FERGUSON

Welcome to Ferguson plc

Annual Report and Accounts 2017

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Gareth Davis
Chairman

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Another good year

	2017	Change
Ongoing revenue**	£14,878m	+22.5%
Revenue	£15,224m	+21.3%
Ongoing gross margin**	28.9%	+0.4%
Ongoing trading profit**	£1,032m	+24.8%
Profit before tax	£1,180m	+74.8%
Headline earnings per share***	288.9p	+23.1%

16

Continued strategic development

John Martin
Group Chief Executive

Fulfilling customer wants
Attractive growth opportunities
Excellent execution

* IFC – Inside front cover.
** These are reported on an ongoing basis and represent Alternative Performance Measures ("APMs"), see page 12 and note 2 on pages 91 and 92 for further information.
*** Headline earnings per share is an APM, see page 12 and note 2 on pages 91 and 92 for further information.

What's in a name?

Our new name recognises the size and importance of Ferguson in the USA which today generates nearly 90 per cent of the Group's trading profit. It's also about the Ferguson culture that puts people and customers first, resulting in the highest levels of quality, service and efficiency for over sixty years.

Our customers rely on us every day and our specialist products and services are used in almost every stage of commercial, residential, industrial and municipal development. We help them find the best combination of services and solutions to save them time and money. Whatever the challenge, we work closely with our customers to help them run their businesses more effectively and save them time and money.

Over the following pages we celebrate our new name by focusing on the strengths and opportunities inherent in our US business which we believe will generate sustainable profitable growth and strong returns for our shareholders.

Welcome to Ferguson plc.

1

What makes Ferguson a great business

We operate in attractive, fragmented markets

As the largest distributor of plumbing and heating products in the USA, we hold leading market positions in the majority of our businesses. These markets are typically highly fragmented with few large competitors and we compete with many small local distributors.

Consequently, there continues to be excellent opportunities to grow our business geographically, particularly in large metropolitan areas across the USA.

+ Page 19

Case study

Blended Branches is the Number 1 distributor of plumbing and heating products in the USA with an estimated market share of 17 per cent.

There are only three national competitors with a market share above 5 per cent with the majority of supply houses being small local distributors. Market share varies across the USA from low single digit in some states to high twenties in others.

There are numerous opportunities in highly populated regions in the USA for us to grow our business. For example in the north east Ferguson has relatively low market share with many huge metro markets still relatively unpenetrated. These include New York and Boston which are some of the largest metro markets in the USA.

We are now targeting accelerated growth plans in these regions and many others across the USA. For information on the USA business units and our international operations see pages 14 and 15.

3

There are only three national competitors with a market share above 5 per cent

2

What makes Ferguson a great business

We work in an industry with compelling growth opportunities

Our strong service ethic combined with scale advantages in logistics, supply chain and technology, means we have consistently gained market share to generate strong profitable growth. Acquiring regional or local competitors where we can rapidly integrate them into our supply chain makes bolt-on acquisitions highly attractive.

Other growth opportunities lie in developing new adjacent businesses such as Facilities Supply and B2C e-commerce where we can utilise our existing skills, capabilities and infrastructure.

+ Pages 17, 19 and 40

Case study

Our Facilities Supply business provides our customers with products and services used in the repair, maintenance, replacement and renovation of their facilities with key product categories including janitorial supplies, hardware, heating ventilation and air conditioning ("HVAC"), lighting, plumbing, paint and safety equipment.

The newest business group in the USA operates in a c. $90 billion addressable market that was historically served by a highly fragmented, localised base of competitors. Our aim is to become the market leader and we are well positioned to capture market share through our product mix, national network, technology, supplier relationships and talent development programme.

Growth will continue to be enhanced through both organic business development and targeted acquisitions that add to our geographical capabilities, expand our customer base and bring talented associates into the business. We strongly believe we will gain market share and grow profitably in this attractive market.

$90bn

The Facilities Supply market in the USA is highly fragmented and estimated to be worth circa $90 billion

3

What makes Ferguson a great business

We offer our customers unrivalled scale

Our highly efficient national logistics and distribution network enables us to achieve volume discounts from suppliers and the highest levels of availability for our customers on a broad range of products.

We continue to invest in the latest technology solutions to make us an even more efficient business and to save time and resources for our customers.

+ Pages 20 to 25

Case study

Our Texas distribution hub based in Euless, near Dallas, was at capacity due to increasing growth in the region over the last two years.

The logistics operation was being run from two separate buildings, with more than 20 storage containers, and an appliance warehouse in the Dallas Fort Worth region. A solution was found in a new Market Distribution Centre (“MDC”) which centralises the “final mile” logistics to customers for the whole region from one large location.

The new 281,000 square foot facility will support the high growth rate in the region with more capacity and better operating efficiencies. Ideally situated in the heart of the market, the MDC drives scale and also enables local branches to concentrate on sales and service to customers.

This is Ferguson’s third MDC installation in 18 months with two others now fully operational in the New York and San Francisco metro regions.

281,000

The new 281,000 square foot facility will support the high growth rate in the region

4

What makes Ferguson a great business

We recruit and retain the best people, with a passion for customer service

The knowledge and service our associates provide is what our customers value.

Our dedication to provide unrivalled service is the key Ferguson differentiator and it will continue to be our focus by providing the best trained workforce in the industry.

Employee engagement is key to delivering outstanding service and our highly-structured career development programmes, together with specialist training for our associates, is a primary driver behind achieving industry leading net promoter scores.

+ Pages 22 to 24

+3,000

Over 3,000 current Ferguson "University" Graduates in the USA

Case study

In the USA, our Industrial Group welcomed their first cohort of trainees at a newly designed, state-of-the-art training facility in Richmond, Virginia.

The Industrial Group University is a five month, concentrated training programme designed to provide trainees with knowledge and hands-on experience, allowing them to successfully integrate into our sales force. Centralising the training programme allows trainees to focus on the learning process, while improving the speed to efficacy.

Trainees follow a specified curriculum which aims to accelerate their knowledge of products, business systems, sales processes, industry standards and safety regulations while learning about our culture.

Upon completion of the programme, trainees are well positioned to contribute as highly functional sales associates and deliver the excellent customer service expected as a sales associate.

For more information on talent development see page 22.

5

What makes Ferguson a great business

We use technology to give customers choice and flexibility

E-commerce has grown rapidly with 22 per cent of revenue in the USA now generated online. Our omni-channel approach gives our customers the choice of how they want to do business with us; through traditional bricks and mortar, for consultations and to interact with products, or through the latest e-business platforms where we offer virtual help and advice and access to our product range 24/7.

We are continually developing and improving technology to make it quicker and easier for our customers to do business with us.

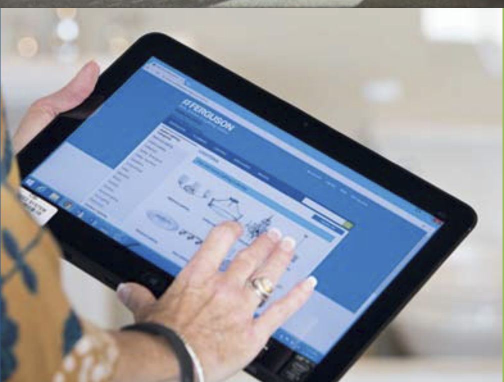
+ Pages 17, 24 and 25

Case study

Like the rest of Ferguson, the HVAC business is making rapid progress converting customers and integrating our online channels into their business.

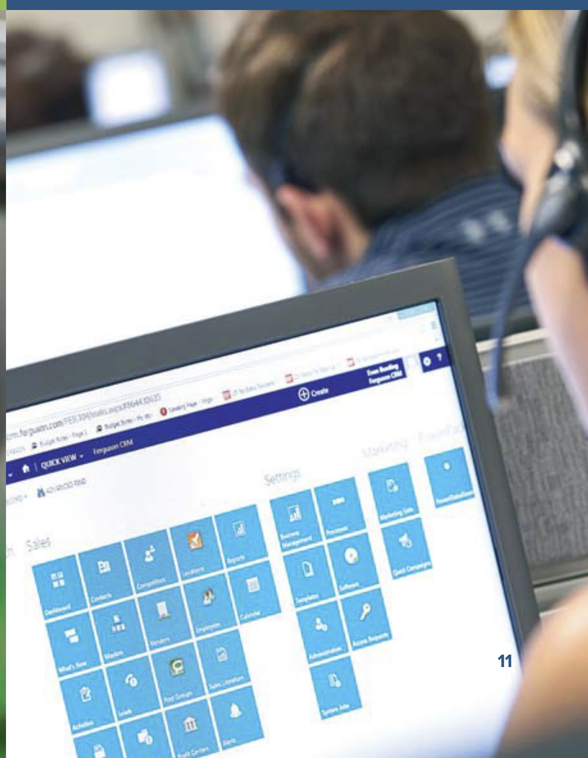
27 per cent of HVAC revenue is already generated from online channels and this grew 20 per cent last year. This included an increase in system-to-system integration that creates many efficiencies for our customers including placing orders and managing their accounts online. Many HVAC contractors have installed order processing systems which are integrated with their general ledgers.

We are able to integrate them with our own order processing system to save our customers time and money. E-commerce makes us more efficient with fewer manual processes and customers order more when they purchase their products online.



27%

HVAC is generating 27 per cent of its revenue from online orders



Another good year for the Group

In 2016/17 Ferguson delivered good revenue and trading profit growth supporting our commitment to improve shareholder returns.

Ongoing operations*

£14,878m	28.9%	£1,032m
Revenue*	**Gross margin***	**Trading profit***
+22.5%	+0.4%	+24.8%

Continuing operations

£15,224m	29.0%	£1,180m
Revenue	**Gross margin***	**Profit before tax**
+21.3%	+0.4%	+74.8%

353.4p	288.9p	110p
Continuing basic earnings per share	**Headline earnings per share***	**Ordinary dividend**
+92.8%	+23.1%	+10.0%

* 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. Unless otherwise stated, all financial information on the inside front cover to page 49 of the Strategic report are reported on an ongoing basis. Ongoing is an APM and excludes businesses that have been closed, disposed of or held for sale.

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 91 and 92.

Chairman's statement

Well positioned for future growth

2016/17 has been a year of substantial progress under the stewardship of John Martin in his first year as Group Chief Executive. The Group has again delivered a good set of financial results and John has provided fresh impetus to the rapid execution of our strategy, in particular prioritising investment and focus on our largest growth opportunity in the USA, commencing the transformation plan in the UK and the Nordics disposals.

Gareth Davis
Chairman

Name change

Let me start out by welcoming shareholders to this the first Annual Report of Ferguson plc. We changed our name from Wolseley plc to the name of our business in the USA on 31 July 2017. We strongly believe that the Ferguson name is much more reflective of the Group today with 89 per cent of our trading profit generated in the USA.

Board changes

Mike Powell joined the Group as Chief Financial Officer ("CFO") on 1 June 2017 and he brings a wealth of experience having worked in a variety of senior finance positions. He has spent many years running large businesses in North America which will stand him in good stead in his career at Ferguson. Dave Keltner's appointment as Interim CFO last year, after 10 years as CFO of the USA, enabled us to conduct a thorough search for a suitable long-term CFO and execute an orderly handover of responsibilities to Mike.

Frank Roach, formerly Chief Executive of the USA, also retired this year. Frank had a remarkable career with Ferguson, joining the business 41 years ago. In particular, his tenure as Chief Executive for the last eight years has been outstanding, achieving sustained rapid growth and record trading margins.

On behalf of the Board I'd like to thank both Frank and Dave for their significant contributions to the Group's success and wish them both long and happy retirements.

Kevin Murphy succeeded Frank on 1 August 2017. Kevin joined the business in 1999 and spent the last 10 years as the Chief Operating Officer of the USA.

Key highlights

Good trading performance

Orderly succession completed of Group CFO and USA CEO

Increased total ordinary dividend to 110.0 pence (2015/16: 100.0 pence) and share buyback of £500 million

He has a great track record of driving profitable growth and a deep understanding of the business which makes him the ideal Executive to drive our future growth and development.

While the Group has made excellent progress in developing our e-commerce platforms, the Board is aware of the need to stay vigilant to future potential threats and opportunities in the digital space. Nadia Shouraboura was appointed as a Non Executive Director on 1 July 2017 and has spent her entire career working in and running large international e-commerce businesses including eight years at Amazon.com Inc. Nadia will provide support, challenge management and assist in capitalising on the significant opportunities in the years ahead.

Governance

The Company remains UK-listed and meets the requirements of the regulations published by the UK Government concerning narrative and directors' remuneration reporting. We continue to meet these disclosure requirements, monitor developments and adopt best practice in corporate governance. We describe how we have applied the UK Corporate Governance Code's main principles in the Governance section of this report on pages 50 to 84. The Board places great emphasis on providing clear and transparent reporting and believes this Annual Report is fair, balanced and understandable.

Shareholder returns

The Board is committed to maximising long-term shareholder value. We are recommending a final dividend of 73.33 pence per share (2015/16: 66.72 pence per share), to be paid on 1 December 2017 to shareholders on the register at 27 October 2017. This will bring the total dividend for the year to 110.0 pence per share (2015/16: 100.0 pence per share) representing a year-on-year increase of 10.0 per cent.

Our investment priorities remain focused on achieving organic growth, funding the ordinary dividend through the cycle and investing in bolt-on acquisitions that meet our stringent investment criteria. The Board has a progressive dividend policy for future payouts, with the aim of increasing dividends in line with the long-term underlying growth in earnings. Any surplus cash after meeting these investment needs will be returned to shareholders.

Reflecting management's confidence in the business and the continuing strong cash generation of the Group, the Board considers that the Group has surplus cash resources available. The Group will now commence a £500 million share buyback programme with the intention to complete this within the next 12 months. Our balance sheet remains strong and the Group will continue to target net debt in the range of 1x to 2x EBITDA, consistent with investment grade credit metrics.

People

On behalf of the Board, I would like to thank all our associates for their hard work, enthusiasm and dedication throughout the year. It is the service they provide that delivers continually improving results for the Group and creates value for customers, suppliers and shareholders every year.

Gareth Davis

Gareth Davis
Chairman

Ferguson at a glance

The shape of our business today

Ferguson plc is the world's largest specialist distributor of plumbing and heating products. Today the business is primarily located in the USA serving mainly repairs, maintenance and improvement markets. We are in the process of disposing of our Nordics business which has been classified as discontinued (see note 8, page 98).

USA

£11,824m
Revenue

8.0%
Trading margin*

23,986
Associates

1,423
Branches

Key brands

FERGUSON

build.com

Business units

1	Blended Branches	60%
2	Waterworks standalone	16%
3	B2C e-commerce	7%
4	HVAC standalone	7%
5	Other (Industrial standalone, Fire and Fabrication and Facilities Supply)	10%

Blended Branches
Provides plumbing and heating solutions to customers across the residential and commercial sectors for Repairs, Maintenance and Improvement ("RMI") and new construction.

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

B2C e-commerce
Sells directly to consumers via websites predominantly using the product range and distribution network of the Blended Branches business. The majority of our B2C business is conducted through www.build.com.

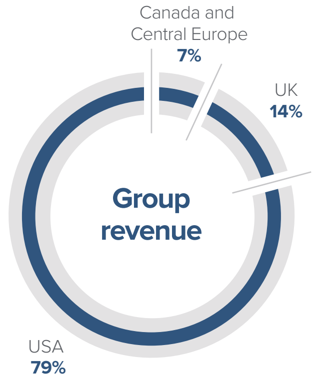
HVAC standalone
Distributes heating, ventilation, air conditioning and refrigeration equipment to specialist contractors, predominantly in the residential and commercial markets for repair and replacement.

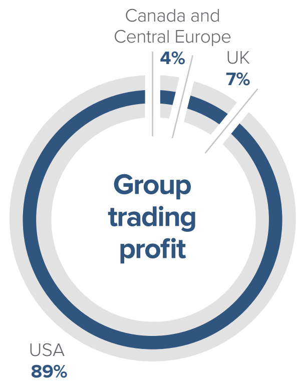
Industrial standalone
Distributes PVF products to industrial customers.

Fire and Fabrication
Fabricates and supplies fire protection systems primarily to commercial contractors for new construction projects.

Facilities Supply
Provides products, services and solutions to enable reliable maintenance of facilities across multiple RMI markets.

* Trading margin is an APM, see note 2 on pages 91 and 92 for further information.





1	Residential	~50%
2	Commercial	~35%
3	Civil/Infrastructure	~7.5%
4	Industrial	~7.5%

1	Building contractors	13%
2	Plumbing and heating engineers	22%
3	Utilities	16%
4	Heating, ventilation and air conditioning	8%
5	Industrial	11%
6	Mechanical contractors	22%
7	End-users	8%

UK

£2,012m
Revenue

3.8%
Trading margin*

5,900
Associates

642
Branches

Key brands
WOLSELEY
soak.com

Canada and Central Europe

£1,042m
Revenue

4.3%
Trading margin*

2,862
Associates

245
Branches

Key brands
WOLSELEY
WASCO

Continued strategic development

I am pleased to report a good financial performance in 2016/17 with all of our ongoing businesses ahead of last year and a particularly pleasing result in the USA where we achieved good trading profit growth. We also made rapid progress with our strategic development focusing more of our resources on the USA to accelerate profitable growth. We're continuing to work hard to improve returns in the international businesses, particularly in the UK, and to complete the previously announced disposal of our Nordic business.

John Martin
Group Chief Executive

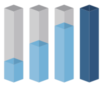
What's been the highlight of the year?

I began my first year as CEO with two months visiting our operations across the Group and listening to our associates. Their enthusiasm for serving our customers to the highest standards and furthering our strategic objectives is extremely motivating. Their passion for our business and relentless focus to improve it makes the Group what it is today: the largest and most successful distributor of plumbing and heating products in the world. These results are a testament to their commitment.

How did the Group perform this year?

Ongoing revenue of £14,878 million was 22.5 per cent ahead of last year (2015/16: £12,146 million) and 6.0 per cent ahead on a like-for-like basis*. Our gross margins were 40 basis points ahead of last year as we continue to focus on a better mix of higher value-added products and services and improving our purchasing terms. The Group's operating expenses were 10.1 per cent higher at constant exchange rates* which included 2.6 per cent from acquisitions. Ongoing trading profit was 24.8 per cent ahead of last year at £1,032 million (2015/16: £827 million) which included a £122 million benefit from foreign exchange movements.

* Like-for-like revenue growth and growth at constant exchange rates are APMs, see note 2 on pages 91 and 92 for further information.



Group revenue was 6.0 per cent ahead of last year on a like-for-like basis at £14,878 million

Statutory profit before tax of £1,180 million (2015/16: £675 million) is after exceptional gains from disposals and losses from impairments and restructuring costs.

To read more about our financial performance see pages 26 to 33 and 38 to 41.

Why did you change the name of the Group to Ferguson?

The majority of our associates work in the USA, which also serves nearly 800,000 customers so it made sense to change and align the name of the Group with our largest operation. The name change will help us continue to raise our profile in the USA and establish the strongest connection possible between our stakeholders and our market leading brand there.

Will the Group eventually operate exclusively in the USA?

The allocation of capital and other resources to those businesses capable of generating the best returns for shareholders is an important principle. Funding growth and investment in the USA will continue to be our highest priority because we generate the best returns for shareholders in this market. The plumbing and heating market in the USA is a huge opportunity for us: it is a large, attractive and fragmented market with excellent growth prospects.

Our first priority is to ensure that we capitalise on this opportunity. However, that doesn't mean our international businesses are not important. Whilst they are smaller, they make an important contribution to the Group. They do not detract from our focus and we will continue to develop and invest in them too.

The Group will present its 2017/18 financial statements in US dollars. How will shareholders benefit from this?

The vast majority of our mix of trading profit is generated in the USA so it makes sense to report our financial results in US dollars. Doing so will reduce volatility in our results in terms of the translational impact of foreign exchange and our results will better reflect the underlying performance of our business. We will also give shareholders a choice between receiving ordinary dividends in US dollars or in pounds sterling which they will be able to do from April next year.

Turning to strategy, last year you set out three priorities. How would you summarise your progress on each?

Priority one – generate the best profitable growth in the USA.

The business in the USA had a good year especially when you consider the headwinds we faced in the first half of the year from commodity price deflation and weak industrial markets.

Our associates responded positively and we generated stronger growth in the second half with the return of modest price inflation and a recovery in industrial end-markets. As we start the new financial year we're generating good growth in all of our end-markets and the regional picture of growth across the USA is encouraging. At the same time as accelerating revenue growth we're continuing to expand our gross margins through driving benefits of scale in areas such as sourcing, increasing own label sales and better pricing discipline. We're also continuing to invest in future growth by developing more efficient operating models including world-class e-commerce platforms, building our brands and investing in adjacent businesses such as Facilities Supply. So overall, we feel that we have made good progress in driving profitable growth.

Priority two – execute UK turnaround and repositioning plan.

We're about a year into the implementation of our transformation plan in the UK and we expect that it will take a further two years to complete so it's still early days. We've made good progress this year and we are carefully implementing the key initiatives to ensure we minimise disruption to our customers while continuing to execute at pace.

Milestones next year include continuing the reconfiguration of the branch network, logistics and supply chain, simplification of the product range and the roll out of sign on glass technology.

Drivers of profitable growth

Fulfilling customer wants

Engaged associates

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

Excellent service ethic

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

Strong sales culture

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

Attractive growth opportunities

Organic expansion

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

Bolt-on acquisitions

We complement our organic growth strategy with bolt-on acquisitions which are rapidly integrated into our network to deliver attractive returns.

Adjacent opportunities

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

Excellent execution

Operating model and e-commerce development

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

Pricing discipline

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

Own label penetration

We will systematically build upon and extend our portfolio of private label brands which in 2016/17 represented 6.7 per cent of Group revenue. We have an opportunity to offer a wider range of own label products to our customers, some of which attract higher gross margins.

Related to the above drivers of profitable growth

Key performance indicators: Pages 26 and 27

Principal risks: Pages 42 to 49

Once we've delivered the plan we are confident we will have built a better, more profitable business by simplifying our customer propositions, lowering the cost base and optimising the supply chain and branch network. You can read in more detail about the transformation plan in the UK operating review on page 32.

Priority three – review Nordic operational strategy and restore the business to profitable growth.

We concluded the review of Nordic operating strategy in March 2017, identifying a clear and executable plan to return the business to profitable growth. However, there are few synergies with the rest of the Group's plumbing and heating activities and we have initiated a process to exit our building materials business in the region which is on track. In August 2017 we completed the sale of Silvan, the Danish DIY chain.

Thinking about the strategy in more detail you also talked last year about the importance of achieving excellent execution in some key areas. How are you making progress here?

This year we have further refined our drivers of profitable growth (see page 17) which set out how we will win in our local markets, outperform our competitors and drive strong financial results. Our businesses are not homogeneous and they require customised strategies and each of our business units are prioritising them appropriately, depending on their local market and competitive environment.

Highlights this year include excellent growth in our e-commerce businesses which now generates 20 per cent of Group revenue. We continue to see e-commerce as an efficient way to meet the needs of our customers using the current branch and logistics network without adding extra branch capacity.

We are gaining momentum in the acceleration of own label in our businesses and in the USA it now represents 6.9 per cent of overall revenues (2015/16: 5.8 per cent). We are continuing to invest in our operating model, including further investment in our customer relationship management ("CRM") platforms, master data and order management systems this year.

On the logistics and supply chain side we added new market distribution centres in Euless, Texas and San Francisco, California this year and we have plans for three more in 2018. We are continuing to roll out our university training courses in the USA to ensure we have the best trained associates in the industry which we believe is key to delivering world class customer service (see page 22 for more information).

Throughout this Annual Report we have also outlined how our strategy drives our thinking in all aspects of how we do business from how the Board operates and corporate governance to KPIs, principal risks and sustainability.

What changes have you made in your senior team this year?

I'd like to express my own thanks (in addition to the Chairman's comments) in recognising the significant contributions of Frank Roach and Dave Keltner who retired this year. Both were fundamental to the strong growth and excellent returns shareholders have enjoyed from the business in the USA over many years. I'd like to wish them both well in their retirement.

It's great to have Mike Powell on board as our Group CFO and Kevin Murphy as the CEO of the USA. They are already making a considerable impact. Elsewhere in the senior team in the USA we have promoted Bill Brundage to CFO and Alex Hutcherson to COO. Kevin Fancey has recently joined the business as President of Canada. I'm delighted that a majority of these positions have been filled through internal succession, recognising the strong pipeline of talent developed over many years within our core operations.

What about sustainability? How are you building a better business?

We established our "Better Business" sustainability programme (see pages 34 and 35) following consultation with shareholders two years ago and we strive to make these issues an integral part of how we do business.

20%

E-commerce now accounts for 20 per cent of Group revenue at £3 billion

This year we have made steady progress on our sustainability programme and further detail can be seen in the Resource and Relationships section (pages 22 to 25) and in the Sustainability section (pages 34 to 37). However, I am disappointed with the deterioration in our injury and lost workday rates. I am personally engaged with health and safety specialists from our businesses to ensure that we consider and act on their views for best practices and opportunities for improvement. There is also regular review of health and safety performance with our business leaders. We have put in place actions to address this deterioration and all businesses are committed to improving our performance in this area.

What is your outlook for 2017/18?

US markets continue to be favourable, in particular residential and commercial markets where we generate the majority of our revenue. Group organic revenue growth* in the new financial year has been about 6 per cent. Our business is performing well, we have a strong balance sheet to support our plans and the Board continues to look to the medium-term with confidence.

We remain excited about the significant structural growth opportunities in our markets and the potential for revenue growth, margin improvement, and attractive returns.

What is your message to Ferguson associates?

It is our associates who make the difference for our customers and ultimately deliver value to our shareholders. The strong performance of the Group this year is attributable to them. I would like to thank each and every one of our associates for their dedication, enthusiasm and hard work that are the key reasons for our continued success.

John Martin
Group Chief Executive

* The increase or decrease in revenue excluding the effect of currency exchange, acquisitions and disposals and trading days.

Marketplace overview

We operate in large fragmented markets with strong growth characteristics

The USA continues to be our largest market with the greatest opportunities for growth. The market for plumbing and heating distribution has strong growth characteristics and is highly fragmented with no market dominated by any single distributor. In each market we operate with leading market positions and significant scale.

Market characteristics and opportunities

Customers require a basket of goods

Ferguson serves approximately one million customers across the Group and customers typically require a basket of goods. In the USA the average basket size is five products valued at circa $600.

Customers' needs are local

The customer base is fragmented. Professional contractors typically operate within about 20 miles of a local branch and may visit it several times per week. In addition to visiting branches, they are now using digital channels which complement their working patterns.

Large supplier base

Ferguson distributes the products of approximately 44,000 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 with no market dominated by a single player

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 M&A opportunities

Ferguson has a large acquisition target database to support continued M&A growth.

