balance sheet at 1 August 2019 and the income statement for the year ended 31 July 2020 is not yet known and may differ from these estimates due to a number of currently unknown factors, including, but not limited to, changes to leases in existence, the discount rate and lease extension assumptions.

2. Alternative performance measures

The Group uses alternative performance measures ("APMs"), which are not defined or specified under IFRS. These APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide comparable information across the Group.

Ongoing and non-ongoing

The Group reports some financial measures net of businesses that have been disposed of, closed or classified as held for sale and uses the following terminology:

Non-ongoing operations are businesses which do not meet the criteria to be classified as discontinued operations under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which have been disposed of, closed or classified as held for sale. In 2019, the Group's Dutch business, Wasco, has been classified as non-ongoing and all comparatives have been restated for consistency and comparability.

Ongoing operations are continuing operations excluding non-ongoing operations.

Constant exchange rates

The Group measures some financial metrics on both a reported basis and at constant exchange rates. The constant exchange rate basis re-translates the prior period at the current period exchange rates to eliminate the effect of exchange rate fluctuations when comparing information year-on-year.

Organic revenue growth

Management uses organic revenue growth as it provides a consistent measure of the percentage increase/ decrease in revenue year-on-year, excluding the effect of currency exchange rate fluctuations, trading days, acquisitions and disposals.

A reconciliation of revenue using the above APMs to statutory revenue is provided below:

	Ongoing		Non-ongoing	Continuing
Revenue	$m	% growth	$m	$m
Reported 2018 restated	**9,865**		**162**	**10,027**
Impact of exchange rate movements	**(70)**		**(5)**	**(75)**
Reported 2018 at 2019 exchange rates	**9,795**		**157**	**9,952**
Organic growth	**641**	**6.5**	**24**	**665**
Trading days	**(59)**	**(0.6)**	**–**	**(59)**
Acquisitions	**289**	**3.0**	**–**	**289**
Growth at constant exchange rates	**871**	**8.9**	**24**	**895**
Reported 2019	**10,666**		**181**	**10,847**

2. Alternative performance measures continued

Like-for-like revenue growth

To aid understanding of the UK business management reports like-for-like revenue growth, which is organic revenue growth excluding the effect of branch openings and closures and the exit of low margin business.

Exceptional items

Exceptional items are those which are considered significant by virtue of their nature, size or incidence. These items are presented as exceptional within their relevant income statement category to assist in the understanding of the trading and financial results of the Group as these types of cost/credit do not form part of the underlying business.

Examples of items that are considered by the Directors for designation as exceptional items include, but are not limited to:

- restructuring costs within a segment which are both material and incurred as part of a significant change in strategy or due to the closure of a large part of a business and are not expected to be repeated on a regular basis;
- significant costs incurred as part of the integration of an acquired business and which are considered to be material;
- gains or losses on disposals of businesses are considered to be exceptional in nature as they do not reflect the performance of the trading business;
- material costs or credits arising as a result of regulatory and litigation matters;
- gains or losses arising on significant changes to or closures of defined benefit pension plans are considered to be exceptional in nature as they do not reflect the performance of the trading business; and
- other items which are material and considered to be non-recurring in nature and/or are not as a result of the underlying trading activities of the business.

If provisions have been made for exceptional items in previous years, then any reversal of these provisions is treated as exceptional.

Exceptional items for the current and prior period are disclosed in note 4.

Ongoing gross margin

The ratio of ongoing gross profit, excluding exceptional items, to ongoing revenue. Ongoing gross margin is used by management for assessing business unit performance and it is a key performance indicator for the Group. A reconciliation of ongoing gross margin is provided below:

			2019			Restated 2018
	Gross profit $m	**Revenue $m**	**Ongoing gross margin %**	Gross profit $m	Revenue $m	Ongoing gross margin %
Continuing	**3,193**	**10,847**		2,940	10,027	
Non-ongoing	**(36)**	**(181)**		(33)	(162)	
Exceptional items	**1**	**–**		3	–	
Ongoing excluding exceptional items	**3,158**	**10,666**	**29.6**	2,910	9,865	29.5

2. Alternative performance measures continued

Trading profit and ongoing trading margin

Trading profit is defined as operating profit before exceptional items and amortisation of acquired intangible assets. Trading profit is used as a performance measure because it excludes costs and other items that do not form part of the underlying trading business.