What is driving market growth?

Population growth

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

Source: United Nations Department of Economic and Social Affairs.

Housing transactions

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

Source: National Association of Realtors.

Consumer confidence

In the USA, consumer confidence in July 2017 hit a 16 year high. There is a strong correlation between consumer confidence and levels of activities in our markets.

Source: The Conference Board.

Ageing housing stock

41 years

The median age of homes in the USA is 41 years. There is high demand for repairs, maintenance and improvement in the large installed base of existing homes.

Source: US Department of Housing and Urban Development.

Increased comfort levels in homes

80%

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

Source: US Department of Housing and Urban Development.

Disposable income

No. 1

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

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

Our business model

How we create value

We are a specialist distributor adding value through our scale, bespoke logistics network, use of technology and the expertise of our people. We bridge the gap between 44,000 suppliers and 1 million customers offering the widest range of products and solutions.

Resources and relationships

Our people
Our people are dedicated to serving our customers

Our customers
Sole traders to large construction companies

Our suppliers
Responsible supply base manufacturing over one million products worldwide

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

Technology
Continually investing in technology to improve our business

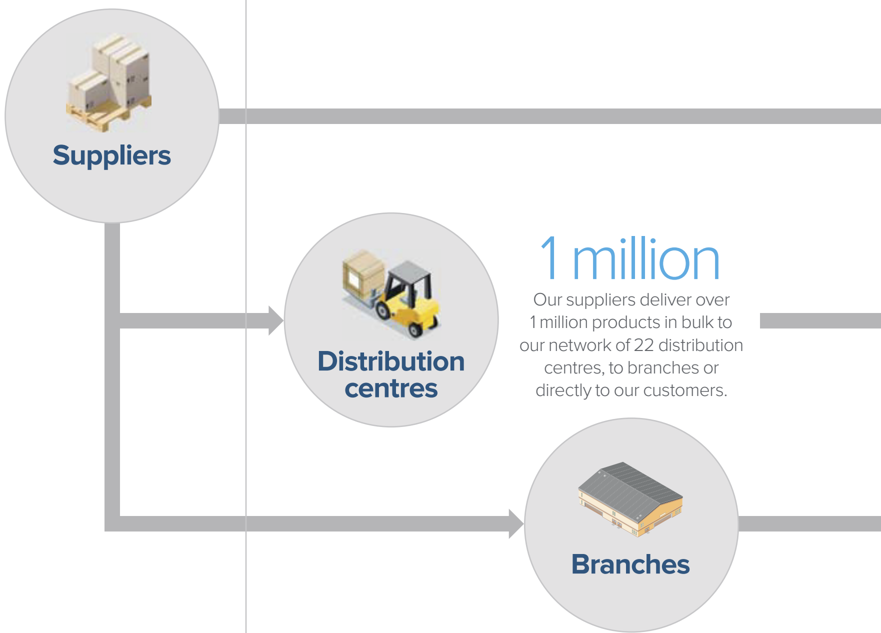
Distribution network
Distribution centres, branches, and specialist vehicle fleets

Capital
A strong balance sheet to enable ongoing investment

Source

44,000
We have a diverse supplier base sourcing over one million products from 44,000 suppliers around the world, which gives us access to a broad range of products.

Distribute



1 million
Our suppliers deliver over 1 million products in bulk to our network of 22 distribution centres, to branches or directly to our customers.

2,310
In total, our business units operate 2,310 branches. This means our customers typically travel fewer than 20 miles to buy from us.

Our strategy underpins our

For detail on the structure of our business and the markets in which we operate, see pages 14 and 15, 19 to 25 and 28 to 33.

Sell

How we deliver to customers

12%
Direct from suppliers

7%
Direct from distribution centres

26%
Collected from branches

55%
Delivered from branches

How our customers buy

1 million
Customers

66%
Sales through our branches

10%
Sales through showrooms

20%
Sales through e-commerce

4%
Sales through central account management

Online

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

ability to create value + Page 17

Outcomes of what we do

Great returns for our shareholders
+ Pages 12 and 13

Engaged and well-trained workforce
+ Pages 22 to 24

Loyal, satisfied customers
+ Page 24

Efficient branch and logistics network
+ Pages 24 and 25

Reduced carbon emissions and waste
+ Pages 34 to 37

Increased adoption of "eco" products
+ Pages 34 to 37

How we serve our customers

Ferguson is a specialist distributor adding value through its scale, bespoke logistics network and its people's expertise. We bridge the gap between our suppliers and our customers, providing our suppliers a cost effective route to market and customers specialist advice and a wide range of products where and when they are required.

Our people

33,000
associates

Our associates are fundamental to our success. They deliver excellent customer service, develop strong relationships, maximise operational efficiencies and accelerate the adoption of new operating models. One of our core values relates to our people and six of our material sustainability issues are focused on our talented teams.

+ Page 36

Leadership

Reshaping and focusing our strategy to create an even more successful business is dependent on the effectiveness of our leaders and their teams.
This year has been a year of significant change in the Executive leadership of the Group, please see the Board changes in the Chairman's statement. Additionally, we have seen a number of internal succession appointments within the USA to leadership positions. These appointments have been enhanced by the use of rigorous assessment techniques, structured transition and personal development processes – the same processes that now apply to all senior level hiring across the Group.

+ Pages 13 and 18

Talent development

This year we will welcome 400 college graduates to our business in the USA. Our investment in targeted talent management and development is a key feature of our business and we are adopting an internal university approach to train associates.
Sharing success and best practice is a staple of our thriving culture. Four years ago, the HVAC business unit in the USA implemented a centralised "university" training model where associates relocate to a specific branch and follow a set curriculum combining instructor-led classroom, virtual instruction and on-the-job training. Its success prompted the Industrial and Facilities Supply business units to launch individual universities where graduates are trained in the specifics of that business unit. You can read more about the Industrial Group's university on page 9.

Today, this training model is being used throughout the USA with the recent addition of The College of Ferguson. In July 2017, the five-month programme was launched in seven Blended Branches nationwide and 88 recent college graduates participated, learning the skills needed to prepare them for an inside sales position.

7,000
current associates have higher education degrees, about 28 per cent of the workforce in the USA

The goal of the programme is to increase the speed of impact for new hires. Various metrics will be used to measure the participant's added value to the business including sales, their potential and retention prospects.

Whilst we are committed to recruiting and growing early career talent, we also acquire talent with specific skills mid-career to enhance our ability to bring new services to the market and improve our capabilities. Great examples of hiring people with capabilities developed outside our sector have enabled us to accelerate the growth of our business. For example, our new National Sales Centre Director in the USA, Josh Smith, brings expertise from over 20 years in professional customer service centre management.

Rewarding performance

We celebrate success and our reward programmes are important in reinforcing the way we do business. Over the past year new incentive programmes have been re-developed in each business for branch and sales associates to ensure that high performance is well rewarded. We adjust measures to the type of role or team, but typically incentivise based on combinations of trading profit, gross margin, gross profit, average cash-to-cash days and net promoter score.

Signature recognition programmes in our business in the USA include President's Club, recognising the performance of top outside sales associates; President's Circle, recognising sales associates and sales managers who are top performers in the marketplace; and President's Gallery, honouring showroom sales associates who meet key corporate showroom initiatives and demonstrate exceptional leadership.

The pinnacle sales award, the Bob Wells Leadership Award, is presented to a remarkable sales associate who consistently demonstrates exceptional sales leadership and performance.

New innovative long-term incentive programmes have been introduced to each business to reward sustained or improved trading profit performance in our different businesses. For example, over a three-year cycle critical staff in the USA can see their initial grants multiply by five times for exceptional performance. Our investment in this programme is overseen by the Remuneration Committee.

Associate engagement

Our teams in sales, branches, contact, logistics and distribution centres are the local face of our business. Their relationships with both large and small customers are critical to our success and their expert knowledge means they are a key part of our customers' workday. It is important that our associates feel they have a voice and that their views and opinions are listened to. All businesses in the Group measure engagement and take action to identify improvements locally, regionally and nationally. Our winning teams depend on it.

In the USA we continue to measure engagement regularly and the team is proud of the degree to which current associates would recommend Ferguson as a place to work to a good friend. Over the past five years our scores have consistently exceeded 75 per cent which is well above industry averages. Our levels of associate engagement in the USA remain strong although lower than last year.

Case study

Kate's journey

Kate Bailey, Director of Showrooms USA, is a great testament of how hard work and dedication, combined with the opportunities Ferguson provides, makes for an award-winning career.

In 12 years, Kate worked her way up from trainee at a branch to a highly visible role in the USA headquarters, where she oversees the strategic direction for Ferguson's 275 showrooms nationwide. Kate was recently recognised by Supply House Times as one of the top women in Industry for her achievements.

One initiative which demonstrates practical care for our associates is Ferguson Fit. Ferguson Fit was originally set up to focus on physical health given rising medical insurance costs in the USA and to promote the benefits of a healthy workforce. The concept has grown to encompass an all-around approach to healthy living. We provide 24/7 online and telephone medical, health and lifestyle advice and guidance for all associates. Across the Group, our associate assistance programmes provide support, counselling and advice on a range of issues for associates and their families to help our people with a positive work-life balance.

In our UK business, where significant change is underway, associate engagement survey scores have remained constant whilst participation has risen to over 70 per cent. A new associate forum has been established to help drive the transformation process across the branch network and to help shape parts of the programme itself. Formal consultation processes have run in parallel, ensuring all our affected associates can be reassured that when changes affect them they will be managed openly and fairly.

Our new Canadian President, Kevin Fancey, is taking a ground up approach to his introduction to the Company and in his first two months in the role he ran engagement sessions at 25 sites with 500 associates.

Diversity and inclusion

We want access to the best talent irrespective of gender, race, orientation or background. The Board is now a 50:50 balance of male and females in our Non Executive Directors and, whilst our sector remains male dominated, we are starting to see greater female participation at each level in our business.

Our diversity policy statement can be seen on page 65. In the UK business, where we have made some significant changes in the Leadership team, four (40 per cent) executive positions are occupied by women. So whilst we have work to do there are some promising signs of progress.

+ Pages 36 and 65

Our present recruitment practices factor in under-represented groups and we insist on balanced candidate lists when using executive search firms. In the UK, the government requires certain businesses to declare their gender pay gap. The UK business has a 2.38 per cent gap in base pay compared to the UK average 18.1 per cent. Nevertheless, during 2017/18 we will put in place a diversity plan in each business, building on our present practices where, like many businesses, we continue to identify and remove any potential for unconscious bias in our employment and promotion practices. Much external research in improving diversity highlights the importance of role models, who inspire others and create a different level of expectation of the type of career that is possible.

Health and safety

Caring for our people's safety and wellbeing is at the heart of the Group's values. Board and Executive Committee meetings of the Group always start with our Health and Safety report because we want to ensure that our people return home safely each day and thrive in the workplace.

The main causes of injury within our business are manual handling (leading to sprains and strains), slips, trips and falls, the use of mechanical handling equipment such as forklift trucks and being struck by unsecured products and vehicle collisions. Our health and safety management framework and controls are structured to address all health and safety risks and compliance requirements.

We are disappointed to report a deterioration of our Group injury rate and Group lost workday rate in 2016/17 primarily as a result of a deterioration in the rates in the USA. Each of our businesses has plans in place to reverse these trends. The Group collision rate improved in 2016/17 following an in-depth driver risk assessment and control improvements.

Key resources and relationships continued

Leadership of Health and Safety is key and the CEO chaired calls with a group of highly skilled field-based health and safety specialists from each of our businesses in May and July 2017 to discuss the health and safety development across the Group and to understand how we can improve. Whilst we benchmark as average for our industry sector we intend to become leaders. The observations made over recent months are being worked on by all leadership teams across the Group to ensure we leverage the expertise of our associates in this area.

One immediate action has been to increase the number of Health and Safety professionals and we have begun the process to appoint a specialist leader in the USA to drive our improvement agenda.

+ Pages 25 and 36

Ethical behaviour and human rights

We are committed to comply with the law and to operate under high ethical standards. This is simply the right thing to do and it protects us from business disruption; it also strengthens our reputation with customers, suppliers and other stakeholders. Our Code of Conduct is dedicated to helping each of our associates to live our values on a daily basis in all decisions and interactions. Our Code of Conduct in the USA was renewed during 2016/17 and features Q&A sections to provide real life examples of our values in action.

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

Our Human Rights policy statement can be seen on page 36. For information on ethical behaviour in our supply chain, please refer to page 36.

+ Page 36

22
Distribution centres

Our customers

1 million
customers

To be successful, our customers depend on us for high levels of availability on a broad range of products, ready for collection or delivery on the same or next day or an agreed time. We know our customers also value high quality and efficient service from our knowledgeable people, local relationships, competitive pricing and billing and order accuracy. They also want flexibility in choosing the most convenient way to do business with us, whether in a branch, by phone or online. We aim to deliver all of these things through a "best-in-industry" service offering across all channels so our customers keep coming back.

We operate our business responsibly so that our customers can feel confident that we are looking after our associates, providing safe and high-quality products, operating efficiently and actively contributing to the communities in which we operate. We consult with key customers each year to understand their business needs and their sustainability priorities so that we can continually evolve our business to meet their expectations.

Where the market demand exists, we promote sustainable products and provide training and advice to customers to support growth in these new product categories. Customers of Build.com in the USA can filter their product search to view products with recognised national environmental labels. Our Dutch and UK businesses have built large dedicated sustainable buildings or energy-efficiency centres that act as showrooms for the latest products and serve as training facilities for our customers. The UK business provides a series of innovative customer services that support the UK-wide campaign to establish a flourishing renewables market including a free system design service and dedicated regional sales professionals.

+ Page 37

Our suppliers

44,000
suppliers

We have 44,000 reputable suppliers manufacturing over one million products around the world. This gives us access to a diverse and broad range of quality products. 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 our 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 they and we operate. Each business assesses its suppliers against set criteria to provide protection to both us and our customers in the event of a product failure or breach of regulation in the supply chain. On the rare occasion that a product is faulty, customers have the confidence of knowing that we will support them. We conduct third party background checks on our suppliers for unethical or illegal behaviour (see case study "Working with responsible suppliers" on page 36).

+ Pages 36 and 37

Channels to market

2,310
branches

Our customers increasingly expect a 24/7 multi-channel approach dealing with us through a combination of branches, showrooms, online, call centres and an outside sales force. The majority of our business is still conducted through our branches and our extensive branch network means our customers typically travel fewer than 20 miles to buy from us and visit several times a week. Our multi-channel approach allows our customers to access products and advice 24 hours a day, seven days a week, whenever it is required.

Our estate is carefully managed to ensure the health and safety of our associates, customers, suppliers and any other visitors. Regular health and safety risk assessments and branch audits ensure that we maintain our equipment and product racking, safely store and move products and provide for any potential emergency incident. Our insurers also support these efforts, undertaking their own safety assessments at selected key sites each year.

45 per cent of the Group carbon footprint is generated in our buildings. This includes electricity and fuels consumed for heating or cooling. Each of our businesses has targets to reduce carbon and the associated costs from buildings, relative to revenue. Building improvements during 2016/17 include the installation of LEDs and heat curtains in some of our sites. We have partnered with energy brokers in the USA and UK and are developing consumption dashboards to allow us to better target our efforts on energy efficiency from 2017/18.

Our online sales channels, available through any device, allow our customers to reduce their environmental impact as travel to our branches for product advice or product collection is reduced.

For information about our environmental efficiency efforts see page 37.

+ Page 37

For information about our health and safety programme see pages 23 and 36.

+ Pages 23 and 36

Technology

£3 billion

revenue from e-commerce activities

We are continually investing in technology to improve our business, win new customers and retain existing customers. E-commerce accounts for £3 billion (20 per cent) of the Group's revenue and our customer facing channels to market are mentioned on page 24. Additional technology investments are aimed at improving execution and efficiency in all areas of our business from warehousing, fleet, inventory and customer relationship management to back-office human resources and financial management and reporting systems.

As many of our competitors are small local distributors this is a major source of competitive advantage. We are focused on staying ahead of the competition by looking at every opportunity in this space while defending against any new threats that may enter the market.

Distribution network

6,100

fleet vehicles

Our extensive distribution network and large fleet enable us to ensure same or next day availability of a wide basket of products to our customers. Our customers rely upon us for prompt and flexible delivery options to meet their own needs.

Suppliers deliver in bulk to our distribution centres, our branches or directly to our customers. We predominantly distribute from distribution centres, ship hubs and branches to customers.

The safety of our drivers is taken very seriously and during 2016/17 an in-depth risk assessment was conducted into driver safety by our health and safety experts. The assessment took into account vehicle condition, road hazards, loading and unloading risks, physical health risks and driver training. Existing controls have been strengthened and new controls introduced to best protect our drivers. We monitor our collision rate monthly for both our goods fleet and company car fleet. Each business has targets to reduce their collision rate and performance is reported to the Executive Committee each month and to the Board every other month.

Approximately 55 per cent of our carbon footprint is generated by transport (including commercial vehicles, company cars and business travel by road, rail or air) and 43 per cent of this is from commercial vehicles, whether our own or that of third party hauliers that we partner with.

Case study

Improving driver behaviours

A new telematics system has been installed in the goods fleet of our business in the USA. The system allows for monitoring of driver behaviours to mitigate speeding, excessive idling and harsh acceleration or braking. Besides supporting more efficient driving behaviours and optimising fuel consumption this also serves to increase the safety of our driver population.

To keep our distribution network running efficiently with minimal impact on the environment, each of our businesses has targets to reduce carbon and the associated costs for transport, relative to revenue. Distribution network improvements in 2016/17 which have positively impacted our environmental performance include fleet upgrades and the installation of a telematics system in the commercial fleet in the USA (see case study below). Our branches also use the distribution network to support their waste management efforts, sending recyclable packaging waste back to the distribution centres for sorting, baling and recycling.

Where possible, we work with our suppliers to reduce their environmental impacts. For example, we help our suppliers to avoid unnecessary travel by "backhauling" product from their factories when our trucks are returning empty to our distribution centres. In 2016/17, we saved our suppliers in the USA and UK from travelling 4.2 million miles. This equates to 5,946 tonnes of avoided carbon emissions (the equivalent of taking 1,256 passenger vehicles off the road for a year*).

*www.epa.gov

For information about our environmental efficiency efforts see page 37.

+ Page 37

For information about our health and safety programme see pages 23 and 36.

+ Pages 23 and 36

Measuring our progress

As stated in last year's report, we have aligned our KPIs to our strategic drivers set out in detail on page 17.

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

Key performance indicator and definition	Performance

Like-for-like revenue growth

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

+6.0%

Like-for-like revenue **growth** was 6.0 per cent in 2016/17. The improved growth rate from 2015/16 was due to a strong outperformance of the market in the USA and the headwinds of commodity deflation and weak industrial markets easing.

Gross margin

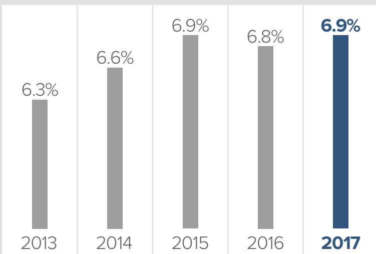
The ratio of gross profit, excluding exceptional items, to revenue.

+0.4%

Gross margin **improved** by 40 basis points compared to 2015/16 principally as a result of the USA and UK improving their mix of business towards higher margin channels and product categories.

Trading margin

The ratio of trading profit, excluding exceptional items, to revenue.

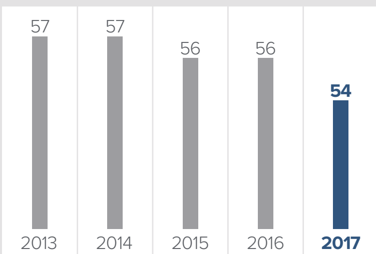


+0.1%

The trading margin **improved** and returned to a high of 6.9 per cent. Growth was driven by all regions performing well and the mix of business improving.

Average cash-to-cash days

The 12-month average number of days from payment for items of inventory to receipt of cash from customers.



2 days improvement

Average cash-to-cash days **improved** year-on-year to 54 days. All regions improved their working capital with reductions in both inventory and receivable days.

Key performance indicator and definition | **Performance**

Return on gross capital employed*

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

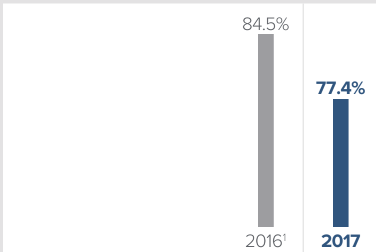
* Return on gross capital employed is an APM, see note 2 on pages 91 and 92 for further information.

+2.3%

Return on gross capital employed **improved** from 17.2 per cent to 19.5 per cent. This is in line with our investment case and long-term objective of generating attractive returns on capital.

Associate engagement, USA

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



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

-7.1%

The process of tracking and reporting engagement differs by region, therefore an example is given for the USA. Average engagement was 77.4 per cent in 2016/17, a decline compared to 2015/16 but it remains **a very high** score, well above industry averages. Management believes the lower score achieved in 2016/17 was due to reorganisation and leadership changes which included Business Model Improvement, a complex nationwide change management programme, which is now complete.

Customer service, USA

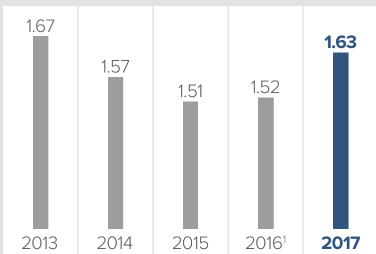
There is a good correlation in our business between high customer loyalty scores in a branch and better financial performance. The net promoter score is a means of measuring customer service. The survey asks: "How likely is it that you would recommend Ferguson to a friend or colleague?" and customers respond with a score between zero (bad) and 10 (exceptional). We look at the 12-month average of the proportion of customers who scored nine or more, less those customers scoring six or less. The methodology was changed in 2017 and prior years restated to weight the responses by business unit revenue.

+2.0%

The process of tracking and reporting customer service differs by region, therefore an example is given for the USA. The average net promoter score **increased** in 2016/17 to 63.8. This score is among the highest levels in the industry.

Injury rate

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



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

7.2% deterioration

Injuries requiring medical treatment per 100,000 hours worked **deteriorated** by 7.2 per cent compared to the previous year. This is primarily as a result of a deterioration of the injury rate in the USA. All businesses have plans in place to improve the injury rate.

See the Sustainability section for more information on pages 34 to 37.

A more focused geographic footprint

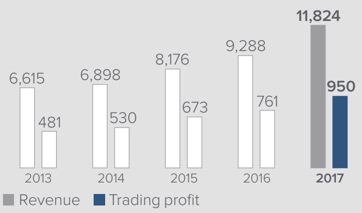
We are progressively focusing more resources on our business in the USA where we generate the most attractive returns for our shareholders. Our international operations are also important and make a significant contribution to the Group.

USA

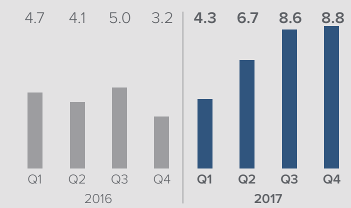
Key highlights

- Like-for-like revenue growth of 7.1 per cent
- Trading margin of 8.0 per cent
- Good growth in residential and commercial markets
- Nine bolt-on acquisitions completed in the year

Five-year performance
£m



Quarterly like-for-like revenue growth
%



1	Residential RMI	34%
2	Non-residential RMI	25%
3	Residential new construction	18%
4	Non-residential new construction	16%
5	Civil/Infrastructure	7%

Business profile

The business is the market leading distributor of plumbing and heating products in the USA. It operates nationally serving the residential, commercial, civil and industrial markets. Residential end markets represent about 50 per cent of sales within the USA and commercial about 35 per cent, with the remainder split between civil/infrastructure and industrial equally. We predominantly serve the Repair, Maintenance and Improvement ("RMI") markets, with relatively low exposure to the new construction market.

We operate seven business units in the USA offering different categories of plumbing and heating products and solutions to fit the customers' needs. Six of the business units predominantly serve trade customers with one serving mainly consumers. There are no direct competitors that operate across all of our markets. Each business unit has its own competitors which range from large national companies, including trade sales by large home improvement chains, to small, privately owned distributors.

The business in the USA constantly aims to strengthen its positions in existing and adjacent markets through bolt-on acquisitions. During the year we completed nine bolt-on acquisitions with acquisitions in the majority of our business units.

At the end of the year we operated 1,423 branches serving all 50 states with 23,986 associates. The branches are served by 13 distribution centres, providing same day and next day product availability, a key competitive advantage.

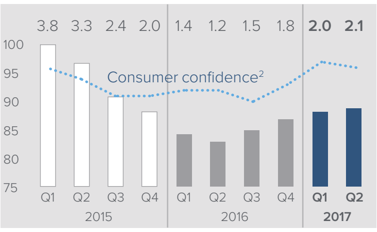
Market trends

Macroeconomic trends

Demand in the USA business is impacted by changes in activity in the economy in the USA. The following macroeconomic trends have an impact on all of our business units.

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

GDP growth[1]
% Calendar year



1. GDP: % change compared to the same quarter of the previous calendar year. Source: OECD.
2. Confidence: Index of results from a consumer confidence survey that measures the level of optimism consumers have about the performance of the economy in the next 12 months. Source: Surveys of consumers, University of Michigan.

GDP growth in the USA has been positive for the last 12 months, indicating continued expansion in the economy. The rate of growth has sequentially increased quarter on quarter throughout the last year showing an increasing rate of growth.

Consumer confidence has increased over the last 12 months to levels consistent with Q1 2015.

The unemployment rate continues to fall, it has sequentially decreased quarter on quarter for over 24 months.

Specific market trends

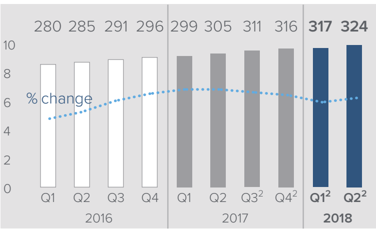
The four end markets that Ferguson serves have different characteristics and as such certain market data is more relevant to specific end markets.

Residential markets

(Approximately 50 per cent of revenue)

The Leading Indicator of Remodelling Activity ("LIRA") provides a short-term outlook of national home improvement and repair spending to owner-occupied homes. It is designed to project the annual rate of change in spending for the current quarter and subsequent four quarters. The LIRA projections have continued to increase over the last 12 months, indicating growth in the market in 2017/18.

Leading Indicator of Remodelling Activity ("LIRA")[1]
$bn Calendar year



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

In addition, existing single-family home sales is a good indicator for the strength of the market and tends to be a driver of remodelling spend. The number of sales has shown steady growth over the last 12 months.