The ongoing trading margin is the ratio of ongoing trading profit to ongoing revenue and is used to assess business unit profitability and is a key performance indicator for the Group.

A reconciliation of trading profit to statutory operating profit and the calculation of ongoing trading margin are provided below:

	2019				Restated 2018		
	Ongoing		Non-ongoing	Continuing	Ongoing	Non-ongoing	Continuing
	$m	% growth	$m	$m	$m	$m	$m
Trading profit 2018 restated	**691**		**7**	**698**			
Impact of exchange rate movements	**(2)**		**–**	**(2)**			
Trading profit 2018 at 2019 exchange rates	**689**		**7**	**696**			
Growth at constant exchange rates	**55**	**8.0**	**2**	**57**			
Trading profit	**744**		**9**	**753**	691	7	698
Amortisation of acquired intangible assets	**(43)**		**(1)**	**(44)**	(27)	(3)	(30)
Exceptional items	**(38)**		**38**	**–**	(46)	–	(46)
Operating profit	**663**		**46**	**709**	618	4	622

Revenue, trading profit and trading margin by reportable segment are shown below. For information on our reportable segments see note 3.

	Revenue		Trading profit		Trading margin	
	2019 $m	Restated 2018 $m	2019 $m	Restated 2018 $m	2019 %	Restated 2018 %
USA	**8,874**	7,912	**700**	647	**7.9**	8.2
UK	**1,177**	1,354	**30**	38	**2.5**	2.8
Canada	**615**	599	**39**	34	**6.3**	5.7
Central and other costs	**–**	–	**(25)**	(28)	**–**	–
Total ongoing operations	**10,666**	9,865	**744**	691	**7.0**	7.0
Central Europe	**181**	162	**9**	7		
Total non-ongoing operations	**181**	162	**9**	7		
Continuing operations	**10,847**	10,027	**753**	698		

2. Alternative performance measures continued

Adjusted EBITDA

Adjusted EBITDA is operating profit before charges/credits relating to depreciation, amortisation, impairment and exceptional items. Adjusted EBITDA is used in the net debt to adjusted EBITDA ratio to assess the appropriateness of the Group's financial gearing. A reconciliation of statutory profit for the period to adjusted EBITDA is provided below:

			2019			2018
	Continuing $m	Discontinued $m	Group $m	Continuing $m	Discontinued $m	Group $m
Profit for the period	**540**	**46**	**586**	440	18	458
Exceptional items	**(7)**	**(45)**	**(52)**	39	19	58
Tax	**143**	**1**	**144**	165	18	183
Share of profit after tax of associates	**(2)**	**–**	**(2)**	(3)	–	(3)
Net finance costs	**35**	**–**	**35**	27	4	31
Amortisation of acquired intangible assets	**44**	**–**	**44**	30	–	30
Trading profit	**753**	**2**	**755**	698	59	757
Depreciation and impairment of property, plant and equipment	**73**	**–**	**73**	71	–	71
Amortisation and impairment of non-acquired intangible assets	**16**	**–**	**16**	13	–	13
Adjusted EBITDA	**842**	**2**	**844**	782	59	841

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.

Half year to 31 January	2019 $m	Restated 2018 $m
Tax charge in relation to continuing operations	**(139)**	(158)
Deduct: tax credit on the amortisation of acquired intangible assets	**(11)**	(9)
Deduct: tax credit on exceptional items	**(4)**	(7)
Add back: tax charge on profits from non-ongoing operations	**2**	2
(Deduct)/add back: non-recurring tax charges	**(9)**	5
Ongoing tax charge	**(161)**	(167)
Profit before tax and exceptional items from continuing operations	**676**	644
Add back: amortisation of acquired intangible assets	**44**	30
Deduct: share of profit after tax of associates	**(2)**	(3)
Deduct: other profits before tax from non-ongoing operations	**(9)**	(7)
Ongoing profit	**709**	664
Ongoing effective tax rate	**22.7%**	25.2%

Ongoing profit means profit before tax, exceptional items, amortisation of acquired intangible assets, impairments of interests in associates and share of profit after tax of associates for ongoing operations. Ongoing tax is the tax expense arising on ongoing profit.