52%
of revenue generated from residential markets in the USA

Commercial

(Approximately 35 per cent of revenue)

The American Institute of Architects ("AIA") Billings Index – Commercial/Industrial is a leading economic indicator of construction activity and reflects, with an approximate nine to 12-month lag time, construction spending. Any score below 50 indicates a decline in business activity across the architecture profession, whereas an index score above 50 indicates growth.

The index has been above 50 for the last three quarters of 2016/17 after dipping to 49.9 in the first quarter of 2016/17.

Civil/Infrastructure

(Approximately 7.5 per cent of revenue)

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

The non-residential construction Put In Place survey is a further indicator of the strength of the market, reflecting the value spent each month on structures in the sector. The value of spend was rising year-on-year for the first three quarters of 2016/17 but declined in the final quarter of 2016/17.

Industrial

(Approximately 7.5 per cent of revenue)

A good indicator of the strength of our industrial market is the Institute of Supply Chain Management Purchase Managers Index. Any reading above 50 indicates that the manufacturing economy is generally expanding, below 50 indicates that it is generally declining. The index has been above 50 throughout 2016/17 and sequentially growing through the year.

Developing e-commerce

This year we launched the new Ferguson.com website which is the foundation for future e-commerce and omni-channel customer engagement. It provides new functionality and solutions that will help customers run their businesses more effectively.

This latest iteration provides our customers with significant improvements to functionality, such as identifying the accessories a customer needs to install equipment. There are improved product lists and a quotation centre where customers can store their quotes, with improvements in quote-to-order functionality. Messaging and text updates on the status of customer deliveries are also available.

E-commerce sales are growing rapidly in the USA and in 2016/17 amounted to £2.6 billion accounting for 22 per cent of USA sales, growth of 25 per cent. Our customers have undertaken 18.5 million "Self Service Events" during the year, providing them with significant service benefits, and helping us to lower the cost to serve.

We aim to have the best transactional e-commerce capability in our industry which is increasingly becoming a competitive advantage over smaller regional competitors. We have a competitive advantage in the deployment of technology, partly as a result of our scale, and we will aim to maintain and enhance it as we continue to invest in our technology platforms.

"Our strategy is to provide our customers with the most comprehensive set of e-commerce tools in the industry and continue to extend our overall capabilities."

Mike Brooks
Chief Marketing Officer, USA

USA continued

Business units and brands

The size and market positions of the main businesses are below:

Market position*

Blended Branches	1st
Waterworks standalone	1st
B2C e-commerce	1st
HVAC	3rd

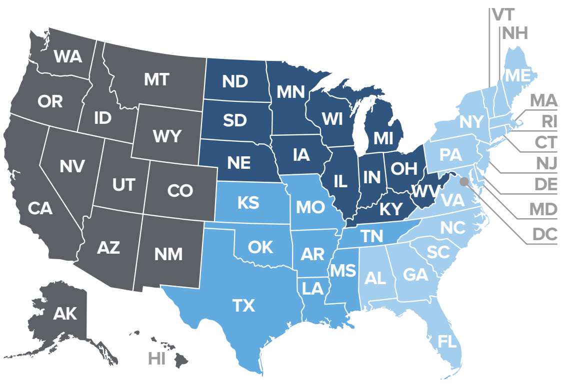
* Management's estimate of market position.

1	Blended Branches	60%
2	Waterworks standalone	16%
3	B2C e-commerce	7%
4	HVAC standalone	7%
5	Other (Industrial, Fire and Fabrication and Facilities Supply)	10%

1st

Blended Branches is the number one distributor of plumbing and heating products in the USA

Blended Branches like-for-like revenue growth by region



Key
- West +6.9%
- North Central +3.8%
- South Central +7.2%
- East +7.1%

Blended Branches

Blended Branches is the largest business unit serving customers across the residential and commercial sectors for RMI and new construction. Blended Branches mainly provides plumbing and sanitary products as well as heating solutions to trade customers through a combination of branch counters, inside and outside sales associates and our fast growing e-commerce channel which enables customers to be served 24/7 through their online account. The business also operates 275 showrooms, serving trade customers and consumers, which showcase bathroom, kitchen and lighting products and assist customers in designing their home improvement projects. The showroom channel generated revenue of over £1.3 billion in 2016/17.

In certain markets where it is more efficient and effective we will serve our customers through a Blended Branches location rather than standalone Heating, Ventilation and Air Conditioning ("HVAC"), Waterworks or Industrial business.

Blended Branches is the number one distributor of plumbing and heating products in the USA, with an estimated market share of 17 per cent. There are only three national competitors with a market share above 5 per cent. The estimated combined market share of the top four companies is 40 per cent with the remainder of the market consisting of mid-size regional distributors and small, local distributors.

Blended Branches' market share varies significantly across the USA from low single digit market share in some states to high-twenties in others. There continues to be excellent opportunities to expand the business geographically, particularly in large metropolitan areas across the country.

Waterworks standalone

The Waterworks business is the largest waterworks distributor in the USA. It distributes PVF, hydrants, meters and related water management products alongside related services including water line tapping and pipe fusion. Waterworks sales tend to be part of large planned projects to public and private water sewer authorities, utility contractors, public works/line contractors and heavy highway contractors on residential, commercial and municipal projects across the water, sanitary sewer and storm water management markets.

The Waterworks market has two large competitors holding around 45 per cent market share, we estimate our market share to be 24 per cent. No other company holds greater than 5 per cent market share.

B2C e-commerce

The B2C e-commerce business sells home improvement products directly to consumers via a network of online stores, the primary brand is Build.com. The business is supported by a call centre of product experts to provide product advice and to assist customers with orders. The business uses the same distribution network as the trade businesses.

We estimate our B2C e-commerce business to be the largest online supplier of plumbing and heating products direct to consumers, and the largest competitor is a similar size.

HVAC standalone

The HVAC business is an industry leader in wholesale heating and cooling distribution offering heating, ventilation, air conditioning and refrigeration equipment, parts and supplies to specialist contractors. The business predominantly serves the residential and commercial markets for repair and replacement in addition to heating and air conditioning projects. Branded Branches selling high quality products are an important feature for this market.

We estimate our HVAC business to be the third largest distributor of HVAC equipment in a highly fragmented market with the market leader about twice the size with an estimated 10 per cent market share.

Industrial standalone

The Industrial business is a supplier of PVF and industrial maintenance, repair and operations ("IMRO") specialising in delivering automation, instrumentation, engineered products and turn-key solutions. We also provide supply chain management solutions for a full range of PVF and IMRO supplies focusing on providing cost savings across the entire supply chain.

The Industrial business distributes products to industrial customers across all sectors including oil and gas, mining, chemical and power.

The industrial market is fragmented, we estimate the market leader to hold 10 per cent market share and our market share to be 7 per cent.

Fire and Fabrication

The Fire and Fabrication business caters to fire protection contractors and engineers offering fire protection products, fire protection systems and bespoke fabrication services to commercial contractors for new construction projects.

We estimate our market share to be 20 per cent and the two largest competitors holding an estimated 30 per cent market share between them.

Facilities Supply

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

+8.2%

Improvement in trading profit at constant exchange rates in the USA

Operating performance

Our business in the USA grew revenue 7.1 per cent on a like-for-like basis which included price deflation of 0.5 per cent principally due to falling commodity prices in the first half. In the second half commodity deflation has subsided and overall there were low levels of inflation in the market.

The organic revenue growth by customer end market was as follows:

	% of USA revenue[1]	Organic revenue growth
Residential	~50%	+9 – 10%
Commercial	~35%	+7 – 8%
Civil/Infrastructure	~7.5%	+4 – 5%
Industrial	~7.5%	Flat

1. Previously reported Municipal has now been more accurately analysed between Residential, Commercial and Civil/Infrastructure.

Blended Branches, Waterworks, HVAC, Fire and Fabrication and Facilities Supply generated good growth and gained market share. Industrial revenues recovered after a weak first half which was impacted by a slowdown in end markets. Build.com, our B2C e-commerce business, continued to grow strongly throughout the year. Acquisitions contributed 2.7 per cent of additional revenue in the year.

E-commerce accounted for over £2.6 billion (22 per cent) of revenue in the USA and we have continued to prioritise investment in both our B2B and B2C platforms. Online ordering is a valuable sales order channel for our customers, giving them greater flexibility. During the year we upgraded our technology platforms including the delivery of a new **Ferguson.com** website and a dedicated showroom website to enable customers to prepare for consultations. These new platforms have added new time-saving features and greater functionality to enhance the customer experience.

We improved our gross margins and operating expenses grew with investments in technology, marketing and fleet along with increased associate numbers, wage inflation and expense growth from acquisitions. Trading profit of £950 million (2016: £761 million) was 8.2 per cent ahead of last year at constant exchange rates and exchange rate movements increased trading profit by £116 million. The US trading margin was 8.0 per cent (2016: 8.2 per cent).

Nine acquisitions were completed during the year with total annualised revenue of £267 million. Since the year end we have acquired two more B2C businesses, AC Wholesalers and Supply.com which generate £86 million of annualised revenue. During the year we disposed of Endries, a small fasteners business, for £186 million. The business generated revenue of £170 million and trading profit of £16 million in the 10 months to disposal in June 2017.

UK

Key highlights

Like-for-like revenue growth of 1.0 per cent

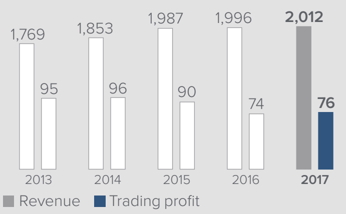
Trading margin of 3.8 per cent

Markets remain challenging

Transformation plan continuing

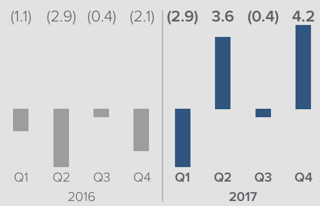
Five-year performance

£m



Quarterly like-for-like revenue growth

%



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

Business profile

The UK operates three businesses under the Wolseley brand predominantly in the trade market through 642 branches covering the whole country. These branches are served by six distribution centres providing same and next day product availability, a key service offering to our customers. The UK business mainly serves RMI markets, and has relatively low exposure to the new residential construction market. At 31 July 2017, Wolseley UK had 5,900 associates.

The UK business is currently in the first year of a major transformation programme to improve service to customers, performance and profitability.

Business units and market position

The size and market positions of the main businesses are:

	Percentage of revenue	Market position[1]
Plumbing and Heating	70%	=1
Pipe and Climate	16%	2
Infrastructure	14%	=1

1. Management's estimate of market position.

Plumbing and Heating is the largest business within the UK, representing 70 per cent revenue. It operates under the Wolseley brand with a number of smaller brands including William Wilson and soak.com. These businesses provide plumbing and heating products primarily to trade customers in the residential and commercial sectors, for RMI purposes. The Plumbing and Heating business also provides specialist above ground drainage products.

The Pipe and Climate business distributes pipes, valves and fittings as well as air conditioning and refrigeration products to B2B customers in the commercial sector, mainly for non-residential new construction.

Infrastructure is a specialist in below ground drainage. Operating under the Burdens and Fusion brands, it serves the civil infrastructure and utilities markets.

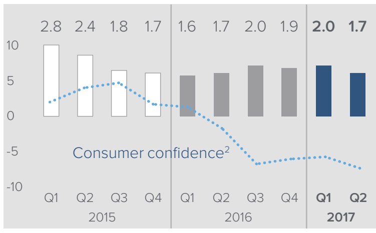
Market trends

The quarterly GDP growth rate has been relatively flat for the last 12 months averaging just under 2 per cent.

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

GDP growth[1]

% Calendar year



1. GDP: % change compared to the same quarter of the previous calendar year. Source: OECD.
2. Confidence: Index of results from a consumer confidence survey that measures the level of optimism consumers have about the performance of the economy in the next 12 months. Source: Gfk Consumer Confidence Index.

Operating performance

Like-for-like revenue was 1.0% ahead including price inflation of 2.2 per cent. Whilst new residential construction markets grew, repairs, maintenance and improvement markets, where we generate the majority of our trading profit, were flat. We continued to achieve good growth in the small customer segment which was offset by declining revenue in the large customer segments. The Pipe and Climate and Infrastructure businesses traded well and gained market share, though Plumbing and Heating markets remained challenging. We continue to invest in our B2C business, soak.com, which traded well and achieved good growth.

Gross margins were ahead of last year and headcount was 2.8 per cent lower. Trading profit of £76 million was £2 million ahead of last year. The trading margin grew by 10 basis points to 3.8 per cent.

During the year we remained firmly focused on implementing the strategy we announced in September last year. The transformation programme is continuing and we made progress in simplifying our customer propositions and optimising the supply chain and branch network to deliver a more efficient business. The programme remains in the early stages. Exceptional restructuring charges of £40 million were partly offset by £11 million one-off credits relating to a pension curtailment gain.

Canada and Central Europe

Key highlights

Like-for-like revenue growth of 3.6 per cent

Trading margin of 4.3 per cent

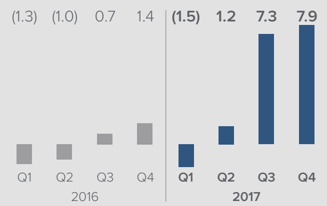
Canada markets improving

Five-year performance

£m

Quarterly like-for-like revenue growth

%



1	Residential RMI	44%
2	Non-residential RMI	17%
3	Residential new construction	21%
4	Non-residential new construction	16%
5	Civil infrastructure	2%

Business profile

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

Wolseley Canada operates in the trade market serving the residential, commercial and industrial sectors in both RMI and new construction. Wasco in the Netherlands predominantly serves trade customers operating in residential RMI and residential new-construction markets. The businesses operate 245 branches with three distribution centres. At the year-end Canada and Central Europe had 2,862 associates.

Business units and market position

The size and market positions of the main businesses are:

	Percentage of revenue	Market position[1]
Wolseley Canada	80%	2
Wasco (Netherlands)	20%	3

1. Management's estimate of market position.

Wolseley Canada (80 per cent of revenue) supplies plumbing, heating, ventilation, air conditioning and refrigeration products to residential and commercial contractors. It also supplies specialist water and waste water treatment systems to residential, commercial and municipal contractors, and supply PVF solutions to oil and gas customers.

Wasco (20 per cent of revenue) is a distributor of heating, plumbing and related spare parts across the Netherlands.

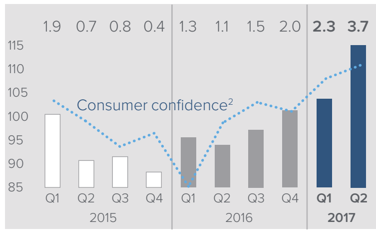
Market trends

Canadian GDP growth has been increasing steadily from a low in the final quarter of calendar 2014 to a recent high of 2.3 per cent. Consumer confidence has been growing with GDP and is currently at a peak of 110.8.

GDP growth in the Netherlands has been increasing over the last 12 months to 2.5 per cent.

Canada GDP growth[1]

% Calendar year



1. GDP: % change compared to the same quarter of the previous calendar year. Source: OECD.
2. Confidence: Index of results from a consumer confidence survey that measures the level of optimism consumers have about the performance of the economy in the next 12 months. Source: The Conference Board of Canada.

Operating performance

In Canada and Central Europe like-for-like revenue grew by 3.6 per cent including price inflation of 1.7 per cent. Acquisitions contributed 0.9 per cent of additional growth. Canada grew well and the Netherlands also made very good progress. Gross margins were broadly flat, mainly due to competitive conditions in Western Canada.

Operating expenses were well controlled with headcount up 1.2 per cent. Exchange rate movements were favourable and increased trading profit by £6 million. Reported trading profit of £45 million was £8 million ahead of last year. The trading margin was maintained at 4.3 per cent.

As previously announced the merger of our Tobler business with Walter Meier in Switzerland was completed on 6 April 2017 and we now own 39.2 per cent of the combined business. For the 8 months prior to the transaction Tobler generated £176 million of revenue and £11 million of trading profit.

Since the year end we have acquired three more businesses, Aircovent in the Netherlands and Plomberium Pierrefonds and Tackaberry in Canada, combined they generate £23 million of annualised revenue.

Building a better business

Ferguson's "Better Business" framework comprises 13 material issues which actively support our growth, improve associate engagement, address our top risks and compliance requirements or are important to our shareholders, customers and suppliers.

We strive to make these issues an integral part of how we do business, which is reflected in this report.

Many of the issues are described within the key resources and relationships section on pages 22 to 25.

Stakeholder engagement

The framework was established following consultation with our stakeholders. A comprehensive review of our sustainability strategy is conducted each year and takes into account feedback from our investors, suppliers, customers, associates and third parties.

Our values

We act with integrity

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

We drive for results and improvements

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

We value our people

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

	Our material issues	Our principles
Our people	**Talent management and development** All	We are committed to people development at every level of the organisation.
	Competitive pay and reward All	We offer competitive remuneration to our people.
	Associate engagement All	We value our associates and actively work to improve associate engagement.
	Diversity and inclusion All	We understand, respect and value personal and cultural differences.
	Health and safety All	We will not compromise the health or safety of any individual.
	Ethical behaviour and human rights All	We adhere to strict Human Resources policies and comply with our own Code of Conduct.
Our products	**Product quality and integrity**	We work with our suppliers to maintain excellent standards of product quality and safety.
	Responsible sourcing	We expect our suppliers, contractors and agents to adhere to our Code of Conduct and to adopt similar standards.
	Promoting "eco" products	We are a positive link in the sustainable construction supply chain.
Our operations	**Environmental efficiency**	We run efficient operations that consume less energy and produce less waste.
	Compliance with the law	We are committed to observing both the spirit and the letter of the law.
	Protecting information	We protect both digital and physical information on behalf of our stakeholders.
Our communities	**Active corporate citizen**	We voluntarily contribute our time and our financial support to the communities in which we work.

Key to drivers of profitable growth

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

Opportunities	Risks
A multi-skilled and well trained workforce will help us to deliver against our objectives and adapt to changing customer needs.	Changing operating models require us to constantly up-skill our people. A competitive marketplace puts greater emphasis on excellent career development to attract talent.
Well structured remuneration and incentive programmes align associate and company objectives in order to maximise results.	An uncompetitive remuneration programme could impact our ability to attract and retain the best people.
Motivated and engaged people deliver excellent customer service, develop strong supplier relationships and maximise operational efficiencies.	Low associate engagement can lead to sub-optimal business results and poor retention of our people.
A diverse workforce brings with it the widest range of knowledge, skills and experience and promotes innovation. An inclusive environment allows our people to feel at ease in the workplace.	In an ever-changing market a lack of diversity can limit business progression.
A robust health and safety programme protects our people, customers and suppliers. It also improves productivity by reducing the number of days lost to injury.	Our principal risks relate to manual handling, working at height, the use of motorised equipment and vehicle collisions. If not mitigated, these risks can harm our associates, impact our productivity and incur costs. See page 47, Health and safety.
A commitment to high ethical standards strengthens our reputation with customers, suppliers and other stakeholders.	The business is exposed to risks of bribery and fraud, which can damage our reputation. Compliance programmes are in place to mitigate these risks. See page 48, Government regulations.
Sourcing and supplying safe, quality products improves our margins, enhances customer satisfaction and enables our people in branch to devote more time to service.	Product-related litigation is recognised as one of our principal risks. For more detail on how we are managing the risk, see page 47.
Working with reputable suppliers gives our stakeholders confidence in the integrity of our supply chain, including standards around ethical labour, modern slavery, conflict minerals and anti-bribery and corruption.	There is increasing focus on supply chain transparency due to the risk of business interruption or reputational harm.
Where the opportunity exists, we can gain market share by supplying eco products and offering training and advice to our customers.	Building regulations increasingly focus on sustainable construction. Growth opportunities can be missed if we do not adapt to our customers' changing product needs.
Better energy and waste management decreases costs and improves operational efficiencies.	Energy costs and increasing "green" taxes can reduce Ferguson's profit margins. We have reduction targets in place to minimise these costs.
Compliance with legal regulations gives us a licence to operate.	Mitigating the risk of non-compliance with increasing levels of governmental regulations is a priority (see page 48). Without certain licences the Company cannot operate.
Robust systems and processes together with an informed workforce allow us to protect our sensitive or commercial data.	Information security is one of our principal risks. For more detail, see page 46.
Engagement with the communities in which we operate promotes our business and enhances people skills and engagement.	Ferguson has many locally established competitors who are active in the community. A lack of engagement with our communities can weaken our reputation with both customers and employees.

Sustainability and drivers of profitable growth

The symbols above are displayed in the table to the left to indicate which of our strategic drivers are most directly supported by each of the "Better Business" programme components. The strategic drivers are summarised on page 17.

Governance

The overall "Better Business" framework is reviewed annually to test the ongoing materiality of the issues identified. The Group's General Counsel is responsible to the Board for the overall programme. Objectives and, where appropriate, quantified targets are set for each material issue. Group-wide KPIs have not been set for all issues as it is not always practical to bring distinct local methods under one unified metric. Improved performance is the primary goal. Business units monitor performance throughout the year and performance reports are submitted to the Executive Committee and the Board at regular intervals.

"Better Business" – progress in 2017

The following two pages provide an overview of our progress in the year under review. It is referenced when further information on these topics can be found elsewhere in this report. A greater level of detail is available on the Ferguson plc website **www.fergusonplc.com**.

Our people

Our progress on the six people issues is described on pages 22 to 24. Diversity and health and safety statistics and our human rights statement are provided below.

All material issues relating to our people directly affect all of our strategic drivers on page 17. The effectiveness and level of engagement of our people is crucial in delivering on our strategy and maintaining the sustainability of the business.

Talent management and development

+ Page 22

Competitive pay and reward

+ Pages 22 and 23

Associate engagement

+ Page 23

Diversity and inclusion

	Total men	Total women	% women
Directors (Board)	7	4	36%
Senior leadership[1]	78	16	17%
Total associates[2]	31,434	9,631	23%

1. The Senior leadership group at Ferguson consists of managers drawn from business units and central functions with responsibility for planning, directing or controlling the activities of the Company.
2. Total associate numbers of 41,065 are reported above (total men plus total women) including all continuing businesses. The lower number of 33,000 reported on page 22 is the number of Full Time Equivalent associates for the ongoing businesses only.

Our diversity policy statement can be seen on page 65.

+ Page 23

Health and safety

Ferguson had set a 2 per cent reduction target for each of the three health and safety metrics during the year under review.

Injury rate	7.2% deterioration (1.63 per 100,000 hours worked)
Lost workday rate	8.9% deterioration (53.75 per 100 employees)
Fleet third party collision rate	6.0% improvement (14.45 per 100 vehicles)

The deterioration in our injury and lost workday rates is disappointing and is primarily as a result of deteriorating rates in the USA. Further information on our key health and safety risks and the mitigating actions being taken is provided in the key resources and relationship section.

+ Pages 23 to 25

Ethical behaviour and human rights

+ Page 24

Human rights

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

Case study

Working with responsible suppliers

One of the steps taken by the Company to assess the ethical behaviours of suppliers is to screen their company names through a third-party risk assessment portal. This allows for identification of any issues such as adverse media relating to regulatory breaches or employment practices, sanctions, criminal activity or links to senior ranking public officials. Tens of thousands of our suppliers have been assessed over the last two years. No high risk issues were identified. Ethical screening continues on higher risk entities.

Our products

Product quality and integrity

During 2016/17, we continued to embed our quality control procedures for sourcing from the Far East. Quality teams in our Asian sourcing entities continue to visit and assess our suppliers. The overall framework for product integrity was reviewed and strengthened and additional resource was added to the quality team in the UK business.

Responsible sourcing

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

+ Page 24

Modern Slavery Act

The UK Modern Slavery Act 2015 ("the Act") requires Ferguson plc and its group of companies ("the Group") to make an annual statement outlining the steps the business is taking to identify and prevent modern slavery within our organisation and its supply chain.

Through its various business divisions, the Group sources, distributes and sells products in mature markets in North America and Western Europe. A small percentage of the Group's own label products are sourced from other regions, principally in Asia.

It is recognised that there could be a small risk of human trafficking or slavery in the manufacturing, distribution and logistics activities that are connected with our business. Ferguson plc has zero tolerance for such activities.

The Group is undertaking a number of steps to minimise the risks of slavery occurring in our business or our supply chain.

– We built upon our existing processes for background screening of suppliers so that now we have screened tens of thousands of our suppliers (see case study to the left). No slavery risks were identified in the process. The businesses continue to screen their highest risk entities (based on spend value, geographical location and business type).

"I am personally engaged with health and safety specialists from our businesses to ensure that we consider and act on their views for best practices and opportunities for improvement."

John Martin
Group Chief Executive
(page 18)

– Training on combating modern slavery was delivered in local language to associates in the Group's sourcing operations in China in 2016. Similar training is planned for the Group's Taiwanese operations in September 2017.

– Audits and site visits of suppliers in low cost countries are undertaken on their appointment and periodically thereafter. Procedures are in place for on-boarding and evaluating such suppliers.

– The Group has maintained a Code of Conduct and a confidential whistleblowing line, applicable to all Ferguson businesses, which allow people to "speak up" in confidence and without the fear of any negative consequences.

This statement is made on behalf of all subsidiaries of Ferguson plc (**www.fergusonplc.com**) and is made pursuant to section 54(1) of the Act and constitutes our Group's slavery and human trafficking statement for the financial year ending 31 July 2017.

Further information on the steps taken by the Group's UK subsidiary can be found at www.wolseley.co.uk.

Promotion of "eco" products

Our businesses continue to monitor the market for "eco" products and promote these products where there is customer demand. For example, customers of our online business Build.com can filter their product search to view products with recognised national environmental labels. The UK and Dutch businesses each have a dedicated showroom to promote renewable technologies and publish targeted marketing material on these products.

+ Page 24

Our operations

Environmental efficiency

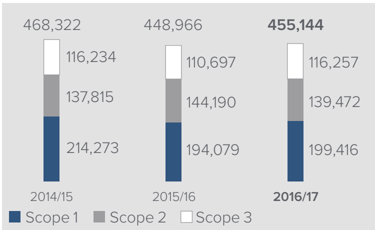
Ferguson plc set five-year targets to reduce carbon (-10 per cent) and waste (-15 per cent) per £m revenue and to increase the percentage of waste that is recycled to 40 per cent. Each business has set its own targets for carbon and waste to support the achievement of the Group goals.

Performance at the end of 2016/17, one year into the target period, is positive across all three performance measures.

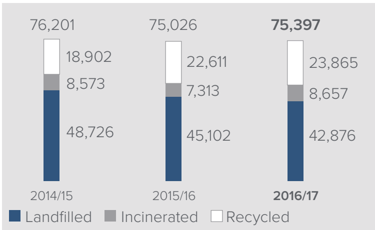
Carbon	3.0% improvement (26.3 tCO_2e per £m revenue)
Total waste	3.9% improvement (4.4 tonnes per £m revenue)
% of total waste recycled	1.6% improvement from 30.1% to 31.7%

Total revenue of £17,324 million (including discontinued businesses) is used when calculating the relative carbon and waste performance. The lower number of £14,878 million reported on page 12 is the revenue for the ongoing businesses.

Total carbon emissions
Tonnes of CO_2 equivalent



Total waste
Tonnes



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 performance figures.

Inaccuracies identified in prior year numbers resulted in immaterial adjustments to the absolute carbon and waste totals in the charts above.

tCO_2e/£m revenue Carbon emissions	2014/15*	2015/16*	2016/17	One-year variance
Scope 1 and 2 emissions	21.6	20.4	19.6	-4%
Scope 3 emissions	7.1	6.7	6.7	0%
Total emissions	28.7	27.1	26.3	-3%

* Constant currency revenues are used in order to remove the impact of currency fluctuations from our performance. This has reduced the relative carbon figures for prior years.

Our approach to measuring carbon was developed in accordance with the Greenhouse Gas Protocol ("GHG Protocol"). Emissions are calculated using DEFRA and IEA carbon factors and are reported as tonnes of CO_2 equivalent (abbreviated as tCO_2e), based on the Global Warming Potential ("GWP") of each of the "basket of six" greenhouse gases, as defined by the Kyoto Protocol.

All Scope 1 and 2 emissions and selected Scope 3 emissions are reported. Further detail on the data provided can be found in the "Basis of Reporting" document on the Ferguson plc website **www.fergusonplc.com**.

+ Page 25

Compliance with the law

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

Protecting information

As our channels to market develop so too does the technology that we employ and the data that we hold. We are committed to protecting the security of our systems and information so that customers can transact with us safe in the knowledge that we have the appropriate safeguards in place. The Group operates an IT governance framework, including a full set of dedicated IT policies, aligned to known security and operational risks. A broader Group information security policy determines how we protect all information wherever it exists and in whatever form (electronic or hard-copy).

+ Pages 46 and 60

Our communities

Active corporate citizen

Our businesses seek to be contributing members to the communities in which they operate. The Group supports a number of charitable organisations both at a Group and a business unit level. In 2016/17, Ferguson plc's businesses contributed to a range of charities, including support for the homeless, scholarships for young apprentices and provision of care for sufferers of cancer and other illnesses.

Our people engaged in numerous community and charity events during the year. Further information and case studies of the events our associates and businesses have supported over the last year can be found at **www.fergusonplc.com**.

A good trading performance

The Group delivered a good set of results in 2016/17, primarily driven by a strong performance in the USA. During the year, Ferguson continued to generate excellent cash flow which enabled us to invest in organic growth and bolt-on acquisitions, while returning surplus cash to shareholders.

Mike Powell
Chief Financial Officer

Key highlights of the ongoing business

Group ongoing revenue growth at constant exchange rates of 8.6 per cent

Revenue growth in the USA of 10.4 per cent at constant exchange rates

Gross margin expansion of 0.4 per cent, trading profit margins up 0.1 per cent

Investment of £256 million in 11 acquisitions

In addition to a good set of results, we have also made rapid progress on executing our strategy. Actions in the year included the business disposals in Central Europe and the USA and restructuring activities in the UK. In addition, the Group decided to divest all its businesses in the Nordic region. These changes, whilst beneficial for the Group, do cause some complexity in the financial statements.

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

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

See note 2 on pages 91 and 92 for further information, definitions and reconciliations of alternative performance measures.

Performance of the ongoing business

	2017 £m	Restated 2016 £m	Growth %	Growth at constant exchange rates %
Revenue	**14,878**	12,146	+22.5%	+8.6%
Gross profit	**4,301**	3,463	+24.2%	+9.8%
Operating expenses	**(3,269)**	(2,636)	+24.0%	+10.1%
Trading profit	**1,032**	827	+24.8%	+8.7%
Gross margin	**28.9%**	28.5%	+0.4%	
Trading margin	**6.9%**	6.8%	+0.1%	

Ferguson plc delivered a good set of results driven by the USA and some recovery in the UK and Canada. Residential and commercial markets in the US remained strong throughout the year and Industrial markets improved in the second half. The UK heating market remained weak and the market in Canada improved progressively through the year.

Revenue in the ongoing business of £14,878 million (2015/16: £12,146 million) was 6.0 per cent ahead on a like-for-like basis with a further 2.1 per cent of growth from acquisitions, 0.4 per cent from one additional trading day and 0.1 per cent from new branches.

Gross margins were 40 basis points ahead as we continued to focus on a better mix of higher value-added products and services and improving our purchasing terms.

Trading profit in the ongoing business was £1,032 million (2015/16: £827 million), 8.7 per cent ahead of last year at constant exchange rates. The trading margin in the ongoing business was 10 basis points ahead of last year at 6.9 per cent. Favourable foreign exchange rate movements added £122 million and an additional trading day increased trading profit by approximately £9 million.

Reconciliation between ongoing trading profit and statutory operating profit

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

	2017 £m	Restated 2016 £m
Ongoing trading profit	**1,032**	827
Non-ongoing trading profit	**27**	30
Continuing trading profit	**1,059**	857
Amortisation of acquired intangible assets	**(64)**	(48)
Impairment of acquired intangible assets	**–**	(94)
Exceptional items	**229**	(4)
Statutory operating profit	**1,224**	711

Non-ongoing trading profit

During the year, the Group disposed of a small non-core Industrial business, Endries, in the USA and its Swiss business, Tobler. These non-ongoing businesses generated revenue of £346 million (2015/16: £403 million) and trading profit of £27 million (2015/16: £30 million).

Amortisation and impairment of acquired intangible assets

Amortisation of £64 million (2015/16: £48 million) represents the normal recurring charge 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 the continuing operations was identified as part of the annual impairment review. Goodwill, with a carrying value of £888 million (2015/16: £902 million), remains on the balance sheet and is supported by the value in use calculations.

Exceptional items

Net exceptional credits totalled £229 million (2015/16: £4 million charge) in the year, comprising £266 million gain on disposal of businesses, £40 million restructuring charges and £3 million of other exceptional credits. The gain on disposal of businesses was generated from the disposal of Tobler, Endries and a property company in Austria. The gain includes £49 million from the recycling of deferred foreign exchange translation differences, which are included in a translation reserve until disposal, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates". Restructuring charges were primarily in relation to the UK turnaround strategy and principally comprised property closure and redundancy costs. Other exceptional items include an £11 million curtailment gain relating to the UK defined benefit pension plan.

Statutory results

The financial statements have been prepared under IFRS and the Group's accounting policies are set out on page 90.

Continuing operations	2017 £m	Restated 2016 £m
Revenue	**15,224**	12,549
Operating profit	**1,224**	711
Finance costs	**(43)**	(36)
Share of result of associate	**(1)**	–
Profit before tax	**1,180**	675
Tax	**(292)**	(210)
Profit from continuing operations	**888**	465
(Loss)/profit from discontinued operations	**(105)**	185
Profit for the year	**783**	650

Profit before tax increased 74.8 per cent primarily due to the gain on disposal of businesses of £266 million.

Finance costs

Finance costs before exceptional items were £43 million (2015/16: £36 million). The increase is due to foreign exchange rate movements, as the majority of the Group's debt is held in US dollars, and a small increase in the pension interest expense.

Discontinued operations

Discontinued operations include the results of the Nordic region and France. The balance sheet relating to the Nordic region has been transferred to assets and liabilities held for sale. The result from discontinued operations is comprised as follows:

	2017 £m	Restated 2016 £m
Discontinued trading profit	**63**	59
Amortisation of acquired intangible assets	**(4)**	(5)
Impairment of acquired intangible assets	**(102)**	–
Finance costs	**(4)**	(2)
Exceptional items after tax	**(58)**	154
Tax	**–**	(21)
(Loss)/profit from discontinued operations	**(105)**	185

The impairment charge of £102 million was in relation to the Group's Swedish building materials business, Beijer. This resulted from the performance of Beijer deteriorating sharply in the first half of the year, with trading profit significantly lower than the prior year and below management's expectations.

Discontinued exceptional items relate to the property exit and redundancy costs from the closure of branches across the Nordic region.

Tax

Ferguson plc is tax resident in Switzerland. The Group's operations are international with 89 per cent of the Group's ongoing trading profit generated in the USA, 7 per cent generated in the UK and 4 per cent in other overseas territories before central costs. The Group's profits are therefore subject to different overseas tax rates and tax laws.

The pre intra-group financing ongoing expected weighted average tax rate is 37.2 per cent (2015/16: 37.6 per cent) and this is reduced to a post intra-group financing ongoing expected weighted average tax rate of 24.4 per cent (2015/16: 25.5 per cent) as detailed in note 7.

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

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

The Group incurred a tax charge of £292 million (2015/16: £210 million) on profit before tax of £1,180 million (2015/16: £675 million) resulting in an effective tax rate of 24.7 per cent (2015/16: 31.1 per cent). This tax charge includes an ongoing tax charge from ongoing operations before exceptional items, the amortisation and impairment of acquired intangible assets and non-recurring tax items of £277 million (2015/16: £217 million). This equates to an ongoing effective tax rate of 28.0 per cent (2015/16: 27.4 per cent) on the ongoing profit before tax, exceptional items and the amortisation and impairment of intangible assets of £989 million (2015/16: £792 million).

Although the ongoing effective tax rate has remained stable over the last few years, it is sensitive to the Group's mix of geographical profits, its internal financing arrangements, international tax law and rate changes and the impact of acquisitions, disposals and restructurings.

The ongoing effective tax rate is expected to remain at approximately 28 per cent next year although this could increase or decrease significantly depending on the final outcome of US tax reform changes. No reliable estimate can be made of the impact of these changes at this stage given the lack of detail currently available, although potential changes may decrease the ongoing effective tax rate and restrict interest deductibility.

In the medium term, potential tax reform in Switzerland could also significantly vary the rate but, as with the US tax reform above, there is insufficient detail currently available of the exact tax law changes to enable management to make a reliable estimate of their impact.

The Group does not expect the ongoing effective tax rate to be influenced significantly by international tax law changes arising from the OECD's Base Erosion and Profit Shifting Action Plan nor the outcome of Brexit over the next few years.

The Group will continue to keep all external developments on the above issues under review.

The Group paid £310 million (2015/16: £193 million) in corporation tax in the year. The corporation tax paid in the year will typically differ to the total tax charge in the income statement as a result of:

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

Earnings per share

Headline earnings per share increased by 23.1 per cent from 234.7 pence to 288.9 pence. Basic earnings per share from continuing operations were 353.4 pence and diluted earnings per share were 350.8 pence. Total basic earnings per share, including discontinued operations, were 311.6 pence and total diluted earnings per share were 309.4 pence. A significant proportion of these increases were due to favourable foreign exchange translation.

Impact of foreign exchange rates

The Group reports its results in sterling. The main currency exposure arises on the translation of overseas earnings into sterling. The Group does not hedge this exposure as any earnings hedges have only a temporary effect. The Group's policy is broadly to match the currencies in which its debt is denominated to the currencies in which its trading profit is generated. The exchange rates used for the consolidated income statement and balance sheet are set out on page 139. The impact of foreign exchange rate movements on the financial statements is shown in the table below.

	Ongoing revenue £m	Ongoing trading profit £m	Net assets £m
US dollar	+1,419	+116	(16)
Other currencies	+131	+6	+36
Total	+1,550	+122	+20

As previously announced, from 2017/18 the Group will present its consolidated financial statements in US dollars and, as the majority of revenue and trading profit is generated in US dollars, the impact of foreign exchange rate movements will be reduced.

Cash flow

The Group has continued to generate strong cash flows during the year with cash generated from operations of £1,115 million (2015/16: £1,019 million) and an excellent cash conversion ratio of cash generated from operations/ EBITDA (£1,289 million including £90 million EBITDA from discontinued operations) of 87 per cent (2015/16: 96 per cent).

	2017 £m	2016 £m
Cash generated from operations	**1,115**	1,019
Interest and tax	**(363)**	(232)
Acquisitions and capital expenditure	**(434)**	(331)
Disposal proceeds	**267**	65
Dividends	**(259)**	(238)
Net purchase of shares by EBT	**(6)**	(13)
Net proceeds from/(purchase of) Treasury shares	**21**	(286)
Foreign exchange and other items	**61**	(115)
Movement in net debt	**402**	(131)

Acquisitions and capital expenditure

Acquisitions are an important part of our growth model and during the year we invested £256 million in 11 bolt-on acquisitions, principally in the USA.

The strategy of investing in the development of the Group's business models is supported by capital expenditure of £178 million (2015/16: £218 million). This investment was primarily for strategic projects to support future growth such as new distribution centres, distribution hubs, technology, processes and network infrastructure.

As at 31 July 2017, the Group had total operating lease commitments of £854 million (2015/16: £853 million). Management believes there is substantial capacity for revenue growth utilising the existing branch infrastructure and will remain cautious when considering new lease commitments for the foreseeable future. Additional information can be found in note 34 on page 118.

Returns to shareholders

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

(i) to re-invest in organic growth opportunities;
(ii) to fund the ordinary dividend to grow in line with the Group's expectations of long-term earnings growth;
(iii) to fund bolt-on acquisitions to existing businesses where we have momentum and management bandwidth; and
(iv) if there is excess cash after these priorities, return it to shareholders promptly.

The Group paid an interim dividend of 36.67 pence per share (2015/16: 33.28 pence per share) amounting to £92 million. A final dividend of 73.33 pence per share (2015/16: 66.72 pence per share), equivalent to £185 million is proposed. This brings the total dividend for 2016/17 to 110.00 pence per share, an increase of 10 per cent.

Reflecting management's confidence in the business and the continuing strong cash generation of the Group, and after taking into account the excellent opportunities to invest in organic growth and acquisitions, the Board considers that the Group has surplus cash resources available. The Group will now commence a £500 million share buyback programme with the intention to complete this within the next 12 months.

Net debt

Net debt decreased during the year by £402 million to £534 million at 31 July 2017. The reduction is due to strong operating cash flow generation of £1,115 million and disposal proceeds of £267 million partially offset by acquisition and capital investment of £434 million, dividends of £259 million and interest and tax payments of £363 million. Net debt was 0.45 times EBITDA before exceptional items at the end of the year (2015/16: 0.96 times).

Pensions

At 31 July 2017, the Group's net pension liability of £21 million (2015/16: £147 million) comprised assets of £1,501 million (2015/16: £1,558 million) and liabilities of £1,522 million (2015/16: £1,705 million). IAS 19 (Revised) "Employee Benefits" requires the Group to make assumptions including, but not limited to, rates of inflation, discount rates and current and future life expectancy. The value of the liabilities and assets could change materially 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 26 (iv) on page 112.

In June 2017, the UK pension plan entered into a buy-in annuity insurance policy with a major insurance company to cover all existing pensioner liabilities. Measured against the long-term funding objective agreed between Ferguson and the Trustee, entering into the annuity represented a small funding improvement. On an IAS 19 accounting basis the annuity policy is recorded as a plan asset amounting to £497 million as at 31 July 2017.

The UK pension plan was subject to a triennial valuation in April 2016 which has now been finalised. As a result, the Group will fund additional employer pension contributions of £25 million over the next two years.

Other financial matters

Supplier rebates

Supplier rebates, typically in the form of a volume-based reduction to a supplier's list price, are commonly used by suppliers in our industry. Ferguson has agreements with a large number of its suppliers covering volume-based rebates, marketing support and other discounts receivable in connection with the purchase of goods for resale from those suppliers. More detail about the Group's supplier rebates is disclosed in note 37 on page 120.

The following amounts are included in the balance sheet at the year-end in relation to supplier rebates:

	2017 £m	2016 £m
Trade receivables	**177**	182
Inventories	**(204)**	(214)
Trade payables	**–**	15
Net balance sheet position	**(27)**	(17)

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 capital markets in the USA. The Group maintains a capital structure appropriate for current and prospective trading and aims to operate with investment grade credit metrics and within a through-cycle range of net debt of 1 to 2 times EBITDA.

Liquidity

The Group maintains sufficient borrowing facilities to finance all investment and capital expenditure included in its strategic plan with an additional margin for contingencies. The Group aims to have a range of borrowings from different financial institutions to ensure continuity of financing. At 31 July 2017, the Group had total committed facilities of £2,337 million (2015/16: £2,320 million). Of the Group's committed facilities at 31 July 2017, £1,398 million (2015/16: £1,159 million) was undrawn and £606 million of the total facilities mature after more than five years.

Interest rates

The Group's weighted average cost of debt is 3.9 per cent. The largest part of this is the Group's private placement bonds, which have an outstanding par value of £937 million and a weighted average fixed interest rate of 3.3 per cent.

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 42 to 49.

Going concern

The Group's principal objective when managing cash and debt is to safeguard the Group's ability to continue as a going concern for the foreseeable future. The Group retains sufficient resources to remain in compliance with the financial covenant of its bank facilities with substantial headroom. The Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

The Directors have also assessed the Group's prospects and viability over a three-year period. The viability statement can be found on page 43.

Mike Powell

Mike Powell
Chief Financial Officer

Risk management at Ferguson

Monitoring risk throughout the Group

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

Board, Audit Committee and Executive Committee

Fourth level

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

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

Associate whistleblowing line

Performance reports

Risk reports in March and September

Audit reports throughout the year

1. Front line business operations and line management

e.g. branches and distribution centres

First level

Business operations implement policies.

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

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

Operations report on risk and control status and submit performance reports, e.g. injury statistics

2. Corporate functions

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

Second level

Set policies and procedures.

Monitor risks and controls.

Collate and submit risk reports.

Audit findings inform assessments of control effectiveness by Group Risk team

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

3. Independent assurance

Internal audit, external auditors and other independent experts

Third level

Test the design and effectiveness of procedures and controls.

Risk analysis during the year

2016/17 risk and control assessments

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

In January and July 2017, the Board provided its perspective on risks relating to the Group's strategy for 2017/18 and beyond. The Board's assessment was then combined with bottom-up risk reports received from business units in February and August 2017 to produce an overall risk profile and report for the Group.

This risk report, listing principal and "emerging" risks and how they have changed, was reviewed, amended and finalised with the Executive Committee in March and September 2017. The mitigation in place for each principal risk was then reported to and reviewed by the Audit Committee.

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

	Risk	Updates provided
A	**New competitors and technology**	Formal analysis and update provided to the Board in September 2016. Related risks considered by the Board in January and July 2017 and by the Executive team in March and September 2017.
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 security**	Reports on the status of the Group's information security programme were provided to the Executive Committee and the Board and the Audit Committee throughout the year.
E	**Litigation**	The Group General Counsel regularly provides updates to the Executive Committee and the Board on changes in legislation and any material litigation or exposures. Reports were provided on how the Group mitigates the risk of product integrity and related exposure.
F	**Health and safety**	Performance updates were provided at every Executive Committee and Board meeting during the year.
G	**Strategic change**	Monthly performance reviews with CEO and CFO. CEO update to the Board at each Board meeting.
H	**Regulations**	The status of the Group's anti-bribery programme was reported to the Audit Committee in January 2017.
I	**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 2020 is appropriate as this timeframe aligns with the Group's planning horizon. Furthermore, the Group's principal risks are ongoing in nature and could materialise at any time. None are triggered by a specific, known event that will happen beyond that three-year timeframe. Forecasting beyond the three-year timeframe does not therefore provide additional accuracy or risk insight.

Strategic plans have been prepared by all 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 in January and July 2017. Consideration has also been given to the strength of the Group's balance sheet and its credit facilities.

Financial forecasts have been tested against an unlikely, but realistic, worst-case scenario. This incorporates a material downturn occurring in the Group's major markets. The material assumptions used in this analysis were based on a hypothetical market downturn resulting in a 20 per cent shortfall in forecast Group revenue in 2018, lasting for one year, followed by annual growth rate of 5 per cent thereafter. The impacts of the revenue fall have been flowed through the cash flow statement on a line by line basis using management assumptions which have then been tested against the historical trends experienced by the Group in the last economic downturn of FY08 – FY10. The testing took account of a number of mitigating cash flow actions available to the business to respond to the market downturn – for example, a reduction in working capital, capital expenditure and tax alongside the elimination of acquisitions.

Based on these assumptions, 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 three-year 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 41.

UK referendum result – June 2016

The UK referendum result of a vote to leave the European Union continues to produce some market uncertainties including a material weakening of sterling against the Group's principal trading currencies, of which the most significant is the US dollar. The weakening of sterling has had a translation impact on the Group's financial statements with a beneficial impact on results. In future years, the Company will report in US Dollars.

Since the large majority of the Group's profit is derived from activities outside of the UK and Europe, the Group does not, at this point in time, envisage a material adverse impact in the future. The Group will continue to monitor developments.

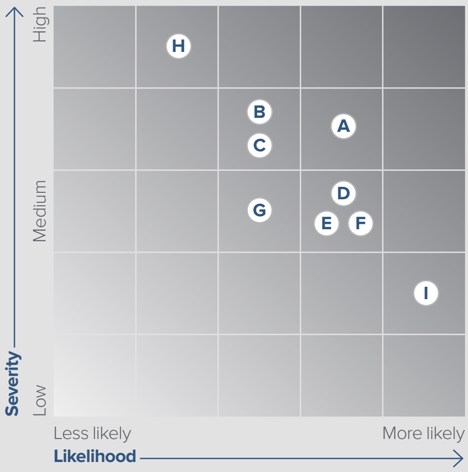
Heat map (before mitigating controls and actions)

The heat map below illustrates the relative positioning of our principal risks by severity and likelihood. Severity scales are different to those used in previous annual reports and are not directly comparable.

Principal risks

- A New competitors and technology
- B Market conditions
- C Pressure on margins
- D Information security
- E Litigation
- F Health and safety
- G Strategic change
- H Regulations
- I Talent management and retention

Before mitigating controls or actions



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

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

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

The Group faces many other risks which, although important and subject to regular review, have been assessed as less significant and are not listed here. These include, for example, natural catastrophe and business interruption risks and certain financial risks. A summary of financial risks and their management is provided on pages 41 , 107 and 108.

Risks to the drivers of profitable growth

The symbols shown at the bottom of page 45 are displayed alongside each risk on the following pages to indicate which of the strategic drivers of growth are most threatened by that risk. These strategic drivers are described on page 17.

A New competitors and technology

Inherent risk level

High

Trend

Increased

Definition and impact

Wholesale and distribution businesses in other industry sectors have been disrupted by the arrival of new competitors with lower-cost 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

Increased resources were allocated to the exploration and incubation of new business models and new technologies. The Group made a number of acquisitions of online businesses during the year.

A new Non Executive Director, Nadia Shouraboura, joined the Board, bringing experience of large international e-commerce businesses.

Mitigation

The Group develops and invests in new business models, including e-commerce, to respond to changing customer and consumer needs. One example, online channels in our HVAC business, is set out on page 11.

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

Key to risks

- Risk has increased
- Risk has decreased
- Risk is unchanged
- Risk has been added to the list of top Group risks this year

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 trends in each of our regions can be found on pages 28 to 33.

Changes this year

The downturn seen in industrial markets in 2015/16 has stabilised.

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

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.

Mitigation

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

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

C Pressure on margins

Inherent risk level
High

Trend
No change

Definition and impact

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

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

Changes during the year

Pressure on margins remained high during the period under review, primarily due to levels of competition. Commodity price deflation eased during the year.

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 monthly throughout the year.

Gross margins were 40 basis points ahead of last year. This was achieved by driving the benefits of scale in sourcing, growing own label sales and through good pricing discipline.

Mitigation

The Group's strategy for tackling this issue remains unchanged. This includes continuous improvements in customer service, product availability and inventory management. Revenues from e-commerce and other growth sectors continue to expand and the Group has made acquisitions in these areas during 2016/17.

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.

Key to drivers of profitable growth

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

D Information security

Inherent risk level
High/medium

Trend
No change

Definition and impact

Technology systems and data are fundamental to the future growth and success of the Group. These digital assets are threatened by sophisticated security threats, including hacking, viruses, "phishing" or inadvertent errors.

The Group is reliant on a number of different legacy technology systems, some of which have been in place for many years or have been subject to in-house development.

Data breaches in our industry sector and others indicate that such events are highly likely and difficult to prevent.

Sensitive employee, customer or other data may be stolen and distributed or used illegally, leading to increased operating costs, litigation and fines or penalties.

These technology systems, on which our branches, distribution centres and e-commerce businesses rely, may be disrupted for several hours or days. As a result, Ferguson could forego revenue or profit margins if we are unable to trade.

Changes during the year

This risk has remained material, as a greater proportion of the Group's revenue is derived from e-commerce. The level and sophistication of IT security threats is constantly developing.

Like all large corporations, the Group continues to experience sustained and frequent attempts to gain unauthorised access to its technology systems, primarily from automated, non-directed malware.

During the year, the Group engaged a specialist security consultancy to benchmark its information security capabilities. The findings, along with improvement actions, have been shared with the Audit Committee.

Further penetration tests have been conducted, using both digital and physical means, e.g. phone calls. Improvements have been made where necessary.

Technical IT projects continue to deliver enhancements to the Group's digital security systems and infrastructure.

The Group reviewed the adequacy of its "cyber" insurance arrangements. Using a database of 50,000 historical data breaches, the Group conducted a statistical analysis to estimate its exposure to certain types of cyber risks.

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

Mitigation

The Group operates an IT governance framework including a set of dedicated IT policies, procedures and standards aligned to known security and operational risks. These include behavioural procedures for associates and technical controls for IT systems. These are reviewed annually and are subject to continuous improvement.

The Group periodically reviews the nature of the sensitive data it holds, its location and the controls in place to protect it.

The Group reviewed its approach to obtaining assurance over the correct operation of IT systems and controls, some of which relate to cyber risks.

Certain of these controls are tested by business units and the Group IT and internal audit functions. External specialists are also employed as appropriate to test the security of our technology systems, e.g. penetration tests.

Core IT systems and data centres for the Group's material businesses, including the Group's principal e-commerce businesses, have documented disaster recovery plans which are tested annually. Crisis management and communications plans are regularly updated.

Insurance coverage is in place, including coverage for "cyber" risks.

Key to risks

- Risk has increased
- Risk has decreased
- Risk is unchanged
- Risk has been added to the list of top Group risks this year

E Litigation

Inherent risk level
Medium

Trend
No change

Definition and impact

The international nature of the Group's operations exposes it to the potential for litigation from third parties and such exposure is considered to be greater in the USA than in Europe.

Material levels of litigation may arise from many of the Group's activities. Significant levels of litigation in our industry sector have in the past related to products, associates or major contracts.

Acquisitions and disposals and the restructuring of under-performing businesses may also give rise to litigation.

For more information on litigation affecting the Group and related provisions, see pages 109 and 119.