2. Alternative performance measures continued

Headline profit after tax and headline earnings per share

Headline profit after tax is calculated as the profit from continuing operations after tax, before charges for amortisation of acquired intangible assets and impairments of interests in associates net of tax, exceptional items net of tax and non-recurring tax relating to changes in tax rates and other adjustments. The Group excludes amortisation and impairment of acquired intangible assets to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets.

Headline earnings per share is the ratio of headline profit after tax to the weighted average number of ordinary shares in issue during the period, excluding those held by the Employee Benefit Trusts and those held by the Company as Treasury shares. Headline earnings per share is used for the purpose of setting remuneration targets for executive directors and other senior executives. See reconciliation in note 8.

Net debt

Net debt comprises cash and cash equivalents and liabilities from financing activities, including bank overdrafts, bank and other loans, derivative financial instruments and obligations under finance leases. Net debt is a good indicator of the strength of the Group's balance sheet position and is widely used by credit rating agencies. See reconciliation in note 11.

3. Segmental analysis

The Group's reportable segments have been determined on the same basis as, and are consistent with, those disclosed in the Annual Report and Accounts for the financial year ended 31 July 2018.

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 period ended 31 January 2018 and 31 January 2019 include changes in exchange rates, acquisitions, trading days and organic change.

An analysis of the change in revenue by reportable segment for continuing operations is as follows:

	2018 $m	Exchange $m	Acquisitions $m	Trading days $m	Organic change $m	**2019 $m**
USA	7,912	–	256	(59)	765	**8,874**
UK	1,354	(42)	–	–	(135)	**1,177**
Canada and Central Europe	761	(33)	33	–	35	**796**
Group	10,027	(75)	289	(59)	665	**10,847**

An analysis of the change in trading profit/(loss) by reportable segment for continuing operations is as follows:

	2018 $m	Exchange $m	Acquisitions $m	Trading days $m	Organic change $m	**2019 $m**
USA	647	–	13	(12)	52	**700**
UK	38	(1)	–	–	(7)	**30**
Canada and Central Europe	41	(2)	3	–	6	**48**
Central and other costs	(28)	1	–	–	2	**(25)**
Group	698	(2)	16	(12)	53	**753**

3. Segmental analysis continued

The reconciliation between trading profit/(loss) and operating profit/(loss) by reportable segment for continuing operations is as follows:

Half year to 31 January	**2019** Trading profit/(loss) $m	**2019** Exceptional items $m	**2019** Amortisation of acquired intangible assets $m	**2019** Operating profit/(loss) $m	2018 Trading profit/(loss) $m	2018 Exceptional items $m	2018 Amortisation of acquired intangible assets $m	2018 Operating profit/(loss) $m
USA	**700**	**–**	**(43)**	**657**	647	(4)	(27)	616
UK	**30**	**(35)**	**–**	**(5)**	38	(37)	–	1
Canada and Central Europe	**48**	**38**	**(1)**	**85**	41	–	(3)	38
Central and other costs	**(25)**	**(3)**	**–**	**(28)**	(28)	(5)	–	(33)
Group	**753**	**–**	**(44)**	**709**	698	(46)	(30)	622
Net finance costs				**(35)**				(27)
Share of profit after tax of associates				**2**				3
Gain on disposal of interests in associates				**3**				–
Profit before tax				**679**				598

Other information on assets and liabilities by segment is set out in the table below:

Segment assets and liabilities	**31 January 2019** Segment assets $m	**31 January 2019** Segment liabilities $m	**31 January 2019** Segment net assets/(liabilities) $m	Restated 31 January 2018 Segment assets $m	Restated 31 January 2018 Segment liabilities $m	Restated 31 January 2018 Segment net assets/(liabilities) $m
USA	**7,928**	**(2,570)**	**5,358**	6,430	(2,343)	4,087
UK	**1,327**	**(670)**	**657**	1,311	(698)	613
Canada and Central Europe	**534**	**(178)**	**356**	633	(224)	409
Central and other costs	**94**	**(144)**	**(50)**	229	(129)	100
Discontinued	**23**	**(41)**	**(18)**	1,596	(824)	772
Total	**9,906**	**(3,603)**	**6,303**	10,199	(4,218)	5,981
Tax assets and liabilities	**136**	**(264)**	**(128)**	149	(178)	(29)
Net cash/(debt)	**709**	**(2,594)**	**(1,885)**	2,328	(3,729)	(1,401)
Group assets/(liabilities)	**10,751**	**(6,461)**	**4,290**	12,676	(8,125)	4,551

4. Exceptional items

Exceptional items included in profit before tax from continuing operations are analysed by purpose as follows:

Half year to 31 January	**2019 $m**	2018 $m
Gain on disposal of businesses (note 13)	**38**	–
Business restructuring	**(31)**	(37)
Other exceptional items	**(7)**	(9)
Total included in operating profit	**–**	(46)
Gain on disposal of interests in associates	**3**	–
Total included in profit before tax	**3**	(46)

For the half year to 31 January 2019, business restructuring comprises cost incurred in the UK in respect of its business restructuring and includes $1 million charged to cost of sales for inventory write downs.

Other exceptional items include a $5 million one-off charge relating to equalisation of guaranteed minimum pensions on the UK defined benefit pension plan.

The Group's profit before tax includes a $3 million exceptional gain on disposal of interests in associates resulting from a partial disposal of the interest in Meier Tobler Group AG. The remaining interest in Meier Tobler Group AG has subsequently been reclassifed as a financial instrument.

5. Net finance costs

Half year to 31 January	**2019 $m**	2018 $m
Interest receivable	**5**	2
Interest payable	**(43)**	(29)
Net interest income on defined benefit asset	**3**	–
Total net finance costs	**(35)**	(27)

6. Tax

The tax charge on continuing operations for the half year has been calculated by applying the expected full year rate to the half year results with specific adjustments for items that distort the rate (amortisation and impairment of acquired intangible assets, share of profit and impairment of interest in associates, exceptional items and non-recurring tax items). The tax charge for the period comprises:

Half year to 31 January	**2019 $m**	2018 $m
Current tax charge	**(134)**	(156)
Deferred tax charge: origination and reversal of temporary differences	**(5)**	(2)
Total tax charge	**(139)**	(158)

The total tax charge includes an ongoing tax charge of $161 million (2018: $167 million). This equates to an ongoing effective tax rate of 22.7 per cent (2018: 25.2 per cent) on the ongoing profit of $709 million (2018: $664 million). See note 2 for reconciliation.

The deferred tax charge of $5 million (2018: $2 million) includes a credit of $nil million (2018: $7 million) resulting from changes in tax rates.

7. Dividends

Half year to 31 January	**2019 $m**	2018 $m
Amounts recognised as distributions to equity shareholders:		
Final dividend for the year ended 31 July 2017: 73.33 pence per share	**–**	248
Final dividend for the year ended 31 July 2018: 131.9 cents per share	**303**	–
Dividends paid	**303**	248

Since 31 January 2019 the Directors proposed an interim dividend of 63.1 cents per share (2018: interim dividend 57.4 cents per share and a special dividend of $4 per share). This is not included as a liability in the balance sheet at 31 January 2019.

The final dividend for the year ended 31 July 2018 was declared in US dollars and paid in both pounds sterling and US dollars. For those shareholders paid in pounds sterling, the exchange rate used to translate the declared value was set in advance of the payment date. As a result of foreign exchange rate movements between these dates, the total amount paid (shown in the Group cash flow statement) will be different to that stated above.