Changes this year

During the year, there has been no material change in the level of litigation to which the Group is exposed.

An improved management information system was introduced to improve the reporting and analysis of actual and potential litigation.

Reviews of policies and procedures relating to product liability were undertaken during the year and the findings were reported to the Board. Particular focus is being placed on quality control and assurance procedures to support the successful growth of own label sales.

The level of contractual protection afforded to the Group under product and employee-related contracts has improved during the year.

Contracting procedures continue to be improved in all businesses.

The Group's liability insurance programme was restructured to provide enhanced cover.

Mitigation

Levels of litigation are monitored by individual operating companies. A monthly report of potential exposures and current litigation is submitted by all businesses and reviewed by the Group General Counsel.

Contracting procedures are continuously reviewed and improved against a "good practice" framework used by all Ferguson businesses.

The Group periodically re-assesses the level of product-related risk in all business units. Due diligence is conducted on products and suppliers considered to be high risk. Product testing is carried out in certain businesses supplying product to industrial customers.

KPIs are used to measure the level of contractual and other protection.

In the case of claims related to exposure to asbestos, Ferguson continues to employ independent professional advisers to actuarially determine its potential gross liability.

F Health and safety

Inherent risk level
Medium

Trend
Increased

Definition and impact

The Group does not operate in a high risk industry with regard to health and safety.

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

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

Changes this year

The risk has been elevated this year following the deterioration in injury and lost workday rates. The Company is recruiting a senior leader for health and safety in the USA. The Group conducted in-depth driver risk assessments and implemented control improvements. The Group vehicle collision rate has improved.

Page 23 provides further information.

Mitigation

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

The Group maintains a health and safety policy and detailed minimum standard, which sets out requirements which all Ferguson businesses are expected to meet. Branches are audited against this standard.

Key to drivers of profitable growth

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

G Strategic change

Inherent risk level
Medium

Trend
Decreased

Definition and impact

To respond to changing customer needs the Group is changing traditional ways of working in its established businesses.

These changes are underway in all of our key markets, especially the UK, and will continue for several years.

The Group must successfully implement these changes without disrupting existing operations.

The Group's ability to successfully execute these changes will affect its ability to grow profitably in the future.

Changes during the year

During the year, we announced our intention to dispose of our operations in the Nordics.

In the UK, the transformation plan is underway and we expect that it will take a further two years to complete. To support faster execution, greater focus has been paid to a smaller number of initiatives capable of delivering the greatest value.

Mitigation

Each business unit has a clear strategy for continuously developing its business model and a defined programme of work to execute the strategy.

The Group Chief Executive and Chief Financial Officer discuss progress with each business unit during regular performance reviews.

The Board reviews progress during regular updates from the Group Chief Executive and as part of its six-monthly review of principal risks.

H 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, timber sourcing, data protection, labour and employment practices, accounting and tax standards, international trade, fraud, bribery and corruption, land usage, the environment, health and safety, transportation, payment terms and other matters.

Breach of any legal or regulatory requirement could 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.

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

The Group reviewed its Code of Conduct.

Further information on the Group's ethics and compliance programme can be found on pages 24 and 36.

Mitigation

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

The Group's Code of Conduct sets out the behaviours expected of Ferguson associates. This includes clear statements that the Group does not permit bribery or the giving or receiving of improper gifts, that it does not tolerate fraud and that associates must comply with anti-trust laws.

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

Briefings and training on legal and regulatory topics and compliance requirements, including anti-trust, anti-fraud and anti-corruption, are undertaken.

Where appropriate, tests are conducted to ensure that the Group would respond appropriately to a regulatory investigation.

Key to risks

- Risk has increased
- Risk has decreased
- Risk is unchanged
- Risk has been added to the list of top Group risks this year

Talent management and retention

Inherent risk level	Definition and impact	Changes during the year	Mitigation
Medium **Trend** New addition All	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 is 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.	There has been no material change in the level of employee turnover during the year; however a number of senior management changes have occurred throughout the Group. These have included the retirement of the Group CEO and the CEO in the USA, the appointment of their successors and the appointment of a new Group Chief Financial Officer. Talent management procedures were reviewed during the year. Page 22 provides further information.	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. Organisational and talent reviews are conducted quarterly by the Group HR Director with each business. The Group continues to invest in associate development, an example of which – our Industrial Group University – is highlighted on page 9.

Key to drivers of profitable growth

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

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

John Martin
Group Chief Executive

Governance

Drivers of profitable growth

On the following pages the symbols below indicate where the activity of the Board and its Committees related to the drivers for profitable growth set out in the Group Chief Executive's review on page 17.

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

Compliance with the Code

Throughout the financial year ended 31 July 2017, the Company has been in compliance with the Code provisions set out in the 2016 UK Corporate Governance Code (the "Code"). The Company's auditors, Deloitte LLP, are required to review whether the above statement reflects the Company's compliance with the provisions of the Code specified for their review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance. No such report has been made. A copy of the Code can be found on the Financial Reporting Council website www.frc.org.uk.

Governance overview

A strong governance culture

Committed to achieving high standards of corporate governance in the boardroom and throughout the Group.

Gareth Davis
Chairman

Dear Shareholder

I am pleased to present the Company's Corporate Governance Report for the financial year ended 31 July 2017. This report explains how the Board operates and how our governance structure contributes to the achievement of the Group's long-term strategic objectives.

This section, together with the reports from the Audit, Nominations and Remuneration Committees beginning on pages 60, 64 and 69 respectively, provide a description of how the Group has applied the main principles and complied with the relevant provisions of UK Corporate Governance Code (the "Code"). We remain committed to full compliance with the Code and to achieving high standards of corporate governance both in the boardroom and throughout the Group. We have used the core principles of the Code as the framework within which we explain our governance practices in this report – please see the boxes below, which direct you to further detail. I also note with interest the UK Government's proposals for corporate governance reform published in August 2017. Your Board will continue to monitor these proposed reforms as they develop to ensure that we remain fully compliant and that our high standards of corporate governance are maintained.

The Board remains committed to presenting a clear assessment of the Company's position and prospects through the information provided in this report, through interim financial statements and other narrative and financial reports and statements as required.

In addition to our usual programme of business, set out on page 57, the Board has this year placed particular emphasis on succession planning and the delivery of the Group's three strategic priorities as set out in last year's report – to generate the best profitable growth in the USA, to execute the UK turnaround and repositioning plan and to review the Nordics operational strategy and restore the business to profitable growth. Detail of how your Board has supported delivery of the Group's strategic priorities is provided in my Chairman's statement on page 13, and later in this section on page 57. It has also been a particularly active year for the Board in terms of succession planning and Board appointments, more detail is provided in the Nominations Committee report on pages 64 and 65.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control systems. The effectiveness of these systems is reviewed through the work of the Audit Committee described on pages 60 to 63. During the year, the Board and its Committees carried out a robust assessment of the risks facing the business and the principal risks which the Board has focused on are set out in the Principal risks and their management section on pages 42 to 49.

In the coming year your Board will continue to work to support the implementation and excellent execution of the Group's strategy. Your Board continues to strive for improvement and the areas for further development identified in the annual effectiveness review have been noted as priority areas for 2017/18. Details of the effectiveness review and the Board's priorities for the coming year are set out on page 58. As usual, during the year the Non Executive Directors, led by the Senior Independent Director, conducted their annual evaluation of my performance. I also chair two other listed companies and this is specifically taken into account in the evaluation. The Board believes that I continue to perform effectively and to devote sufficient time and attention to my role as Chairman of the Company. A process to identify my successor as Chairman of William Hill PLC is underway and I envisage that I will stand down from that role by May 2018, once my successor has been appointed.

Ferguson's Group-wide policies and procedures provide a framework for governance and are underpinned by the Group's core values and its Code of Conduct. The Group's core values set the expectation that all employees, at all levels, will: place value on our people by encouraging development; act with integrity; and drive for results and improvement.

Culture and good governance are inherently linked and your Board recognises the fundamental importance of a corporate culture that is aligned with and supportive of the Group's long-term strategic objectives. However, culture is, ultimately, an output resulting from the individual and collective actions of the Group's associates. The Board has oversight of the Group's "Better Business" framework, described in detail on pages 34 and 35, which sets out the 13 material issues we consider essential to how we do business. Objectives and, where appropriate, quantified targets are set for each of these material issues and regular performance updates are submitted to the Board.

I would like to take this opportunity to thank our shareholders for their continuing support. The Board and I will be available to respond to any questions on this report or any of the Committee's activities at our 2017 AGM in November and I look forward to welcoming those shareholders able to attend.

Gareth Davis

Gareth Davis
Chairman

Core principles

Leadership
Continued close focus on strategy and its execution.
+ Pages 52 to 58, 64 and 65

Effectiveness
A strong, open and effective Board.
+ Pages 52 to 58, 64 and 65

Accountability
Close scrutiny of risks and controls.
+ Pages 60 to 63

Remuneration
Prudent oversight of executive remuneration.
+ Pages 69 to 84

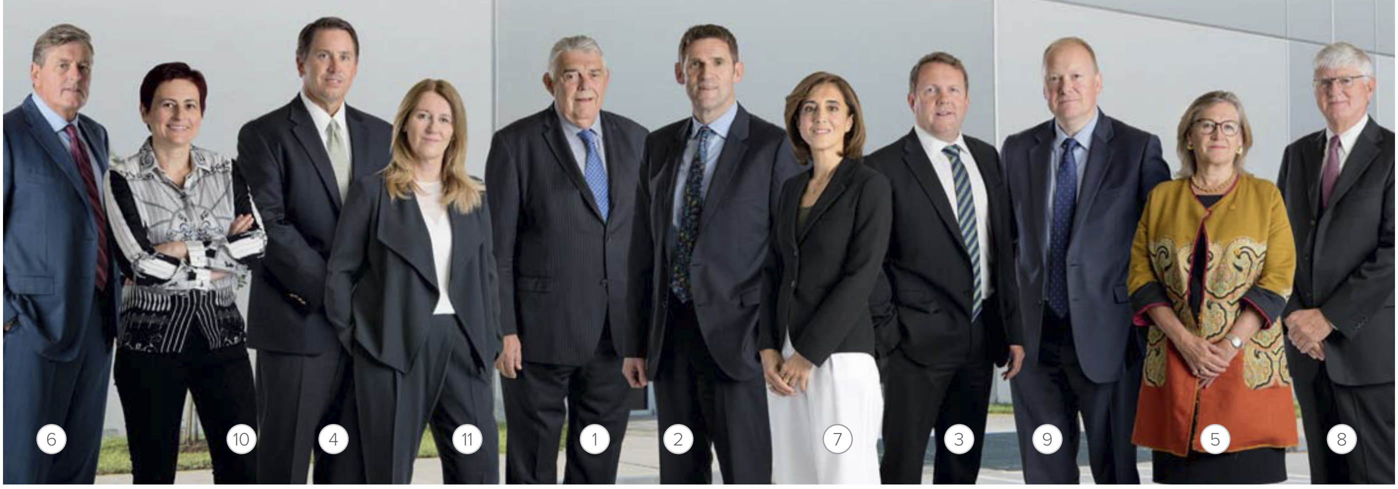
Relations with shareholders
Open engagement with shareholders.
+ Page 59

Board of Directors

Leadership and effectiveness

A diverse and effective leadership team

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



Appointments and other Board and Committee members

Each Board member listed here served throughout the financial year ended 31 July 2017 with the exceptions of Mike Powell, Kevin Murphy and Nadia Shouraboura. Mr Powell was appointed Group Chief Financial Officer with effect from 1 June 2017 and Ms Shouraboura was appointed Non Executive Director with effect from 1 July 2017. Mr Murphy succeeded Frank Roach as Chief Executive Officer, USA and was appointed on 1 August 2017.

Frank Roach was a Director and a member of the Executive Committee throughout the financial year ended 31 July 2017. Mr Roach retired on 31 July 2017.

Ian Meakins served as Group Chief Executive, Chair of the Executive Committee and a member of the Disclosure, Major Announcements and Treasury Committees for one month during the financial year ended 31 July 2017, from the beginning of the year until his retirement on 31 August 2016.

Throughout the financial year ended 31 July 2017, Dave Keltner served as Interim Group Chief Financial Officer and as a member of the Disclosure, Executive, Major Announcements and Treasury Committees. During the year, Mr Keltner also served as Chairman of the Disclosure and Treasury Committees until the appointment of Mr Powell on 1 June 2017. Mr Keltner was not a Director but attended all Board meetings in his capacity as Interim Chief Financial Officer.

In addition to the members of the Major Announcements Committee identified on pages 52 and 53, Richard Shoylekov, Group General Counsel, and Mark Fearon, Group Director of Communications and Investor Relations, are members of that Committee.

1 Gareth Davis

Chairman

M N

Year of appointment

2011 (appointed Chairman)
2003 (appointed to the Board as a Non Executive Director)

Key strengths and experience

Extensive international board and general management experience, having served on various company boards for many years. Mr Davis spent 38 years in the tobacco industry and was Chief Executive of Imperial Tobacco Group plc from its incorporation in 1996 until May 2010.

Other principal appointments

Chairman of William Hill PLC and DS Smith Plc.

2 John Martin

Group Chief Executive

D E M T

Year of appointment

2016 (appointed Group Chief Executive)
2010 (appointed to the Board as Group Chief Financial Officer)

Key strengths and experience

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

Other principal appointments

None.

3 Mike Powell

Group Chief Financial Officer

D E M T

Year of Appointment

2017

Key strengths and experience

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

Other principal appointments

Non Executive Director of Low & Bonar plc.

4 Kevin Murphy
Chief Executive Officer, USA

E M

Year of Appointment
2017

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

Other principal appointments
None.

5 Tessa Bamford
Independent Non Executive Director

A N R

Year of Appointment
2011

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

Other principal appointments
Consultant at Spencer Stuart and a Non Executive Director of Barratt Developments plc.

6 John Daly
Independent Non Executive Director

A N R

Year of Appointment
2014

Key strengths and experience
Considerable international business and executive management experience in a variety of senior leadership roles within major international public companies. Mr Daly undertook various executive leadership positions during a 20-year career at British American Tobacco Plc ("BAT"), running large international businesses. Mr Daly recently stepped down as a Non Executive Director of Reynolds American Inc., a BAT associate company in the USA. Prior to his time with BAT, Mr Daly was Managing Director of Rothmans International's Japan and South Korea businesses.

Other principal appointments
Chairman of Britvic plc and a Non Executive Director of G4S plc.

7 Pilar López
Independent Non Executive Director

A N R

Year of Appointment
2013

Key strengths and experience
Strong financial and international experience within global businesses. Ms López was Chief Financial Officer for Telefónica Europe from 2007 to 2014 and Global Simplification Director for Telefónica S.A from 2014 until taking up her current position at Microsoft Spain in March 2015. She was also Supervisory Board member of Telefónica Czech Republic AS and Vice Chair of Telefónica Deutschland Holding AG. She joined Telefónica in 1999, working in a number of finance and strategy positions across the European and Latin American businesses. Prior to this she worked in a variety of roles at J. P. Morgan, in Madrid, London and New York where she became a Vice President.

Other principal appointments
Country Manager for Microsoft Spain.

8 Alan Murray
Independent Non Executive Director

A M N R S

Year of Appointment
2013

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

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

9 Darren Shapland
Independent Non Executive Director

A N R

Year of Appointment
2014

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

Other principal appointments
Chairman of Maplin Electronics Limited, MOO Print Limited, Notonthehighstreet.com and Topps Tiles Plc.

10 Nadia Shouraboura
Independent Non Executive Director

A N R

Year of Appointment
2017

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

Other principal appointments
Founder and Chief Executive Officer of Hointer Inc. and a Non Executive Director of Cimpress NV.

11 Jacky Simmonds
Independent Non Executive Director

A N R

Year of Appointment
2014

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

Other principal appointments
Group People Director of easyJet plc.

Graham Middlemiss
Company Secretary

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

Key to Board and Committee Membership

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

Scheduled Board and Committee meetings 2016/17 attendance (eligibility)

	Board[1]	Committees		
		Audit	Rem	Nom
Chairman				
Gareth Davis[2]	6 (6)			4 (4)
Executive Directors[3]				
John Martin[4]	6 (6)			
Frank Roach[5]	6 (6)			
Mike Powell[6]	1 (1)			
Non Executive Directors				
Tessa Bamford	6 (6)	4 (4)	6 (6)	4 (4)
John Daly	6 (6)	4 (4)	6 (6)	4 (4)
Pilar López[7]	6 (6)	4 (4)	5 (6)	3 (4)
Alan Murray[8]	6 (6)	4 (4)	6 (6)	4 (4)
Darren Shapland[9]	6 (6)	4 (4)	6 (6)	4 (4)
Nadia Shouraboura[10]	1 (1)	1 (1)	1 (1)	1 (1)
Jacky Simmonds[11]	6 (6)	4 (4)	6 (6)	4 (4)

The Major Announcements Committee meets as required and was not required to meet during the year. The members of that Committee are detailed on pages 52 and 53.

1. In addition to the scheduled meetings two unscheduled Board meetings were convened at short notice to deal with matters that needed to be considered before the next scheduled meeting. These unscheduled meetings were held in February and March 2017. The February meeting was attended by John Martin and Frank Roach and the March meeting was attended by Alan Murray, John Martin and Frank Roach.
2. Chair of the Nominations Committee.
3. During the year, Ian Meakins served as Group Chief Executive and a member of the Board until his retirement on 31 August 2016. No Board or Committee meetings were held during this period.
4. Group Chief Financial Officer until 31 August 2016. Appointed as Group Chief Executive with effect from 1 September 2016.
5. Chief Executive Officer, USA until he retired from the Board on 31 July 2017.
6. Appointed as Group Chief Financial Officer with effect from 1 June 2017.
7. Ms López was unable to attend the July Remuneration and Nominations Committee meetings due to an unavoidable scheduling conflict.
8. Senior Independent Director.
9. Chair of the Audit Committee.
10. Appointed as a Non Executive Director on 1 July 2017.
11. Chair of the Remuneration Committee.

How the Board operates

Board and Committee meetings

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

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

The Board met regularly during the year, with Board and Committee meetings scheduled over one or two-day periods. Details of Director attendance at Board and Committee meetings during the year is set out above.

In order to provide the Board with greater visibility of the Group's operations, to provide further opportunities to meet senior management and to gain a deeper understanding of local market dynamics, the Board aims to visit at least one of the Group's business unit locations each year. Details of the Board's visit to Boston, USA in July 2017 can be found on page 55.

Board decision-making

The Board has a strong culture of open debate. All Directors are actively encouraged to challenge existing assumptions and to raise challenging questions. Certain strategic decisions and authorities of the Company are reserved as matters for the Board with other matters, responsibilities and authorities delegated to its Committees as detailed in the Ferguson governance structure on page 56. A formal schedule of matters reserved for the Board is reviewed annually in July, a summary of which can be found at **www.fergusonplc.com** together with the terms of reference of each of the Audit, Remuneration and Nominations Committees.

Individual roles

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

Chairman **Gareth Davis**	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 **John Martin**	Effective leadership of the Company, implementing strategy and objectives agreed by the Board
	Management and development of the Group's operations and business models
	Working closely with the Group Chief Financial Officer to ensure prudent financial controls
	Developing and implementing policies integral to improving the business, including in relation to health and safety and sustainability
Senior Independent Director **Alan Murray**	Available to investors and shareholders, where communications through the Chairman or Executive Directors may not seem appropriate
	A sounding board for the Chairman and an intermediary for the other Directors when necessary
	Chairs the Board in the absence of the Chairman
	Holds informal discussion with the Non Executive Directors, with and without the presence of the Chairman

Board visit to the USA

In July 2017, the Board and Committee meetings were held in Boston, Massachusetts, USA. This provided an opportunity for the Board to visit PV Sullivan, a blended distributor operating in Massachusetts acquired during the year, and its showroom in Burlington. During these visits the Board met with both senior executives and local management to discuss business strategy and operational performance, and received a presentation from local management on the performance and plans for the New England district as a whole. The Board visited the PV Sullivan warehouse in Boston, which allowed the Board to meet management and associates and gain a more detailed understanding of the business and how post-acquisition integration plans had been implemented ahead of schedule. At the Burlington showroom Board members met staff and customers and saw how product ranging was developing to meet the needs of customers.

Development of the Board

Upon appointment, all new Directors follow a comprehensive induction programme, further detail on which is provided below. All Directors are provided opportunities for further development and training following their induction and, during the year, the Chairman discusses a development plan with each Director. In addition to regular updates on governance, legal and regulatory matters, the Board also receives detailed briefings from advisers on a variety of topics that are relevant to the Group and its strategy. The annual formal review of governance provides the Directors with an opportunity to assess their effectiveness and that of the Board as a whole.

New Director induction programme

All new Directors appointed to the Board undertake an induction programme aimed at ensuring they develop an understanding and awareness of our businesses, people and processes, and of their roles and responsibilities as a director of a public company. The programme is structured to reflect what is regarded as best practice and includes:

- Provision of relevant current and historical information about the Company and the Group;
- Visits to operations around the Group;
- Meetings with the Group Company Secretary and the Company's advisers;
- Induction briefings from Group functions; and,
- One-to-one meetings with Directors and senior executives.

During the year, Mike Powell and Nadia Shouraboura undertook induction programmes following their appointments as Group Chief Financial Officer and Non Executive Director respectively. The programmes were tailored to ensure that they could familiarise themselves with the business, and the markets in which it operates, from the ground up.

Mr Powell spent significant periods of time with the Group's USA, UK and Canadian business. Mr Powell met with senior regional finance and operational executives, visited branch and showroom locations in the USA, UK and Canada. He spent time with senior executives at the Group's consumer e-commerce business and time on the road with salespeople meeting customers.

Ms Shouraboura's induction spent several days immersed in the business including at a branch location, a showroom location and a distribution centre at our USA business, time with the consumer e-commerce business and time on the road with a salesperson meeting customers.

Since the end of the 2016/17 financial year, Kevin Murphy was appointed Chief Executive Officer, USA and a member of the Board. Given the wealth of experience in the business Mr Murphy already possesses, his induction was more focused on his new role and his responsibilities as a Director and Chief Executive Officer, USA.

Information and support

In advance of each set of meetings, papers and relevant information are delivered so that each Director is provided with the necessary resources to fulfil their duties. The information is published via a secure web portal, allowing remote access by Directors. Meeting support is provided by the Company Secretariat department.

All Directors have access through a web portal to a library of relevant information about the Company, the Group and Board procedures.

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

Board composition

As at the date of this report, the Board consists of 11 members including the Chairman, three Executive Directors and seven Non Executive Directors. The composition of the Board is kept under review by the Nominations Committee to ensure an appropriate balance of skills, experience, independence and knowledge are maintained.

The biographies of the Directors (on pages 52 and 53) demonstrate the strong and diverse experience possessed by the members of the Board. The Non Executive Directors play an essential role bringing a range of skills and expertise and challenging the Board to help develop Group strategy. Each of the Non Executive Directors and the Chairman are considered by the Board to be independent and free of any relationship which could materially interfere with the exercise of their independent judgement. The Code suggests that length of tenure is a factor to consider when determining the independence of the Non Executive Directors. Each Non Executive Director has served for six years or less with the exception of Tessa Bamford. Ms Bamford was reappointed for a third three-year term from March 2017. As required by the Code, the reappointment was subject to a particularly rigorous review, including taking into account the need for progressive refreshing of the Board. The Board was satisfied that Ms Bamford continued to demonstrate the high level of independence expected of a Non Executive Director. The Board concluded that Ms Bamford would continue to be a highly effective member of the Board, recognising in particular her wide-ranging business experience across a range of sectors in the UK and the USA, her expertise in senior management succession and her deep knowledge of the Group's businesses. The Board is satisfied each Non Executive Director continues to demonstrate independence of thought and expertise in meetings, and to support the senior management in an objective manner.

Why you should vote to re-elect your Board

The Board contains a broad range of experience and skills from a variety of industries and advisory roles, which fully complement each other. In accordance with the Code, all Directors will stand for election or re-election at the 2017 Annual General Meeting ("AGM"). The Directors' biographies can be found on pages 52 and 53, and in the Notice of AGM.

Further details on the AGM can be found on page 144 and at **www.fergusonplc.com**

Ferguson's governance structure

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

Shareholders

Board and Committees of the Board

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

The Board

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

Audit Committee

Oversees, monitors and makes recommendations as appropriate in relation to the Company's financial statements, accounting processes, audit (internal and external), risk management and internal controls and matters relating to fraud and whistleblowing

The Audit Committee is the body responsible for the functions specified by DTR 7.1.3R

+ Page 60

Remuneration Committee

Reviews and recommends to the Board the framework and policy for the remuneration of the Chairman, the Executive Directors and the Executive Committee

Takes into account the business strategy of the Group and how the Remuneration policy reflects and supports that strategy

+ Page 69

Nominations Committee

Regularly reviews the structure, size and composition of the Board and its Committees

Identifies and nominates suitable candidates to be appointed to the Board (subject to Board approval) and considers succession generally

+ Page 64

Major Announcements Committee

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

Other Committees

Implementing strategic decisions and executive or administrative matters.

Executive Committee

Addresses operational business issues

Responsible for implementing Group strategy and policies, day-to-day management and monitoring business performance

Chaired by the Group Chief Executive, Committee membership comprises:

- Chief Executive Officer, USA
- Group Chief Financial Officer
- Group Chief Information Officer
- Managing Director, UK
- Chief Executive Officer, Nordic region
- CEO, Canada and Central Europe
- Group HR Director
- Group General Counsel

Biographical details for each member:
www.fergusonplc.com

Treasury Committee

Considers treasury policy including financial structures and investments, tax and treasury strategy, policies and certain transactions of the Group

Reviews performance and compliance of the tax and treasury function

Makes recommendations to the Board in matters such as overall financing and strategy, and currency exposure

Committee membership details:
www.fergusonplc.com

Disclosure Committee

Meets as required to deal with all matters relating to public announcements of the Company and the Company's obligations under the Listing and Disclosure and Transparency Rules of the UK Listing Authority and EU Market Abuse Regulation

Assists in the design, implementation and periodic evaluation of the Company's disclosure controls and procedures

Committee membership details:
www.fergusonplc.com

What the Board has done during the year All

The Board has a rolling agenda programme which ensures that items relating to strategy, finance, operations, health and safety, product integrity, corporate governance and compliance are covered in its meetings. The balance of time spent by the Board on strategic, performance related and governance issues is considered as part of the annual effectiveness review process and adjustments are made to the Board's agenda for the following year. The Board receives copies of the minutes of each Board Committee meeting and key issues covered by each Committee are also reported to the subsequent meeting of the Board. Standing agenda items including reviews of health and safety performance, strategic initiatives such as acquisitions, investments and disposals and reports from the Group CEO and Group CFO are discussed at each Board meeting and other items are included on the agenda at relevant times throughout the year. A brief overview of some key areas of Board activity during the year are detailed below.

Highlights of Board activity during 2016/17

Strategy

- Regular reviews and updates on, and approval of, the Group's overall strategy and the strategy plans of the Group's major businesses (for further information on overall Group strategy and USA, UK, Canada and Central Europe operations see pages 17 and 28 to 33)
- Annual budget review
- Reviewed 21 business acquisition and capital investment proposals, the size or nature of which required Board-level approval
- Commencement of Nordic region disposal process approved (for further information see page 18)
- Merger of Tobler, the Group's Swiss business, with Walter Meier AG approved
- Change of name from Wolseley plc to Ferguson plc approved by the Board (and by shareholders at a General Meeting on 23 May 2017)
- Change of presentational currency to US dollars with effect from 1 August 2017 approved (for further information see page 16)

Performance

- Received regular presentations from management on the performance of the Group's major business units
- Review and approval of full year and half year results, and other announcements
- Regular reviews of feedback from shareholders

Governance

- Received reports from the Nominations Committee on succession planning and approved Board and Executive Committee appointments (for further information see page 64)
- Regular reviews of:
  - the Group's principal risks (for further information see pages 42 to 49); and
  - progress of the "Better Business" framework (for further information see pages 34 and 35)
- Approval of Group insurance arrangements

An overview of the Board's 2016/17 objectives and how they have been achieved is set out below:

2016/17 objectives	Achievements
Strategy	For more information on our strategy please see pages 16 to 18
Regularly review and monitor the Group's progress against its strategy, including the priorities set out by the new Group Chief Executive in the 2016 Annual Report All	– Review of major strategic initiatives at Board meetings and the annual Board strategy day – Nine USA acquisitions completed, supporting the USA growth strategy. Further information on the acquisitions completed during the year is set out in note 30 to the consolidated financial statements on page 116 – UK transformation plan approved – Nordic region's operational strategy approved. Decision taken to commence disposal process for the Nordic region's businesses – Approved the merger of Tobler, the Group's Swiss business, with Walter Meier AG
Ensure there is excellent execution of major operational initiatives	– The Board received regular reports from the Group CEO and Group CFO on operational initiatives – Post-investment reviews of acquired businesses conducted by the Board, including progress made with integration plans
People	For more information on succession planning please see page 64
Support the new Group Chief Executive and the Interim Group Chief Financial Officer in their new roles	– The Chairman and other Non Executive Directors made themselves available to the Group CEO and Interim Group CFO as required – The Chairman met regularly with the Group CEO on a one-to-one basis – The Chairman of the Audit Committee met regularly with the Interim Group CFO on a one-to-one basis
Continue to focus on Board and senior executive succession planning, and on talent development in the regions	– New Group CFO and new CEO, USA appointed. Board skills and competencies reviewed and a new Non Executive Director with significant experience of innovative business models and USA operations appointed. Further details are set out in the Nominations Committee report on page 64 – Review of people strategy and succession planning below Board level undertaken by the Nominations Committee and reported to the Board

Evaluating the performance of the Board of Directors

The Board undertakes a formal review of its performance and that of its Committees each year, with an external evaluation every three years. Following the external evaluation conducted in 2015, in accordance with the Code, the next externally-facilitated effectiveness review will be conducted during the year ending 31 July 2018. Progress against the actions identified following the internal review undertaken in 2016, is outlined below:

Action point	Responsibility	Outcome
Keep under review the range of skills and experience required at Board level as the Group's strategy is implemented and its businesses develop in the future	Board and Nominations Committee	During the year, the Board dealt with major succession issues with the appointment of a new Group CFO and a new CEO, USA. The opportunity was taken to supplement and complement the skills and experiences of the Board through the appointment of an additional Non Executive Director.
Continue to focus on succession planning at Board and Executive level	Board and Nominations Committee	Board and Executive succession planning was reviewed in detail by the Board and Nominations Committee (further information is provided on page 64).
Develop further opportunities for Board members to continue to deepen their understanding of and engagement with the Group's businesses	Board	Management presentations made to the Board on regional business performance and progress with strategic initiatives. Board members met with, and received presentations from, local management during their visit to the USA for the July Board meeting. More detail on the Board's visit to the USA is provided on page 55.

Board and Committee effectiveness review

This year, the Board and Committee effectiveness review was facilitated internally using an online survey. The survey included questions tailored to address the activities and particular concerns of the Board and the Audit, Remuneration and Nominations Committees. The questions encouraged comment and qualitative evaluation of the effectiveness of the Board and each Committee, the individual members and the support received from management and advisers. Questions used in the previous year were included, enabling the Board to monitor and evaluate progress. Feedback from the reviewers was reported to and discussed by the Board and by each relevant Committee. In addition, the Chairman spoke with each Non Executive Director to discuss the results of the reviews.

All Directors, from the time of appointment, are aware of the time commitment expected in order to discharge their responsibilities effectively. The Chairman maintains frequent contact with all Directors and constantly monitors whether they are able to devote sufficient time to their respective roles, and he is satisfied that each Director has been able to do so. The Chairman also has regular meetings, outside of Board and Committee meetings, with the CEO and other executives to keep up to date with material developments in the business and discussed Board composition and succession planning at his meetings with shareholders. During the financial year, each Director attended all scheduled Board meetings. The Board continues to consider each of the Directors to be effective and to demonstrate commitment to his or her role.

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

Key findings, improvement actions and priorities

Overall, the key findings of the internal evaluation were positive. The review concluded that the Board was very effective and worked well together enabling the individual Directors to discharge their respective roles effectively. Although the composition of the Board was rated highly, the opportunity to enhance Board expertise with further digital expertise and USA operational experience was identified as an important aspect of Board development. The atmosphere at Board meetings was commented on favourably and seen as encouraging equal contribution, candid discussion and critical thinking. The support and challenge of management by Non Executive Directors was rated highly. The review concluded that the Board's testing and development of strategy was strong and the Board's oversight of the subsequent implementation of strategic objectives was rated highly. Performance of the Board Committees was rated very highly.

Areas identified in order to improve overall effectiveness, are summarised below:

Actions	All
Develop further opportunities for the Board to meet with USA management and further their understanding of the Group's USA operations and market environment	
Continue to focus on succession planning at Board and Executive level	

As at the date of this report, the Board has already begun to incorporate these action points into its processes and procedures. An opportunity to further enhance the skills and expertise of the Board identified in the review has been taken with the appointment of an additional Non Executive Director. For further commentary please see page 64.

In addition to the actions arising from the effectiveness review, the Board priorities for 2017/18 are set out in the table below

Board priorities for 2017/18	All
Regularly review and monitor the Group's progress against the drivers of profitable growth set out on page 17	
Ensuring continued focus on matters of succession, diversity and talent development	
Support the new Group Chief Financial Officer and Chief Executive Officer, USA	

Relations with shareholders

Engagement

The Board is fully committed to engaging with shareholders. During the year, active dialogue was maintained with our shareholders through planned communications and annual investor relations programmes. The Group Director of Communications and Investor Relations (who reports to the Group Chief Financial Officer and Group Chief Executive) has day-to-day responsibility for all investor relations matters and for contact with all shareholders, financial analysts and the media. In interactions with shareholders, the Company ensures:

– a professional approach;
– provision of accurate data;
– timely disclosure of information to the market; and
– accessibility to both current and potential shareholders.

Communications programme

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

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

The Company engages with private shareholders in the following ways:

– periodic meetings are held with the UK Shareholders' Association;
– responding to communications from individual shareholders;
– all documents presented at investor events are available on **www.fergusonplc.com**; and
– there is a Shareholder information section on **www.fergusonplc.com** and on pages 142 to 144 of this report.

Investor relations programme

The allocation of time spent in the UK, continental Europe and North America reflects the distribution of our shareholders.

Shareholder meetings – during the year ended 31 July 2017, there were a total of 277 meetings. John Martin and Dave Keltner, Interim Group Chief Financial Officer (together with the Investor Relations team) attended 108 meetings, Gareth Davis (together with the Investor Relations team) attended five meetings, members of the USA senior management team (represented by various combinations of Frank Roach, Kevin Murphy and Bill Brundage, the USA business' Chief Financial Officer) attended 10 meetings and the Investor Relations team met with institutions through a further 154 meetings, conferences and calls.

The Chairman regularly meets with the larger institutional shareholders and ensures that the Board as a whole has an appropriate understanding of shareholder feedback.

The Group Director of Communications and Investor Relations regularly provides the Board with details of feedback received from institutional shareholders and any key issues raised.

AGM

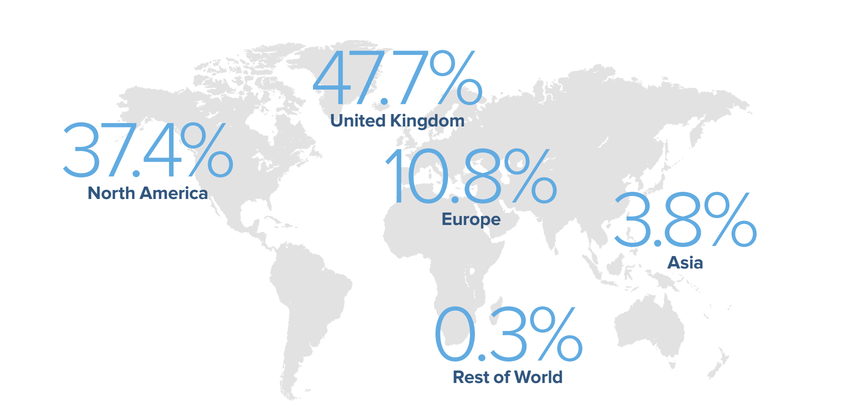
The AGM is held in Switzerland with an audio-visual link to London so that shareholders in London are able to participate and can question the Board during the meeting. All Directors attended the 2016 AGM. During the AGM, the Board answered a wide range of questions from shareholders. Details of the 2017 AGM are contained in the Notice of AGM and are available on **www.fergusonplc.com**.

Additionally, in response to feedback from individual shareholders at last year's AGM, the Group Chief Executive and Director of Communications and Investor Relations will make themselves available to answer questions from individual shareholders in advance of the AGM at a meeting hosted by the UK Shareholders' Association at the offices of Bank of America Merrill Lynch, 2 King Edward St, London EC1A 1HQ on Thursday 23 November 2017.

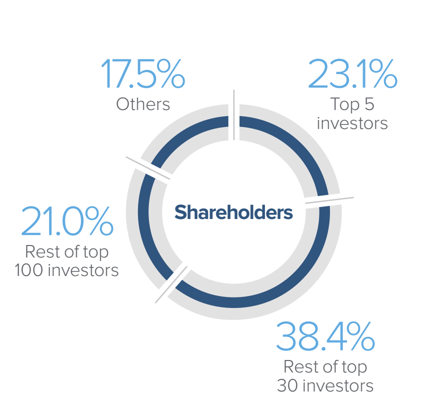
Plans for engagement in 2017/18

A similar investor relations programme will be run during the 2017/18 financial year.

Geographical breakdown of institutional shareholder base



Investor concentration



Audit Committee

Accountability

Darren Shapland
Audit Committee Chairman

Dear Shareholder

I am pleased to present the report of the Audit Committee for 2016/17. This report provides an insight into the activities of the Committee during the year and how the Committee plays a key oversight role for the Board. I will be available at the 2017 AGM, to respond to any questions shareholders have on this report or any of the Committee's activities.

As at 2 October 2017, the Committee was made up of seven Non Executive Directors as set out in the table on page 54. During the year, Nadia Shouraboura joined the Committee following her appointment as a Non Executive Director on 1 July 2017.

How the Committee operates

The Audit Committee met on four occasions during the financial year. Meetings are scheduled to coincide with key dates in the financial reporting cycle. Attendance at these meetings is set out on page 54.

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

In addition to the members of the Committee, the Chairman, Group Chief Executive, Interim Group Chief Financial Officer and the Head of Internal Audit, together with senior representatives of Deloitte LLP ("Deloitte"), the Company's external auditors, attended and received papers for each meeting. Following his appointment as Group Chief Financial Officer on 1 June 2017, Mike Powell also attended and received papers for the July Committee meeting. The Committee meets periodically with the Group Chief Financial Officer and also meets separately with Deloitte and the Head of Internal Audit without the presence of Executive Directors. The Committee has a programme where the Finance Directors of the Group's major businesses attend and present updates on items such as regional finance team development, finance transformation and financial systems architecture and the base financial controls environment. Other senior executives are also invited to attend and provide updates to the Committee, for example the Chief Information Officer regularly attends meetings to report on the Group's information security programme and IT controls.

Principal areas of focus

During the year, the Committee has continued to focus on maintaining the quality and integrity of our financial reporting, and monitoring and ensuring the appropriateness of the Company's risk management systems and internal control environment. In line with the assessment of the Group's principal risks (detailed on pages 42 to 49), and mindful of external events which have highlighted its importance, the Committee has increased its scrutiny of information security during the year and has reported on its activity to the Board. The Committee has also continued to monitor the interaction between the internal audit function and the external auditors, to monitor and review the effectiveness of the external audit process and to ensure that the Group's governance standards are maintained. Further details of the Committee's activities during the year are set out opposite.

Audit Committee key achievements – 2016/17

An overview of the Committee's 2016/17 objectives and how the Committee has achieved them is set out below:

2016/17 objectives	Achievements
The effective and efficient transition of responsibilities to the Company's Interim Group Chief Financial Officer	– Smooth handover of responsibilities to the Interim Group CFO
Continue to review and monitor the approach to risk management and the level of risk driven through changes to the operating model, industry changes and technological developments	– Reviews undertaken in March and September of key risks and their management – The Group's principal risks and the adequacy of the mitigating controls in place were considered in detail – Feedback provided to management as part of this review process and any material changes highlighted
Continue to monitor and review the Group's approach to information security	– The Committee has continued to monitor information security, and has increased its focus in this area – Information security programme updates were presented to the Committee at six-monthly intervals and two external information security audits were conducted during the year – Monitored preparation for the implementation of the EU General Data Protection Regulation
Continue to monitor finance systems transformation	– Reports received from management and reviewed by the Committee as well as internal and external audit
Monitor and ensure that the external auditors and internal auditors continue to co-ordinate their activities effectively and that the internal audit effectiveness review actions are completed	– The external and internal auditors reported to the Committee on the ways in which they had continued to co-ordinate their activities effectively – All the recommendations made in last year's external effectiveness review have been implemented. In particular, Deloitte identified ways in which controls processes could be further improved and the internal audit team worked effectively to make appropriate improvements

What the Committee has done during the year

The Committee has a rolling programme of agenda items to ensure that relevant matters are properly considered. The list below summarises the key items considered by the Committee during the year.

Control environment

- Internal audit report
- Annual plan for internal audit
- Fraud and whistleblowing reports
- Risk management report
- Anti-bribery and corruption compliance programme
- Internal controls review
- External audit plan

Governance

- Effectiveness review of the Committee
- External auditor effectiveness review
- Internal audit effectiveness review
- Consideration of non-audit engagements
- Updates on accounting and corporate governance developments
- Terms of reference review
- Review of external auditor's fees and engagement letter

Financial results

- Full Year results and associated announcements
- Auditor's Full Year report to the Committee
- Review of the Annual Report and Accounts
- Half Year results and associated announcements
- Auditor's Half Year report to the Committee

Review items

- Updates from regional Finance Directors
- Finance team succession planning
- Information security updates
- IT controls reports

Financial reporting and significant financial judgements

The Committee considered the issues summarised below as significant in the context of the 2016/17 financial statements. These were discussed and reviewed with management and the external auditors and the Committee challenged judgements and sought clarification where necessary. The Committee received a report from the external auditors on the work they had performed to arrive at their conclusions and discussed in detail all material findings contained within the report.

	Audit Committee review	Conclusions
Carrying value of goodwill and intangible assets (recurring item)	The Committee reviewed the carrying value of goodwill and other intangible assets for impairment, including a detailed review of the assumptions underlying the value in use calculations for businesses identified as cash generating units. The key assumptions underlying the calculations are primarily the achievability of the long-term business plan, country specific discount rates, anticipated revenue growth in the short-term and long-term growth assumptions. For further information please see notes 12 and 13 of the consolidated financial statements on pages 100 and 101.	The Committee agreed with management's assessment that an impairment charge had arisen relating to the Swedish business, Beijer, due to significantly reduced expectations of profitability.
Completeness of supplier rebates (recurring item)	The Committee reviewed the recognition of supplier rebates which are significant to the Group and are an area of inherent risk due to the number and complexity of the arrangements. In addition, the majority of the supplier rebate arrangements cover a calendar year and therefore do not end at the same time as the Group's accounting year-end. Where the rebate arrangements are calculated at a flat rate there is limited judgement. However, for tiered rebates, judgements are required to forecast the expected level of volumes purchased to determine the appropriate rate at which a rebate is earned. This review covered the processes and controls in place during the year and the level of adherence to the Group's accounting policies and procedures. For further information please see note 1 of the consolidated financial statements on page 90.	As a result of the review process, which included consideration of the external audit findings, the Committee concluded that the level of rebate income and rebate receivable as at 31 July 2017 was properly reflected in the consolidated financial statements.
Inventory valuation (recurring item)	Judgement is applied in determining the appropriate values for slow-moving or obsolete inventory. The provisions are predominantly system-generated calculations, comparing inventory on hand against expected future sales using historic experience as the basis for provisioning, along with the results of physical stock-counts. The Committee considered the level of provisions and ensured the policy was consistently applied across the Group in the current and previous financial periods. The Committee also sought the views of the auditors. For further information please see note 1 of the consolidated financial statements on page 90.	Following their review, which included consideration of the external audit findings, the Committee concluded that provisions for obsolete and slow moving inventory are fairly stated in the consolidated financial statements.

Audit Committee effectiveness review

An internally facilitated review of the Committee's effectiveness was carried out in July 2017. The review concluded that the Committee continued to be effective and well run and the composition of the Audit Committee was rated highly. The review found that the work of the internal and external auditors was well co-ordinated and that their work continued to be effectively reviewed and assessed by the Committee.

The Committee's monitoring and review of the status of IT controls and information security systems was identified as an evolving area which had seen improvements implemented during the year. The review also highlighted several areas for improvement and these either have been incorporated into our priorities for 2017/18, or for more minor areas will be addressed during the year.

Audit Committee priorities for 2017/18
Continue to review and monitor the approach to risk management and the level of risk driven through changes to the operating model, industry changes and technological developments
Continued increase in focus on the Group's approach to information security
Continue to monitor finance systems transformation to ensure that the associated projects are effectively completed
Review and assess the continued effectiveness of the Group's control framework and base financial controls including their continued effective operation following the transfer of certain functions from the UK to the USA

External audit

Auditor reappointment

Following an external tender process, Deloitte were first appointed as the Company's external auditor for the 2015/16 audit and have served as the Company's auditor for two years. Deloitte's reappointment was approved by shareholders at the 2016 Annual General Meeting. Ian Waller has served as lead audit partner since Deloitte's appointment. In line with the Audit Practices Board Ethical Standard 3 the lead audit partner is due to be rotated following the 2019/20 audit.

The Committee reviews the external auditor appointment and the need to tender the audit annually. The Company confirms that it complied with the provisions of the Code and the Competition and Markets Authority Order for the financial year under review. For the financial year ending 31 July 2018, the Committee has recommended to the Board that Deloitte be reappointed as the external auditor and the Directors will be proposing the reappointment of Deloitte at the 2017 Annual General Meeting. The Committee confirms that the Company complied with the provisions of the Statutory Audit Services Order 2014 during the financial year ended 31 July 2017.

External audit processes

During the year, the Group audit partner, together with other relevant and appropriate Deloitte partners, attended all the Audit Committee meetings. They provided the Committee with information and advice including detailed reports on the financial statements and internal controls.

In January 2017, the Committee reviewed and approved the terms, areas of responsibility and scope of the 2016/17 audit. During the year, Deloitte provided external audit services for regulatory and statutory reporting.

Deloitte are expected to report to the Committee any material departures from Group accounting policies and procedures that are identified during the course of their audit work. Deloitte's 2016/17 external audit plan has been successfully completed at the date of this report. No material items were found or reported in the financial year.

Effectiveness of the audit process

Following the issue of the Company's Annual Report, the Committee conducts an annual review of the effectiveness of the external audit. A survey of all the Group's finance teams is conducted. Each team is asked to rate the performance of the external auditor against a range of measures, including relating to the adequacy of planning, sufficiency of resource, thoroughness of review and testing, adequacy and application of knowledge of the Group, usefulness of feedback and the quality of reporting. The Committee was satisfied that Deloitte provided an effective audit service in 2015/16. A review of the effectiveness of the audit for the year ended 31 July 2017 will be conducted.

Auditor 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. Details of the services that the external auditors cannot be engaged to perform are provided at **www.fergusonplc.com**.

Deloitte also provides specific assurance to the Committee on the arrangements and safeguards it has in place to maintain its independence and objectivity, including an internal process to preapprove provision of non-audit services and the use of separate teams where non-audit services are being provided to the Group. The Committee continues to be satisfied with the independence and objectivity of Deloitte.

When considering the award of non-audit work to the external auditor, an assessment is made to consider if it is more effective for the work to be carried out by the external auditor who has existing knowledge of the Company and all appointments are made on a case-by-case basis. The prior consent of the Chairman of the Committee is required before the Company's external auditor is appointed to undertake non-audit work. The external auditor will not be appointed to provide non-audit services where the Committee considers it might impair their independence or objectivity in carrying out the audit. At each meeting the Committee reviews any new non-audit engagement of the Company's external auditor and reviews the level of fees for all non-audit work. During the year, Deloitte was appointed to undertake non-audit work, the details of which are provided below.

Audit and non-audit fees

Fees for non-audit work performed by Deloitte as a percentage of audit fees for the year ended 31 July 2017 were 24 per cent (2016: 7 per cent). Further disclosure of the non-audit fees incurred during the year ended 31 July 2017, can be found in note 4 to the consolidated financial statements on page 95.

Non-audit services related mainly to services provided to Tobler as part of the merger with Walter Meier AG and services related to the disposal of the Nordic businesses and the change of presentational currency for the Group in 2017/18. In each instance it was considered to be in the best interests of the Group to use Deloitte due to efficiencies gained from their existing knowledge of the Company. Their continued objectivity and independence was unaffected due to the nature and scale of the work undertaken.

Internal audit

The scope of activity of internal audit is monitored and reviewed at each Committee meeting. An annual plan was agreed by the Committee in July 2017 which covers the activities to July 2018. During the year, the Head of Internal Audit attended all Committee meetings and provided the Committee with a detailed report on internal audit activities which the Committee reviewed and discussed in detail. The Committee considered the matters raised and the adequacy of management's response to them, including the time taken to resolve any such matters.

In July 2017, the Committee conducted the annual review of the effectiveness of the Group's Internal Audit function, including its terms of reference, audit planning process, general performance and relationship with the external auditors. The review identified opportunities to enhance the resourcing of the function through co-sourcing and maintaining the rigour of following up the implementation of audit recommendations. Steps have already been taken to implement these suggested improvements. The review was undertaken using guidance issued by the Chartered Institute of Internal Auditors. As part of this review the Committee was satisfied that all the opportunities for improvement in the function's operations which had been identified by external consultants in last year's effectiveness review had been implemented. Based on its review the Committee was satisfied with the effectiveness of the Group's Internal Audit function.

Risk

Risk management

Risk management reports prepared by the Group Head of Risk and Compliance were submitted to the Committee in March and September 2017. These reports summarise submissions from all areas of the business which the Executive Committee and senior management have reviewed. Risks relating to material joint ventures and associates are considered as part of this process. The six-monthly reports identify the significant risks to the Group, the controls in place and highlight the tolerance levels that the Executive Committee and, ultimately, the Board are prepared to accept. The Audit Committee reviewed the effectiveness of the Company's overall risk management framework, including the generic procedures for risk identification, assessment, mitigation, monitoring and reporting and was satisfied with their effectiveness.

Viability Statement

The Committee also reviewed management's work in conducting a robust assessment of those risks which would threaten the future performance or liquidity of the Company, including its resilience to the threats of viability posed by certain of those risks in severe but plausible scenarios. This assessment included the stress testing of cash flow projections to evaluate the impact of an unlikely, but realistic, worst-case scenario. The Company's Viability Statement can be found on page 43.

Internal controls

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

The Group's internal control systems are designed to manage rather than eliminate business risk. Such systems are necessary to safeguard shareholders' investment and the Company's assets and depend on regular evaluation of the extent of the risks to which the Company is exposed. The Committee receives regular reports throughout the year, including from the Finance Directors of the Group's major businesses, to assure itself that the Company's systems comply with the requirements of the Code. The Committee can confirm that the Company's systems have been in place for the full financial year and up to the date on which the financial statements were approved, that they are effective and that they are regularly reviewed by the Committee on behalf of the Board. The Committee is of the view that the Company has a well-designed system of internal control. These systems can only provide reasonable, but no absolute, assurance that risks are managed to an acceptable level.

In relation to the financial reporting process, at the business level, line management are 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 through setting the policies, requiring a self-certification from the businesses and a bi-annual assessment of implementation by the businesses. At a further level, assurance functions (Internal and External Audits) test various aspects of the processes and report to the Committee.

The Chairman of the Committee reports any matters arising from the Committee's review to the Board following each meeting. This update covers the way in which the risk management and internal control processes are applied and any significant failings or weaknesses in, or exceptions to, these processes. There were no significant failings or weaknesses identified. These processes have been in place throughout the year ended 31 July 2017 and have continued to the date of this report.

Further information on the Company's risk management systems is set out in the section on Principal risks and their management on pages 42 to 49.

Whistleblowing and fraud

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

Fair, balanced and understandable assessment

At the request of the Board, the Committee assessed whether the content of the 2016/17 Annual Report, taken as a whole, is fair, balanced and understandable. In order to make this declaration, a formal process is followed to ensure the Committee has access to all relevant information including a paper from management detailing the approach taken in the preparation of the Annual Report and Financial Statements and explaining why management believes the Annual Report is, taken as a whole, fair, balanced and understandable. The Committee and all Board members receive drafts of the Annual Report and Financial Statements in sufficient time to allow challenge of the disclosures where necessary. The Committee advised the Board it was satisfied that, taken as a whole, the 2016/17 Annual Report and Accounts is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy. The Directors' responsibilities statement can be found on page 68.

Darren Shapland
on behalf of the Audit Committee

Nominations Committee

Leadership and effectiveness

Gareth Davis
Nominations Committee Chairman

Dear Shareholder

Board and senior leadership succession planning is of paramount importance to Ferguson's continued success. It continues to be a major priority for the Board and is something the Nominations Committee keeps under continuous review. As I mentioned in my Chairman's statement on page 13, during the year, we announced three changes to the Board: Frank Roach's retirement and the appointment of Kevin Murphy as our new Chief Executive Officer, USA ("CEO, USA"); the appointment of Mike Powell as our new Group Chief Financial Officer ("CFO"); and the appointment of Nadia Shouraboura as a Non Executive Director.