8. Earnings per share

		2019			2018	
Half year to 31 January	**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 for the period attributable to shareholders of the Company	**586**	**254.5**	**252.8**	458	183.3	182.0
Profit from discontinued operations	**(46)**	**(20.0)**	**(19.8)**	(18)	(7.2)	(7.1)
Profit from continuing operations	**540**	**234.5**	**233.0**	440	176.1	174.9
Non-recurring tax (credit)/charge relating to changes in tax rates and other adjustments	**(9)**	**(3.9)**		5	2.0	
Amortisation of acquired intangible assets (net of tax)	**33**	**14.3**		21	8.4	
Exceptional items (net of tax)	**(7)**	**(3.0)**		39	15.6	
Headline profit from continuing operations	**557**	**241.9**		505	202.1	

The weighted average number of ordinary shares in issue during the period, excluding those held by Employee Benefit Trusts and those held by the Company as Treasury shares, was 230.3 million (2018: 249.9 million). The impact of all potentially dilutive share options on earnings per share would be to increase the weighted average number of shares in issue to 231.8 million (2018: 251.6 million).

9. Intangible assets and property, plant and equipment

		Other intangible assets				
	Goodwill $m	Other acquired intangible assets $m	Software $m	Total $m	Property, plant and equipment $m	Total tangible and intangible fixed assets $m
Net book value at 1 August 2018	1,408	237	71	308	1,086	2,802
Acquisition of businesses	226	184	–	184	112	522
Additions	–	–	14	14	227	241
Disposal of businesses	–	(2)	(2)	(4)	(28)	(32)
Disposals	–	–	(1)	(1)	(6)	(7)
Amortisation and depreciation	–	(44)	(16)	(60)	(73)	(133)
Exchange rate adjustment	(2)	(1)	–	(1)	(2)	(5)
Net book value at 31 January 2019	**1,632**	**374**	**66**	**440**	**1,316**	**3,388**

10. Reconciliation of profit to cash generated from operations

Profit for the period is reconciled to cash generated from operations as follows:

Half year to 31 January	**2019 $m**	2018 $m
Profit for the period attributable to shareholders	**586**	458
Net finance costs	**33**	30
Share of profit after tax of associates	**(2)**	(3)
Gain on disposal of interests in associates	**(3)**	–
Tax charge	**134**	167
(Profit)/loss on disposal and closure of businesses and revaluation of assets held for sale	**(67)**	19
Amortisation and impairment of goodwill and acquired intangible assets	**44**	30
Amortisation and impairment of non-acquired intangible assets	**16**	15
Depreciation and impairment of property, plant and equipment	**73**	78
(Profit)/loss on disposal of property, plant and equipment and assets held for sale	**(7)**	3
Increase in inventories	**(250)**	(135)
Decrease in trade and other receivables	**179**	61
Decrease in trade and other payables	**(432)**	(324)
Decrease in provisions and other liabilities	**(38)**	(25)
Share-based payments	**21**	16
Cash generated from operations	**287**	390

11. Reconciliation of opening to closing net debt

				Liabilities from financing activities			
	Cash and cash equivalents $m	Bank overdrafts $m	Total cash, cash equivalents and bank overdrafts $m	Derivative financial instruments $m	Loans $m	Obligations under finance leases $m	Net debt $m
At 1 August 2018	833	(375)	458	(2)	(1,530)	(6)	(1,080)
Cash movements							
Proceeds from borrowings and derivatives			–	(4)	(750)	–	(754)
Repayments of borrowings			–	–	2	–	2
Finance lease capital payments			–	–	–	1	1
Changes in net debt due to disposal of businesses			(5)	–	–	–	(5)
Changes in net debt due to acquisition of businesses			11	–	–	–	11
Other cash flows			(58)	–	–	–	(58)
Non-cash movements							
Fair value and other adjustments			–	10	(10)	–	–
Exchange movements			(3)	(1)	2	–	(2)
At 31 January 2019	**699**	**(296)**	**403**	**3**	**(2,286)**	**(5)**	**(1,885)**

Included in the cash and cash equivalents balance at 31 January 2019 is an amount of $219 million (31 July 2018: $255 million) which is part of the Group's cash pooling arrangement where there is an equal and opposite balance included within bank overdrafts. The amounts are subject to a master netting arrangement.