Recruitment

In accordance with our procedure for selecting and recruiting Directors, the Committee identified the key skills and experience required for the new appointments. The Committee retained external search advisers to assist in the process of identifying potential candidates for nomination to the Board. The Company does not use open advertising to search for suitable candidates for Director positions, as we believe that the optimal way of recruiting for these positions is to use targeted recruitment based on the skills and experience required. Both internal and external candidates were considered for Executive Director positions as part of a rigorous process involving interviews and assessments.

Executive Director succession

During the year, we undertook a process to identify a successor for the role of CFO. The criteria identified by the Committee for the CFO selection process included strategic development abilities, functional capabilities, relevant sector and international experience, and the ability to work effectively in and to build high performing teams.

Following an extensive recruitment process the Committee agreed that Mike Powell was the strongest candidate for the CFO role and recommended his appointment to the Board. Mike's international background, financial skills, familiarity with the USA and operational experience of running multi-site businesses will be important attributes as we continue to develop the Ferguson business.

At the same time as announcing Mike's appointment the Company also announced that Dave Keltner, who has served as Interim Group CFO since September 2016 would step down from the role at the end of 2016/17 following an orderly transition. I would like to thank Dave for the invaluable support and leadership he has provided whilst standing in as Interim Group CFO, allowing the Board ample time to enable a smooth handover to a successor of the highest calibre. He has given outstanding service to the Group over 23 years and I wish him well in his retirement.

In March 2017, the Company announced the retirement of Frank Roach as CEO, USA and the appointment of Kevin Murphy as his successor.

As part of the Committee's succession planning process for the role of CEO, USA external candidates were considered in addition to Kevin Murphy, who was then Chief Operating Officer of our USA business. The criteria for the selection of a successor to Frank Roach as CEO, USA included strategic development and execution capabilities, significant executive experience in the relevant sector, core functional capabilities and a proven organisational leadership ability.

After a careful and thorough review, the Committee agreed that Kevin Murphy was the most appropriate successor as CEO, USA and recommended his appointment to the Board. Kevin joined the USA business in 1999 and held several leadership positions before being appointed Chief Operating Officer in 2007. Kevin has played a vital part in our USA business' success, and his skills, expertise and deep understanding of the business make him the ideal person to drive future growth in the USA. I am delighted that a candidate identified by the Board some time ago as having significant potential, and subsequently developed by the Company as part of the succession planning process for senior leadership positions, has been selected to lead the Group's largest operating segment.

I'd like to take this opportunity to thank Frank Roach for his immense contribution to the business and for his distinguished service. Frank has been an outstanding Chief Executive of our USA business. Under his leadership, the business has developed into the leading specialist distribution business in the USA, whilst maintaining an enviable track record of delivering superior service to customers and creating significant shareholder value. I wish Frank well in his retirement.

Non Executive Director appointment

During the Board and Committee effectiveness review process, an opportunity was identified to enhance the skill set of the Board through the recruitment of an additional Non Executive Director. The criteria identified by the Committee for the Non Executive Director recruitment process included a proven track record as a senior leader of a USA business, deep understanding of the evolving digital environment and first-hand experience of disruptive business models. Following a thorough recruitment process the Committee agreed that Nadia Shouraboura was the most suitable candidate and recommended her appointment to the Board.

I am delighted to welcome Nadia to the Board. Her considerable expertise in running complex logistics and supply chain activities will be invaluable to us. E-commerce remains a significant opportunity for the Group with almost £3 billion of revenue generated from online activities last year and growing this channel remains an important part of our strategy.

External search advisers

External search advisers Russell Reynolds Associates and JCA Group assisted the Nominations Committee during the year with the CFO recruitment process. Russell Reynolds Associates also assisted the Nominations Committee with the CEO, USA succession process. Russell Reynolds Associates and JCA Group have no other connections to the Company. Korn Ferry, an external search adviser, assisted the Nominations Committee with the Non Executive Director recruitment process. Korn Ferry has no other connections with the Company except in relation to other senior executive search mandates.

Board composition and succession planning

As at 31 July 2017, the Board comprises the Chairman, three Executive Directors and seven Non Executive Directors. The biographies of all members of the Board, which outline the skills and experience they bring to their roles, are set out on pages 52 and 53.

It has been a busy year for the Committee in terms of succession planning and during the year, in addition to the three appointments, the Committee considered the composition, skills and experience of, and the succession plans for, the Group's senior leaders. Succession for the Board and senior executives will continue to be a crucial area of focus of the Committee in the coming year and beyond to ensure that, as the Group develops, the business has the appropriate mix of skills and experience at Board and senior levels.

Diversity

One of the core values of Ferguson is that we value our people. We believe that well trained, highly engaged associates deliver better customer service. This is one of the Group's drivers of profitable growth, set out in the CEO's review on page 17, and there are examples throughout the report of what the Company is doing in support of this.

We aim to recruit, retain and develop a high quality, diverse workforce. To achieve our objectives we will always appoint or hire the best candidates available from the widest range of knowledge, skills and experience. The diversity of our people – whether in terms of gender, race and ethnicity, religious or political beliefs, marital status, sexual orientation, age, disability, culture, background or any other measure – strengthens our diversity of thought, which is vital to the growth and success of our business. We are committed to providing our employees with an inclusive work environment in which diversity is valued, discrimination in any form is not tolerated, and in which all our people feel empowered to reach their full potential. Details of our current gender diversity statistics are set out on page 36 and further information on diversity is detailed on page 23.

We remain supportive of the voluntary approach as an effective way to encourage companies to improve gender diversity in boardrooms. For the last four years we have met the gender diversity recommendations set out in Lord Davies' original report, "Women on Boards", and this year 36 per cent of your Board are women.

Ferguson takes diversity seriously. We met the gender diversity targets set out in Lord Davies' report well ahead of schedule and the Committee has noted the recommendations made by the Hampton-Alexander Review on the gender diversity of FTSE 100 Executive Committee members and their direct reports as well as the Parker Review Report's recommendations for increasing the ethnic diversity of boards. The Committee has also noted the recommendations made by the McGregor-Smith Review of race in the workplace and the government's response to those recommendations.

Ferguson remains absolutely committed to equality in our employment, promotion and pay practices and the Committee will continue to monitor and review the Company's progress as it continues to deliver improvements in workforce diversity.

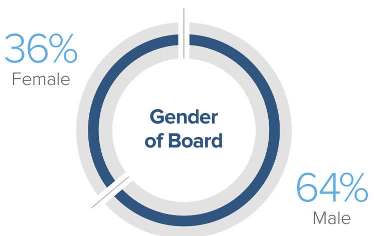
Effectiveness

The annual review of the effectiveness of the Committee was carried out in July 2017. The review concluded that the Committee was well run and that, overall, Committee members were satisfied with the quality of the succession planning process for Board and Executive positions. The review also highlighted areas for continued improvement and we have incorporated these into our priorities for 2017/18 as set out in the table below.

Nominations Committee priorities for 2017/18
Continue to monitor Board and senior leadership succession
Continue to monitor progress on diversity at Board level and below

Gareth Davis
on behalf of the Nominations Committee

Gender diversity



Board tenure

* Gareth Davis was appointed to the Board on 1 July 2003. Mr Davis was appointed as Chairman on 20 January 2011 and was considered to be independent within the definition as set out in the Code on appointment.

Directors' Report – other disclosures

Accountability

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 2017 AGM.

Authority to allot shares

At the 2016 AGM, authority was given to the Directors to allot new ordinary shares up to a nominal value of £18,194,582. The Directors intend to propose at the 2017 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 2018 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 2018 AGM ("Authority to Disapply Pre-Emption"). This authority shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of no more than approximately 5 per cent of the issued ordinary share capital calculated at the latest practicable date prior to publication of the Notice of AGM as well as an additional 5 per cent, which may only be used for an acquisition or specified capital investment which is announced contemporaneously with the issue or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue (in accordance with the Pre-Emption Group's Statement of Principles).

Authority to purchase shares

At the 2016 AGM, authority was given to the Directors to purchase up to 25,263,165 of the Company's ordinary shares of 10 $\frac{53}{66}$ pence (with such purchase being subject to minimum and maximum price conditions). This authority to purchase the Company's shares will expire at the 2017 AGM.

In certain circumstances, it may be advantageous for the Company to purchase its own ordinary shares and the Company seeks authority on an annual basis to renew the Directors' limited authority to purchase the Company's ordinary shares in the market pursuant to Article 57 of the Companies (Jersey) Law 1991. As detailed in the Chairman's statement on page 13, the Company intends to commence a £500 million share repurchase programme to be executed over the 12-month period to October 2018 (the "Buyback Programme"). It is intended that a special resolution will be proposed at the 2017 AGM to grant authority for the Company to purchase up to approximately 10 per cent of the Company's issued share capital, calculated at the latest practicable date prior to the publication of the Notice of AGM. The special resolution will set the minimum and maximum prices which may be paid. The Directors intend to use this authority to make share repurchases pursuant to the Buyback Programme. The Directors will use this authority only after careful consideration, taking into account market conditions, other investment opportunities, appropriate gearing levels and the overall financial position of the Company. The authority will enable the Directors to continue to be able to respond promptly should circumstances arise in which they consider that such a purchase would result in an increase in earnings per share and would be in the best interests of the Company. In accordance with the Company's Articles of Association, the Company is allowed to hold shares purchased by it as Treasury shares that may be cancelled, sold for cash or used for the purpose of employee share schemes. 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.

Details of shares held by the Company that were acquired in previous financial years are provided in note 27 to the consolidated financial statements on page 113.

Capitalised interest

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

Change of control (significant agreements)

The Company is not party to any significant agreements that take effect, alter or terminate upon a change of control following a takeover except for the US$800 million USA Private Placement Bonds issued on 1 September 2015, the £800 million multi-currency revolving credit facility agreement dated 3 June 2015, the amended US$600 million receivables facility agreement originally entered into on 31 July 2013 and the US$438 million USA private placement Bonds issued on 16 November 2005 which could become repayable following a relevant change of control. There are no agreements between the Company and any Director that would provide compensation for loss of office or employment resulting from a change of control following a takeover bid, except that provisions of the Company's share schemes may cause options and awards granted under such schemes to vest in those circumstances. All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable for a limited period of time upon a change of control following a takeover, reconstruction or winding up of the Company (not being an internal reorganisation), subject at that time to rules concerning the satisfaction of any performance conditions.

Conflicts of interest

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

During the year, all conflict management procedures were adhered to and operated efficiently.

Disclosures required by Listing Rule 9.8.4R

The relevant disclosures concerning capitalised interest; the allotments of equity securities for cash; and dividend waiver can be found on pages 66, 126 and 84 of this Annual Report respectively. The remaining disclosures required by the above Listing Rule are not applicable to the Company.

Employees

The Group actively encourages employee involvement in driving our current and future success and places particular importance on keeping employees regularly informed about the Group's activities and financial performance and on matters affecting them individually and the business generally. This can be through informal bulletins, in-house publications and briefings, as well as via the Group's intranet sites.

A European Works Council ("EWC") has been operating since 1996 to provide a forum for informing and consulting employees in Europe on such matters as significant developments in the Group's operations, management's plans and organisational changes within the Group. There are currently 11 EWC representatives, of which six are employee representatives and five are management representatives. Employee representatives are appointed from each European country in which Ferguson operates.

All employees are offered a range of benefits depending on their local environment. Where possible, they are encouraged to build a stake in the Company through the ownership of shares through participation in the Company's all-employee sharesave 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 23 and 36.

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.

Indemnities and insurance

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

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

Independent Auditors and audit information

In respect of the consolidated financial statements for the financial year ended 31 July 2017, the Directors in office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which Deloitte LLP ("Deloitte") are unaware and each Director has taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that Deloitte are aware of that information.

Deloitte is willing to act as auditors of the Company, and resolutions concerning their appointment and the determination of their remuneration will be proposed at the 2017 Annual General Meeting.

Political donations

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

Restrictions on transfer of shares

There are no restrictions on the voting rights attached to the Company's ordinary shares or on the transfer of securities in the Company. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Share capital and voting rights

Details of the authorised and issued share capital, together with any movements in the issued share capital during the year, are shown in note 27 to the consolidated financial statements on page 113.

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

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

Shareholder notifications

No notifications were received by the Company pursuant to the Financial Conduct Authority's ("FCA") Disclosure Guidance and Transparency Rule 5 ("DTR5") during the year ended 31 July 2017 or between then and the date of this report. The following notifications, representing significant shareholdings, were received by the Company in previous financial years.

Name of holder	Percentage of issued voting share capital[1]
BlackRock, Inc	9.64%
FIL Limited	4.95%
Standard Life Investments Limited	3.85%

1. 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 and Transparency Rules can be found on the following pages of this Annual Report and are incorporated into the Directors' Report by reference:

	Page
Details of the Company's proposed final dividend payment for the year ended 31 July 2017	40
Disclosures relating to exposure to price, credit, liquidity and cash flow risks	119 to 127
Disclosures relating to financial risk management objectives and policies, including our policy for hedging	119 to 127
Going concern statement	41
Viability statement	43
Disclosures concerning greenhouse gas emissions	37
The management report for the year	1 to 68
Information concerning post-balance sheet events	119
Future developments within the Group	1 to 49
Details of the Group's profit for the year ended 31 July 2017	39
Shares issued during the year	113 and 126

Directors' responsibilities statement

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

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

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

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

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

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

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

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

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

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

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

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

The Directors' Report, comprising pages 13 to 84 was approved by the Board and signed on its behalf by:

Graham Middlemiss
Group Company Secretary
2 October 2017

Directors' Remuneration Report

Jacky Simmonds
Remuneration Committee Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2017.

The current Remuneration Policy ("Policy"), was approved at the Annual General Meeting (AGM) in December 2015 and is due to be resubmitted for approval in December 2018. The Committee is satisfied that this Policy continues to be appropriate for the coming year and as such no changes to the Policy are proposed for 2017/18.

Although the Company (being Jersey incorporated) is not subject to the Directors' Remuneration Regulations 2008 ("Regulations"), the Committee recognises the importance of shareholder transparency and standards of governance. This Directors' Remuneration Report complies with the Regulations as they would apply if we were a UK incorporated company.

On page 71 there is a summary of the current Policy and the full Policy can be found on the Who We Are section of the Ferguson plc website at **www.fergusonplc.com**.

In this statement I will share with you the major decisions taken by the Committee during the year, corporate performance and incentive outcomes for 2016/17 and our approach for 2017/18, which will continue to be based on the reward principles we have applied since 2015:

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

Group Chief Financial Officer succession

As announced on 1 March 2017, Mike Powell was appointed as Group Chief Financial Officer ("Group CFO") with effect from 1 June 2017 in succession to John Martin who was appointed as Group Chief Executive Officer on 1 September 2016. Mike has extensive international experience having worked overseas in a variety of senior finance positions.

The Committee made the decision to set his salary on appointment at £510,000, below the market median, to enable room for growth 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 August 2018 and 2019 to move him closer to the market median, consistent with our Policy.

The Company compensated Mike for a number of awards he forfeited from his previous employer BBA Aviation plc ("BBA") as a result of joining Ferguson; the replacement awards replicated as far as practicable the structure, time horizon and fair value of the arrangements he forfeited, and are subject to the Company's standard malus and clawback provisions. Further details on these buy-out awards are on pages 78 and 80.

Chief Executive Officer, USA succession

As we also announced in March 2017, Kevin Murphy was appointed as Chief Executive Officer, USA ("CEO, USA") on 1 August 2017, in succession to Frank Roach who retired on 31 July 2017. Kevin has been Chief Operating Officer of the Group's USA business for the past 10 years and an integral member of the senior leadership team. His appointment on a salary of $900,000 is below the market median (and below his predecessor's salary) and as with the Group CFO, provides room 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 August 2018 and 2019 to move him closer to the market median, consistent with our Policy.

The Committee agreed to exercise its discretion to treat Frank Roach as a "good leaver" for his unvested ESOP and LTIP awards, in view of his leaving Ferguson through retirement, and he will receive no severance payments. His long-term incentive awards will be time pro-rated on the basis of full years worked during the relevant performance period for each award. Therefore, the awards granted to him in 2015/16 and 2016/17 will be subject to a reduction of one-third and two-thirds respectively. Further details of the termination arrangements are set out on page 78 of the Annual Report on Remuneration. These are in line with our Policy.

Performance in 2016/17

Company performance for the year ended 31 July 2017 saw strong trading performance, particularly in the USA. Canadian performance also improved in 2016/17, whilst the UK continues to progress with its transformation programme. During the year, the Company announced the merger of its Swiss business (Tobler) with Walter Meier AG which took place on 7 April 2017 and plans to exit from the Nordic region, as well as the change in name to Ferguson plc.

The continued focus which the Company places on profit growth and maintaining strong cash flow has enabled it to increase both the interim dividend paid to shareholders in April, which was 10 per cent higher than in 2016, and the proposed final dividend, which is 10 per cent higher at 73.33 pence per share.

This strong trading performance and good cash flow has resulted in the bonus payments to the Executive Directors averaging 93.1 per cent of their maximum levels.

In the three years to 31 July 2017, annualised Total Shareholder Return ("TSR") was 16.5 per cent, and as a result the Company achieved a TSR ranking of 24th against our FTSE 100 comparator group and therefore 71.6 per cent of the shares awarded under the 2012 LTIP in 2014 will vest.

The Company's consolidated financial statements for the year ended 31 July 2017 have been restated to present the Nordic business as discontinued operations under IFRS 5. The performance of the Nordic business declined over the periods covered by long-term incentive awards made in 2014, 2015 and 2016. The Committee therefore decided that the EPS calculation used to measure performance under the Company's long-term incentive plans should include the Nordic business to more accurately reflect management's performance in relation to all of the businesses under its control throughout the relevant period for long-term incentive awards made in 2014, 2015 and 2016.

Following the Brexit vote on 23 June 2016, foreign exchange rates moved rapidly and significantly. This has had a significant favourable impact on EPS growth in the year ended 31 July 2017. Given the scale of movement in foreign exchange rates during the financial year the Committee has also adjusted the EPS calculation used to determine the extent to which the Group has met this performance condition downwards to remove any benefit to management accruing as a result of factors beyond its control.

Adjusted headline earnings per share ("EPS") for the three years ended 31 July 2017 reflected strong trading profit growth, contributing to a headline increase in EPS of 38.7 per cent to 270.5 pence. As a result, ESOP awards granted in 2014 will vest in full in November 2017.

Looking ahead to the year ending 31 July 2018

For the financial year ending 31 July 2018, the remuneration arrangements which were approved in December 2015 will continue to apply. It is intended that awards under the 2015 LTIP will be made to Executive Directors during 2017/18. The weighting of the performance measures for the share awards under the 2015 LTIP (TSR, EPS and Operating Cash Flow) will continue to be applied in equal proportions of one-third as they were in 2016/17.

In line with our Policy, the Committee undertook an annual review of the Executive Directors' base salaries. For the Group CFO and CEO, USA, as detailed above, their salaries will not be reviewed until 1 August 2018. For the Group Chief Executive Officer ("Group CEO") his salary will be increased by 2.0 per cent from 1 August 2017 in line with the general level of increase awarded to other employees in the Group.

As a Committee we continue to monitor developments in corporate governance and remuneration and, where we consider it appropriate to do so, based on the best interests of Ferguson and its shareholders, we would propose to adopt them.

As announced on 28 March 2017 and detailed in the Chairman's statement on page 13 the Company changed its presentational currency from sterling to US dollars with effect from 1 August 2017. To align with this change, the Committee has restated the base years for EPS and the targets for operating cash flow for the LTIP awards granted in 2015/16 and 2016/17 from sterling to US dollars. The revised operating cash flow targets are detailed on page 79. The performance targets for all future awards will be set, and performance measured, in US dollars. For LTIP awards to be granted in 2017/18, targets for real growth in EPS will be set in US dollars relative to US CPI, to align with our presentational currency going forward. The Committee is satisfied that achieving 3-year real growth in EPS of 9 per cent to 30 per cent is not materially more or less difficult in US dollars than sterling, and performance will be less susceptible to foreign exchange movements when measured in US dollars due to the high proportion of our business transacted in US dollars.

In line with the Remuneration Report Regulations we have commenced our review of the Policy, which we will be sharing and discussing with our key shareholders over the coming months.

On behalf of the Committee, I thank you for your continued support and trust that you find the Directors' Remuneration Report informative. I very much hope that we will receive your support at the 2017 AGM and I will be available at the meeting to respond to your questions on any aspect of this Report.

Jacky Simmonds
Chair of the Remuneration Committee

At a glance

2016/17 performance summary

Group gross profit*
£4,651.9m
+8.0%

Group trading profit*
£1,044.9m
+7.5%

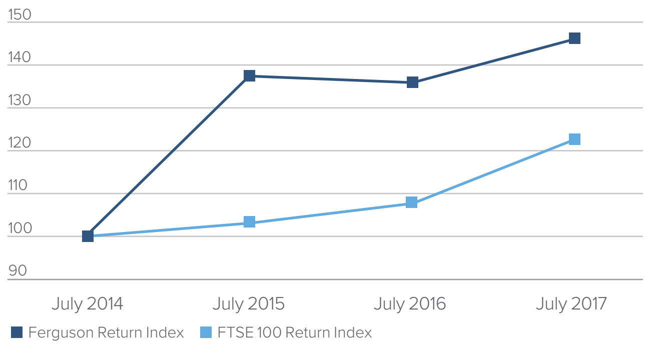
Group cash-to-cash days*
48.6 days
1.5 days improvement

Adjusted headline EPS**
270.5p
EPS growth over UK inflation (3 years)
+32.1%

* Figures adjusted for exceptional items and include non-ongoing operations and the Nordic business. The calculations use Company budgeted foreign exchange rates.

** Adjusted to remove the benefit to management of currency movements during 2016/17 and to include the Nordic business as detailed in the Committee Chair's statement, opposite.

Ferguson 3-year TSR performance vs the FTSE 100



Ferguson's Remuneration Policy

Link to strategy	Element	Key features of the Policy	How we implement the Policy
Support recruitment and retention of high-calibre individuals.	Base salary	Set at mid-market level against a comparator group. Any increases made are broadly in line with wider workforce.	New Group CFO and CEO, USA salaries set at below market median and predecessors'. 2% salary increase for Group CEO, in line with salary increases in the Group.
Linking pay to Ferguson's strategic financial and operational priorities.	Annual bonus	Maximum bonus opportunity allowed is 150% base salary, paid in cash. Malus and clawback provisions apply.	At least 80% of bonus targets based on financial performance (20% cash-to-cash days; 30% trading profit; 30% gross profit) and not more than 20% based on personal strategic objectives.
Incentivising long-term sustainable business growth.	LTIP	Maximum award level allowed is 350% base salary. Awards granted annually, typically as nil cost options or conditional shares. Minimum three-year performance period. Malus and clawback provisions apply for five years after the grant date. Shares or awards must be retained for two years post vesting if shareholding target has not been met.	Award levels for 2017/18 set at 300%, 240% and 250% of base salary for the Group CEO, Group CFO and CEO, USA respectively. Three key performance measures: TSR relative to FTSE 100 comparator group; EPS growth; and operating cash flow ("OpCF"). Each element is equally weighted.
Alignment with shareholder interests.	Shareholding guidelines	Five years from appointment or promotion date to meet shareholding target. Shareholding targets set as a multiple of base salary.	In 2016/17 all Directors have met their shareholding guideline targets. Targets for the new Group CFO, CEO, USA and NED were set on 1 August 2017.

2018 2019 2020 2021 2022 2023*

Performance period — Holding period — Malus/Clawback period

* Please note that the years used by way of example only relate to awards made in the 2016/17 financial year.

Rewarding 2016/17 performance

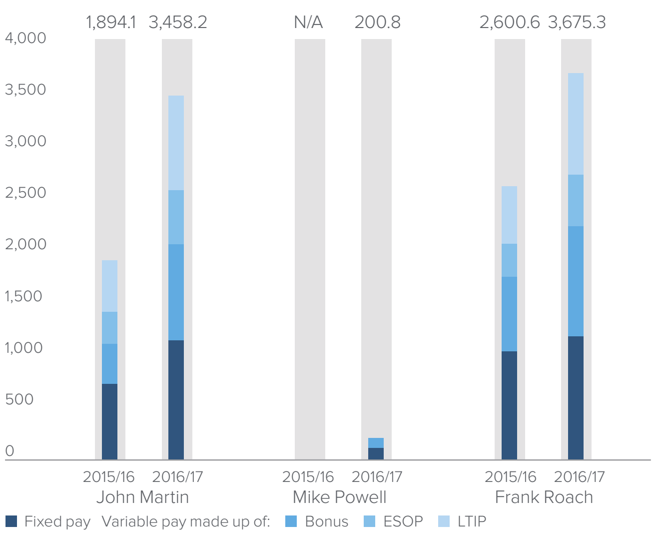
For 2016/17 Executive Directors received:

- base salary which was set at the same level as his predecessor for the Group CEO, below market median for the new Group CFO and increased in line with average USA employee salary increase for the CEO, USA;
- taxable benefits and pension benefits;
- annual bonus awards which achieved between 84.6 and 97.8 per cent of the maximum opportunity;
- LTIP awards vesting at 71.6 per cent of the awards after longer-term performance measured against its FTSE 100 comparator group; and
- ESOP awards vesting at 100 per cent of the awards after longer-term performance measured against headline EPS growth.

The graph opposite shows total remuneration for Executive Directors in post on 31 July 2017. Mike Powell was appointed Group CFO on 1 June 2017 and his remuneration reflects the two months served during the 2016/17 financial year.

The "single figure" of total remuneration for each Executive Director who served during the year is set out on page 76.

Rewarding performance
£000



Information

For the purposes of this Annual Report on Remuneration:

1 any payments made in US dollars have been converted to sterling. The calculations are made based on the average exchange rate for the year ended 31 July 2017 of $1.2667:£1 (for the year ended 31 July 2016 of $1.4603:£1); and

2 any estimated share values are determined using a share price of 4,822 pence, being the average closing mid-market quotation for Ferguson plc shares for the three-month period ended 31 July 2017.

Remuneration Policy

The Policy was approved by shareholders at the AGM on 1 December 2015 and can be found on our website at **www.fergusonplc.com**. The Policy took effect from this date and may operate for up to three years.

The Policy remains unchanged and all remuneration and all recruitment or loss of office payments are consistent with the Policy. For convenience we include Policy Extracts on pages 82 and 83. These extracts from the Policy provide the context within which individual remuneration decisions have been made during the year.