12. Acquisitions

The Group acquired the following businesses in the period ended 31 January 2019. All of these businesses are engaged in the distribution of plumbing and heating products. These transactions have been accounted for by the purchase method of accounting.

Name	Date	Country of incorporation	Shares/asset deal	% acquired
Jones Stephens	August 2018	USA	Shares	100
Action Automation, Inc.	August 2018	USA	Assets	100
Millennium Lighting, Inc.	August 2018	USA	Shares	100
Grand Junction Pipe & Supply	September 2018	USA	Assets	100
James Electric Motor Services Ltd.	September 2018	Canada	Shares	100
Dogwood Building Supply	October 2018	USA	Assets	100
Capital Distributing[1]	October 2018	USA	Assets	100
Robertson Supply, Inc.	November 2018	USA	Assets	100
Wallwork Bros., Inc.	December 2018	USA	Assets	100
Blackman Plumbing Supply[2]	December 2018	USA	Shares	100
James Martin Signature Vanities[3]	January 2019	USA	Shares	100

1. The acquisition comprised of 2 legal entities.
2. The acquisition comprised of 6 legal entities.
3. The acquisition comprised of 2 legal entities.

The assets and liabilities acquired and the consideration for all acquisitions in the period are as follows:

	2019 Provisional fair values acquired $m
Intangible assets	
– Customer relationships	**167**
– Trade names and brands	**15**
– Other	**2**
Property, plant and equipment	**112**
Inventories	**108**
Receivables	**78**
Cash, cash equivalents and bank overdrafts	**11**
Payables	**(67)**
Deferred tax	**(33)**
Total	**393**
Goodwill arising	**226**
Consideration	**619**

Satisfied by:	
Cash	**587**
Deferred consideration	**32**
Total consideration	**619**

The fair value adjustments for the period ended 31 January 2019 are provisional figures, being the best estimates currently available. Amendments may be made to these figures in the 12 months following the date of acquisition when additional information is available for some of the judgemental areas.

12. Acquisitions continued

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 to additional profitability and operating efficiencies in respect of existing markets.

The acquired businesses contributed $143 million to Group revenue and $9 million to Group trading profit 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, Group revenue would have been $11,006 million and Group trading profit would have been $764 million. It is not practicable to disclose the impact of acquisitions on profit before or after tax, as the Group manages its borrowings as a portfolio and cannot attribute an effective borrowing rate to an individual acquisition.

It is also not practicable to disclose the impact of acquisitions on operating profit as the Group cannot estimate the amount of intangible assets that would have been acquired at a date other than the acquisition date.

The net outflow of cash in the half year to 31 January 2019 with respect to the purchase of businesses is as follows:

	2019 $m
Purchase consideration	**587**
Deferred and contingent consideration in respect of prior year acquisitions	**13**
Cash consideration	**600**
Cash, cash equivalents and bank overdrafts acquired	**(11)**
Net cash outflow in respect of the purchase of businesses	**589**

13. Disposals

In the period ended 31 January 2019, the Group disposed of the following businesses:

Name	Country	Date of disposal	Shares/asset deal
Ferguson Property Rover A/S	Denmark	November 2018	Shares
Brokvarteret Komplementar ApS	Denmark	November 2018	Shares
Brokvarteret P/S	Denmark	November 2018	Shares
Wasco Holding B.V.	Netherlands	January 2019	Shares

The Group recognised a total gain on current period disposals of $71 million.

	2019		
	Continuing operations $m	Discontinued operations $m	Group $m
Consideration received	**111**	**106**	**217**
Net assets disposed of	**(70)**	**(69)**	**(139)**
Disposal costs and provisions	**(5)**	**(2)**	**(7)**
Recycling of deferred foreign exchange gains/(losses)	**2**	**(2)**	**–**
Gain on disposal	**38**	**33**	**71**

13. Disposals continued

Details of assets and liabilities at the date of disposal are provided in the following table:

	2019		
	Continuing operations $m	Discontinued operations $m	Group $m
Intangible assets	4	–	4
Property, plant and equipment	28	–	28
Inventories	43	–	43
Receivables	51	2	53
Assets held for sale	–	70	70
Payables	(57)	(2)	(59)
Provisions	(1)	–	(1)
Current and deferred tax	(2)	(2)	(4)
Net cash	4	1	5
Total net assets disposed of	70	69	139

The net inflow of cash in respect of the disposal of businesses is as follows:

	2019		
	Continuing operations $m	Discontinued operations $m	Group $m
Cash consideration received for current period disposals (net of cash disposed of)	107	105	212
Cash paid in respect of prior year disposals	–	(10)	(10)
Disposal costs paid	(2)	(1)	(3)
Net cash inflow in respect of disposal of businesses	105	94	199

14. Related party transactions

There are no material related party transactions requiring disclosure under IAS 24 "Related Party Disclosures" other than compensation of key management personnel which will be disclosed in the Group's Annual Report and Accounts for the year ending 31 July 2019.

15. Loans, bank overdrafts, financial instruments and financial risk management

In October 2018, the Group successfully issued $750 million of 10 year 4.5% notes in the USA 144a public debt market, maturing in October 2028.

	31 January 2019			31 January 2018		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Bank overdrafts	296	–	296	1,868	–	1,868
Bank loans	–	–	–	304	3	307
Senior unsecured loan notes	6	2,280	2,286	6	1,530	1,536
Total loans	6	2,280	2,286	310	1,533	1,843
Total loans and bank overdrafts	302	2,280	2,582	2,178	1,533	3,711

At 31 January 2019 the Group has total available facilities, excluding bank overdrafts, of $3,935 million (2018: $3,510 million), of which $2,286 million is drawn and $1,649 million is undrawn (2018: $1,843 and $1,667 million respectively). The Group does not have any debt factoring or supply chain financing arrangements.

The senior unsecured loan notes have an estimated fair value of $2,312 million (2018: $1,574 million).

15. Loans, bank overdrafts, financial instruments and financial risk management continued

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market (such as over-the-counter derivatives) is determined by using valuation techniques including net present value calculations. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of foreign exchange swaps has been calculated as the present value of the estimated future cash flows based on observable future foreign exchange rates.

The Group's other financial instruments are measured on bases other than fair value. Other receivables include an amount of $70 million (2018: $62 million) which has been discounted at a rate of 2.7 per cent (2018: 2.7 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 so their fair values approximate to book values.

The Group is exposed to risks arising from the international nature of its operations and the financial instruments which fund them, in particular to foreign currency risk, interest rate risk and liquidity risk. Full details of the Group's policies for managing these risks are disclosed in the Group's Annual Report and Accounts for the financial year ended 31 July 2018. Since the date of that report, there have been no significant changes in:

- the nature of the financial risks to which the Group is exposed;
- the nature of the financial instruments which the Group uses; or
- its contractual cash outflows.

16. Subsequent events

There are no material subsequent events to disclose as at the date of signing these condensed consolidated interim financial statements.

17. Exchange rates

Exchange rates (equivalent to $1)	**2019**	2018
Pounds sterling		
Income statement (average rate for the six months to 31 January)	**0.78**	0.75
Balance sheet (rate at 31 January)	**0.76**	0.70
Balance sheet (rate at 31 July)		0.76
Euro		
Income statement (average rate for the six months to 31 January)	**0.87**	0.84
Balance sheet (rate at 31 January)	**0.87**	0.81
Balance sheet (rate at 31 July)		0.86
Canadian dollars		
Income statement (average rate for the six months to 31 January)	**1.32**	1.26
Balance sheet (rate at 31 January)	**1.31**	1.23
Balance sheet (rate at 31 July)		1.30

Independent review report to Ferguson plc

We have been engaged by Ferguson plc (the "Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2019 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, UK
25 March 2019