Implementation of Policy for the year ending 31 July 2018

Executive Directors

Base salary

In line with the Policy, the Remuneration Committee undertook an annual review of the Executive Directors' base salaries in July 2017. The Committee agreed to an increase to the base salary level of the Group CEO of 2.0 per cent with effect from 1 August 2017. Therefore, the Group CEO's annualised base salary is £877,200 for the year ending 31 July 2018 (£860,000 for the year ended 31 July 2017). This is in line with the general level of increase awarded to other employees in the Group. The Committee agreed that the salaries of the Group CFO and CEO, USA, who took up their positions on 1 June 2017 and 1 August 2017 respectively, would not be reviewed until 1 August 2018.

On appointment, the Group CFO and CEO, USA's salaries were set below market median and below those of their predecessors. As detailed in the Remuneration Committee Chair's statement on page 69 it is the Committee's intention to increase both the Group CFO and CEO, USA's salaries by more than the average salary increase for the relevant general workforce (subject to their performance in the respective roles) in both August 2018 and 2019 to bring them into line with the market median. This approach is consistent with the Policy.

Pension and benefits

UK-based Executive Directors receive a salary supplement in lieu of membership of the Group pension scheme, being 30 per cent of base salary for John Martin and 25 per cent for Mike Powell. USA-based Executive Director Kevin Murphy participates in the Ferguson defined contribution pension arrangement and receives a Company contribution of 16 per cent of base salary. Kevin Murphy's current year pension benefits include a 401k plan and Ferguson Executive Retirement Plan arrangements. These plans have normal retirement ages of 59 ½ and 55 respectively. Bonus payments are not included in the calculation of the Company pension contributions. Benefits provided to Executive Directors are detailed in the Remuneration table on page 76.

Annual bonus

When considering the objectives for the Executive Directors and other members of the Executive Committee, the Remuneration Committee takes into account whether specific attention should be given to environmental, social and governance matters. Directors take such matters into account when considering any investment proposal or operational matters and management is expected to meet performance targets which include compliance with any environmental, social or governance-related standards that have been set. The overall performance of the businesses and of management is reviewed at the end of the year when considering the award of bonuses and whether operational and personal objectives have been met.

The threshold, target and maximum bonus opportunities for each of the Executive Directors are set out in the table below:

	Threshold	Target	Maximum
			As % of salary
J Martin (Group CEO)	80%	100%	120%
M Powell (Group CFO)	70%	90%	110%
K Murphy (CEO, USA)[1]	80%	100%	120%[1]

1. Award levels for Kevin Murphy as CEO, USA are lower than the award made to his predecessor in 2016/17.

Performance targets are set as 80 per cent of bonus opportunity on financial performance (20 per cent is based on cash-to-cash days, 30 per cent on trading profit and 30 per cent on gross profit) and 20 per cent of bonus opportunity on personal strategic objectives. Specific individual objectives were set at the beginning of the 2017/18 financial year.

For the 2017/18 financial year, the threshold for bonus payments in relation to ongoing trading profit will be set at or above the outturn trading profit for the 2016/17 financial year on a constant currency basis.

The Board considers that the performance targets for 2017/18 are commercially sensitive and they are not included for this reason. The Committee intends to disclose the targets and performance against them in the Annual Report on Remuneration next year depending on considerations of commercial sensitivity at that time.

Long-term incentives

LTIP awards will be made during the 2017/18 financial year at the levels set out in the table below:

	LTIP (award value as % of salary)
J Martin (Group CEO)	300%
M Powell (Group CFO)	240%
K Murphy (CEO, USA)[1]	250%

1. Award levels for Kevin Murphy as CEO, USA are lower than the award made to his predecessor in 2016/17.

The extent to which the LTIP awards (proposed to be granted during 2017/18) vest will be dependent on the following performance targets each with a weighting of one-third of award opportunity: comparative TSR; EPS growth; and OpCF.

Comparative 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 ensures that the interests of the Executive Directors are closely aligned with those of the Company's shareholders over the long term and incentivises outperformance of the Company relative to its peers. The TSR performance condition supports the achievement of profit growth, cash generation, maximising shareholder value and relative outperformance of its peer group.

EPS growth

The EPS[1] element of the award will vest as set out in the table below (comprising one-third of the total award opportunity):

Total margin of EPS growth over US inflation ("CPI") after three years	Percentage of award subject to EPS which will vest[2]
30% and above	100%
Between 9% and 30%	25%-100%
9%	25%
Below 9%	0%

1. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
2. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.

As set out in the introduction to this Report on page 70, EPS growth for LTIP awards to be granted in 2017/18 will be measured relative to US CPI.

For EPS growth targets, the Committee sets the EPS growth range having due regard to the Group's budget and strategic business plan every year as well as market expectations, the Group's trading environment and the consensus of analysts' forecast trading profit.

The EPS targets are considered appropriate as they require substantial improvement in the Group's financial performance and EPS is a key metric used by investors to assess the Group's performance.

Operating cash flow ("OpCF")

In line with the Company's change in presentational currency to US dollars OpCF targets for LTIP awards to be made in the year ending 31 July 2018 have been set in US dollars.

The OpCF element of the award will vest as set out in the table below (comprising one-third of the total award opportunity):

Operating cash flow[1,3]	Percentage of award subject to operating cash flow which will vest[2]
$4.90 billion	100%
Between $4.40 billion and $4.90 billion	25%-100%
$4.40 billion	25%
Below $4.40 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, and specifically would be adjusted downwards to reflect the impact on operating cash flow following the expected disposal of the Nordic business).
2. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.
3. The cumulative three-year figure for OpCF as taken from the Company's Annual Report and Accounts translated at the average exchange rate for each applicable year for the last three years equals $4.36 billion.

For OpCF generation, the Committee sets the cumulative OpCF target having due regard to the Group's budget and strategic plan every year as well as market expectations and the Group's trading environment.

The OpCF measure is considered appropriate as it encourages long-term generation of cash to fund investment and returns to shareholders.

Non Executive Directors and Chairman

The Company's policy on Non Executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the Chairmanship of Board Committees.

A summary of current fees is as follows:

	2017/18 (£000)	2016/17 (£000)
Chairman's fee	**383.0**	375.4
Non Executive Director base fee[1]	**66.7**	65.3
Additional fees:		
Senior Independent Director	**13.1**	12.8
Chairman of Audit Committee	**19.3**	18.9
Chairman of Remuneration Committee	**16.3**	15.9

1. All increases to Non Executive Director/Chairman fees were broadly in line with Executive increases to base salary.

Report for the year ended 31 July 2017

Remuneration Committee

The Committee met regularly during the year. There were six meetings in total and details of attendance are shown in the table on page 54.

The activities of the Committee are governed by their terms of reference which were reviewed in May 2017 and can be found on the Ferguson plc website at **www.fergusonplc.com**.

During the year, the members of the Remuneration Committee were Jacky Simmonds (Chair), Tessa Bamford, John Daly, Pilar López, Alan Murray, Darren Shapland and, from 1 July 2017, Nadia Shouraboura.

The annual review of the effectiveness of the Committee was conducted during the year and considered at the May 2017 meeting. The review concluded that the Committee was working effectively and minor recommendations to improve effectiveness were acted upon.

Allocation of time spent during the year

During 2016/17, the Committee considered the items detailed below at its meetings, as well as other issues as required.

Governance
- Approval of Directors' Remuneration Report 2015/16
- Annual governance and compliance review
- Appointment of new remuneration advisers

Salary and fees review
- Review of executive pay
- Remuneration proposals for new and existing Executive Directors and Executive Committee
- Buy out award for new Group Chief Financial Officer
- Review of Chairman's fees
- Approval of the remuneration package of a senior executive, below Board level, who was changing roles

Annual bonus
- Assessment of performance against 2015/16 targets and objectives for 2016/17 targets
- Review of bonus structure for financial year 2017/18

Discretionary share plans and all-employee plans
- Agree discretionary share plan awards for 2016/17
- Confirmation of vesting of discretionary share plan awards granted in 2013
- Agree process for 2016/17 grants under all-employee sharesave plans

Annual reviews
- Remuneration adviser performance
- Share headroom in accordance with Investment Association guidelines
- Committee effectiveness
- Directors' shareholding guidelines
- Committee's terms of reference

Advisers to the Committee

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

In March 2017, Kepler (a brand of Mercer, which is part of the MMC group of companies) was appointed as the Committee's independent remuneration consultant following a competitive tender process led by the Chair of the Committee. 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. Kepler adheres to this Code of Conduct. The Committee has established arrangements to ensure that the advice received from Kepler is independent of the advice provided to the Company. Kepler is appointed by the Committee and its performance will be reviewed on an annual basis. The Committee will review the performance of, and advice provided by, Kepler in November 2017. Kepler also provided remuneration consultancy services to the Company during the year. Fees are charged predominantly on a "time spent" basis and the total fees paid to Kepler for the advice provided to the Committee during the year was £41,400. Fees paid to Kepler for other pay-related services to the Company during the year were £28,800.

From the beginning of the 2016/17 financial year until the appointment of Kepler in March 2017, New Bridge Street (a trading name of Aon Hewitt Limited and part of Aon plc) ("NBS") was the Committee's independent remuneration consultant. NBS is a member of the Remuneration Consultants' Group and also adheres to the Code of Conduct referred to above. Throughout the period the Committee operated arrangements to ensure that the advice received from NBS was independent of advice provided to the Company. NBS was appointed by the Committee and its performance reviewed on an annual basis. The Committee was satisfied that the advice received was objective and independent. NBS also provided remuneration consultancy services to the Company during the year. Fees are charged predominantly on a "time spent" basis and the total fees paid to NBS for the advice provided to the Committee during the year was £31,582. Fees paid to NBS for other pay-related services to the Company during the year were £11,500.

Alithos Limited ("Alithos") provided information to the Committee for the testing of the TSR performance conditions for the LTIP awards and also provided the TSR performance graphs for the Directors' Remuneration Report. They received total fixed fees of £10,500. Fees were charged as a fixed annual rate. Alithos was appointed by the Company for both services as it was considered to have the relevant expertise and experience. Alithos did not provide any other advice or services during the year and so the Committee considers Alithos to be objective and independent.

Freshfields Bruckhaus Deringer LLP ("Freshfields") provided legal advice to the Committee during the year in connection with retirements from and appointments to the Board and the Company's Remuneration Report. Fees are charged predominantly on a "time spent" basis and the total fees paid to Freshfields for the advice provided to the Committee during the year were £42,073. Freshfields was appointed by the Company and provided other services to the Company during the year. The Committee is satisfied that the services provided to it by Freshfields are of a technical nature and did not create any conflict of interest and therefore the advice received from them was objective and independent. If a conflict of interest were to arise, the Committee would appoint separate legal advisers from those used by the Company.

The Committee also seeks internal support from the Group HR Director and the Group Chief Executive together with other senior Group employees as necessary. Those who attend by invitation do not participate in discussions that relate to the details of their own remuneration.

Statement of shareholder voting

The following table shows the results of the full details of the voting outcomes for the Remuneration Report resolution at the AGM on 29 November 2016 and the Remuneration Policy at the AGM on 1 December 2015:

	Date of vote	Votes for	For %	Votes against	Against %	Total	Votes withheld (abstentions)
Remuneration Report	29 November 2016	193,161,428	98.11	3,722,912	1.89	196,884,340	9,634,381
Remuneration Policy	1 December 2015	195,566,771	97.79	4,428,909	2.21	199,995,680	961,949

Board appointments and service agreements/letters of appointment

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

Board appointments

Director[1]	Date of service agreement/ letter of appointment	Effective date of appointment	Expiry of current term
Chairman			
G Davis	29 May 2003	1 July 2003	
		20 January 2011 (as Chairman)	20 January 2020
Executive Directors[2]			
J Martin	31 August 2016	1 April 2010	
		1 September 2016 (as Group CEO)	
M Powell	28 February 2017	1 June 2017	
K Murphy	17 July 2017	1 August 2017	
Non Executive Directors			
T Bamford	22 March 2011	22 March 2011	22 March 2020
J Daly	21 May 2014	21 May 2014	21 May 2020
P López	18 December 2012	1 January 2013	1 January 2019
A Murray	11 December 2012	1 January 2013	1 January 2019
D Shapland	3 April 2014	3 April 2014	1 May 2020
N Shouraboura	7 June 2017	1 July 2017	1 July 2020
J Simmonds	21 May 2014	21 May 2014	21 May 2020

1. Details of all Directors can be found on pages 52 and 53. It remains the Board's policy that Non Executive Directors are appointed for an initial term of three years, which is then reviewed and, if appropriate, extended for a further three-year period. All Directors are proposed for re-election annually in accordance with the UK Corporate Governance Code ("the Code").
2. During the year, Frank Roach served as CEO, USA and a Director. Mr Roach retired on 31 July 2017.

Availability of documents

Copies of service agreements and letters of appointment are available for review upon request at the Company's registered office in Jersey. They are also available at the Corporate Head Office in Switzerland and the Group Services Office in the UK, and will be available for inspection at the 2017 AGM.

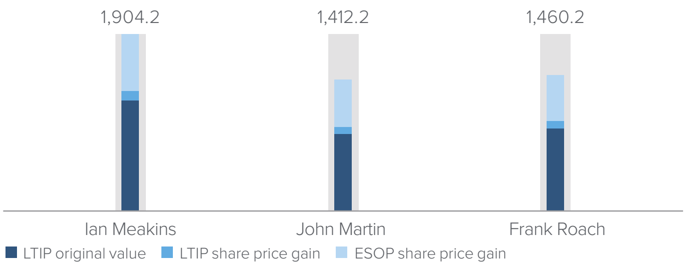
Remuneration table (showing single total figure of pay for year) (Audited)

The table below sets out in a single figure the total amount of remuneration, including each element, earned by each of the Executive Directors for the year ended 31 July 2017.

	Year	Salary (£000)	Taxable benefits[4] (£000)	Bonuses (£000)	Value of LTI vesting[5,6,7] (£000)	Pension benefits[8] (£000)	Total remuneration[6] (£000)
Executive Directors							
J Martin[1]	**2016/17**	**832.6**	**50.6**	**915.2**	**1,412.2**	**247.6**	**3,458.2**
	2015/16	531.0	53.7	378.8	797.9	132.7	1,894.1
M Powell[2]	**2016/17**	**85.0**	**3.1**	**91.4**	**–**	**21.3**	**200.8**
	2015/16	–	–	–	–	–	–
F Roach	**2016/17**	**881.2**	**86.9**	**1,044.3**	**1,460.2**	**202.7**	**3,675.3**
	2015/16	749.4	106.5	712.5	864.0	168.2	2,600.6
Past Directors							
I Meakins[3]	**2016/17**	**71.7**	**24.3**	**–**	**1,904.1**	**22.9**	**2,023.0**
	2015/16	859.8	65.3	567.9	1,607.1	275.1	3,375.2
Total	**2016/17**	**1,870.5**	**164.9**	**2,050.9**	**4,776.5**	**494.5**	**9,357.3**
	2015/16	2,140.2	225.5	1,659.2	3,269.0	576.0	7,869.9

1. John Martin was promoted to Group CEO with effect from 1 September 2016 having previously served as Group CFO. During the year, Mr Martin received one month's salary at an annualised level of £531,000 and pension contributions of 25 per cent base salary for his services as Group CFO and 11 months' salary at an annualised level of £860,000 with pension contributions of 30 per cent base salary for his services as Group CEO.
2. Mike Powell was appointed as Group Chief Financial Officer on 1 June 2017. During 2016/17, Mr Powell received two months' salary, taxable benefits, pension benefits and annual bonus payment.
3. Ian Meakins retired as Group Chief Executive on 31 August 2016. During 2016/17, Mr Meakins received one month's salary, taxable benefits and pension benefits. The majority of Mr Meakins taxable benefits for the period related to tax gross up arrangements. Mr Meakins did not receive an annual bonus payment in 2016/17. The value of Mr Meakins LTI award vesting in November 2017 is pro-rated on the basis of full financial years served during the relevant performance condition testing period for each award as described in the section detailing the Committee's exercise of discretion on page 66 of the Company's 2016 Annual Report. The value of LTI vesting chart, opposite, reflects this pro-ration.
4. These are pre-tax figures. Benefits comprise private health insurance, car benefit (car allowance, car, driver), tax and financial advice and tax gross up arrangements. The majority of Frank Roach's benefits relate to medical insurance and a car allowance.
5. The ESOP and LTIP grants were made in November 2014. The ESOP awards will vest at 100 per cent in November 2017 and the LTIP awards will vest at 71.6 per cent in November 2017. See page 78 for further information on the treatment of Frank Roach's LTI awards.
6. The figure for total remuneration includes share price appreciation for the value of LTI vesting and the value of dividend equivalents on vested LTIP awards. As the ESOP and LTIP grants made in November 2014 will not vest until November 2017, the values of long-term incentive awards vesting in the graph opposite include share price appreciation determined using the share price of 4,822 pence noted on page 72 under the heading "Information".

Value of LTI vesting (2017)
£000



7. Value shown for 2016/17 represents estimated value of share awards granted in 2014 that are expected to vest in November 2017. The estimate assumes 100 per cent vesting of ESOP awards and 71.6 per cent vesting of LTIP awards using the three-month average share price for the period ended 31 July 2016 of 4,822 pence. Value shown for 2015/16 represents the actual vesting of the ESOP and LTIP awards which vested in November 2016, using the share price of 4,199 pence (7 November 2016).
8. Frank Roach participated in the defined contribution pension arrangements of Ferguson Enterprises, Inc. receiving contributions of 23 per cent of base salary from Ferguson Enterprises Inc. The cost of employer's contributions during the year was £202,687 ($256,744). For the year ended 31 July 2016, the cost was £168,200 ($245,571). During the year ended 31 July 2017, John Martin, Mike Powell and Ian Meakins received salary supplements in lieu of Group pension scheme membership. Mr Powell and Mr Meakins only received salary supplements for their periods of service during the year.

The table below sets out in a single figure the total amount of remuneration received by each of the Chairman and the Non Executive Directors who served during the year ended 31 July 2017.

Chairman and Non Executive Directors	Fees (£000) 2016/17	Fees (£000) 2015/16
G Davis	**375.4**	368.0
Non Executive Directors (current as at the date of this report)		
T Bamford	**65.3**	64.0
J Daly	**65.3**	64.0
P López	**65.3**	64.0
A Murray	**78.1**	76.5
D Shapland	**84.2**	82.5
N Shouraboura	**5.4**	–
J Simmonds	**81.2**	79.5
Total remuneration	**820.2**	798.5

Additional disclosures in respect of the Remuneration table (Audited)

Annual bonus

The annual bonuses awarded to Executive Directors for the year ended 31 July 2017 are shown in the Remuneration table on page 76 and the bonuses are calculated as follows:

Director	Measure	Target Performance: Threshold	Target	Maximum	Actual Performance[1]	Actual performance (as % of salary)	Maximum opportunity (% of salary)
J Martin	Group trading profit	£968.6m	£1,009.0m	£1,049.4m	£1,044.9m	35.33%	36.00%
	Group gross profit	£4,456.0m	£4,570.3m	£4,684.5m	£4,651.9m	34.29%	36.00%
	Group cash-to-cash days (average)	51.5	51.0	50.5	48.6	24.00%	24.00%
	Personal objectives[2,6]	1/20	–	20/20	19/20	22.80%	24.00%
						Total Achieved: 116.42%	120.00%
M Powell[3]	Group trading profit	£968.6m	£1,009.0m	£1,049.4m	£1,044.9m	32.33%	33.00%
	Group gross profit	£4,456.0m	£4,570.3m	£4,684.5m	£4,651.9m	31.29%	33.00%
	Group cash-to-cash days (average)	51.5	51.0	50.5	48.6	22.00%	22.00%
	Personal objectives[4,6]	1/20	–	20/20	20/20	22.00%	22.00%
						Total Achieved: 107.62%	110.00%
F Roach	Group trading profit	£968.6m	£1,009.0m	£1,049.4m	£1,044.9m	8.20%	8.40%
	USA trading profit	£818.3m	£884.6m	£951.0m	£889.3m	28.00%	33.60%
	Group gross profit	£4,456.0m	£4,570.3m	£4,684.5m	£4,651.9m	7.89%	8.40%
	USA gross profit	£3,143.9m	£3,257.9m	£3,371.9m	£3,353.2m	32.40%	33.60%
	Group cash-to-cash days (average)	51.5	51.0	50.5	48.6	5.60%	5.60%
	USA cash-to-cash days (average)	61.1	60.6	60.1	56.4	22.40%	22.40%
	Personal objectives[5,6]	1/20	–	20/20	10/20	14.00%	28.00%
						Total Achieved: 118.49%	140.00%

1. Figures adjusted for exceptional items and include non-ongoing operations. Group figures also include the Nordic business. All calculations use Company budgeted foreign exchange rates.
2. John Martin's personal objectives were based on growth in the USA business, the UK strategy review and the Nordic strategy review and implementation plan.
3. Mike Powell was appointed Group Chief Financial Officer on 1 June 2017 and received two months' annual bonus for the year ended 31 July 2017.
4. Mike Powell's personal objectives were based on the year-end audit clearance meetings, 2017/18 budget reviews and the completion of his induction programme.
5. Frank Roach's personal objectives were based on improvements in the USA customer service measures and development of the USA CMRO business against agreed targets.
6. 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 will consider disclosing the information if these sensitivities fall away in future periods.

Following a review, the Committee considers that Executive Directors' personal objectives for 2015/16 are no longer commercially sensitive and has approved their disclosure.

Ian Meakins' objectives were to: (a) accelerate profitable top line growth and market share gains with specific focus on: improving customer service levels; implementing differentiated customer propositions; and improving execution by the sales force; and (b) deliver strategic and budget plans for increases in e-commerce revenues in Canada, DT Group and the UK business, and for USA operational expenditure growth to be lower than budget. Mr Meakins achieved an overall score of 14/20.

John Martin's objectives were to: (a) complete the development of Group finance systems; (b) implement Hyperion Financial Management at Group level; and (c) deliver strategic and budget plans in Canada for: an increase in e-commerce revenues; improvements in sales management against quarterly non-financial milestones; and meeting quarterly milestones for the implementation of a new reporting system and opening a new distribution centre. Mr Martin achieved an overall score of 14/20.

Frank Roach's objectives were to: (a) improve profitable top line growth and market share gains in the USA business with specific focus on: improving customer service levels; implementing differentiated customer propositions; and improving execution by the sales force; and (b) deliver strategic and budget plans for: the completion of the Business Model Improvement programme in the USA; USA operational expenditure growth to be lower than budget; and quarterly e-commerce, customer and operational targets. Mr Roach achieved an overall score of 14/20.

The Committee also approved the disclosure of the 2014/15 objectives on the Company's website at **www.fergusonplc.com**.

Long-term incentives

Long-term incentives awarded to Executive Directors under the ESOP and LTIP in November 2014 will vest in November 2017. The vesting of both awards is subject to the performance conditions shown in the tables that follow.

The Committee decided to adjust the EPS measure used to calculate the level of awards made under the ESOP and 2012 LTIP that are due to vest in 2017/18 to neutralise the effect of currency movements during 2016/17 that would have rewarded management for factors beyond its control and to include the results of the Nordic business, the performance of which declined over the performance period. This adjustment is explained in more detail in the Committee Chair's statement on pages 69 and 70.

Executive Director changes

Frank Roach

Under the rules of the ESOP, 2012 LTIP and 2015 LTIP, when an employee ceases to be employed by the Group unvested awards will lapse unless the participant is treated as a "good leaver". In the case of retirement, the Remuneration Committee has the discretion under the rules to treat a participant as a "good leaver" by determining that the employee left "for any other reason at the discretion of the Committee".

For "good leavers", the rules provide that awards will vest on the original vesting date, subject to satisfaction of performance conditions, and will be pro-rated to the date of cessation of employment. Although the performance conditions for the awards are measured from 1 August in the year in which awards were granted, pro-ration under the rules is calculated using the three-year period commencing on the date of grant. The Remuneration Committee has discretion to base any pro-ration for a "good leaver" to reflect completed financial years during a performance period.

Frank Roach retired as Chief Executive, USA on 31 July 2017. In light of Mr Roach's outstanding contribution to the Company's success, the Remuneration Committee agreed to exercise its discretion:

- to treat him as a "good leaver" for his unvested awards granted under the ESOP, 2012 LTIP and 2015 LTIP;
- to allow awards to vest on the original vesting dates (subject to satisfaction of the performance conditions); and
- to time pro-rate his awards granted in 2014/15, 2015/16 and 2016/17 on the basis of full financial years worked by Mr Roach during the relevant performance period for each award. Therefore, the 2014/15 award will vest in full and the 2015/16 and 2016/17 awards will be subject to a reduction of one-third and two-thirds respectively.

Mike Powell

Mike Powell joined the Company as Group Chief Financial Officer on 1 June 2017. As a result of joining Ferguson, Mr Powell forfeited awards he held under the BBA Deferred Share Plan and the BBA LTIP. Due to these unusual circumstances and in line with the approved Remuneration Policy, the Committee agreed it was appropriate to broadly replicate the structure and fair value of unvested long-term incentive awards forfeited by Mr Powell as a result of joining Ferguson and approved the grant of three Restricted Share Buy Out Awards (RSBO) to replace awards forfeited under the BBA Deferred Share Plan and one Performance Based Buy Out Award (PBBO) to replace awards forfeited under the BBA LTIP. Mr Powell first became eligible to participate in these arrangements on 1 June 2017.

The RSBO and PBBO awards were granted to Mr Powell on 21 June 2017. The RSBO awards were granted as conditional share awards. No consideration is payable on grant or on vesting of these awards. These awards are not subject to performance conditions and will vest subject to continued employment. The PBBO award was granted as a conditional share award. The PBBO award will only vest if certain Company corporate performance conditions are satisfied. These performance conditions are measured over a three-year period and are the same as those applied to awards granted to Executive Directors on 1 November 2016 under the 2015 LTIP. The PBBO award will normally vest subject to continued employment and the satisfaction of the performance conditions.

Further details of the RSBO and PBBO awards granted to Mr Powell on 21 June 2017, including the performance conditions applicable, are set out under the Scheme interests awarded during the financial year heading on page 80. The number of shares awarded for each of the RSBO and PBBO awards detailed in the table under that heading are the maximum awards under the RSBO and PBBO.

ESOP

Vested awards

The ESOP awards granted on 7 November 2014 are the last such awards to have been granted by the Company. Vesting of awards under the ESOP are subject to performance targets based on growth in the Company's headline EPS above UK RPI over a three-year period. The ESOP plan rules set out the EPS performance conditions that apply to awards and are shown in the table below. The Committee has discretion to set more challenging EPS targets than those contained in the ESOP plan rules.

Value of shares under option as a multiple of salary	Performance conditions detailed in plan rules	Performance conditions applied to awards granted in 2014/15
Total margin of EPS growth over UK inflation after three years ("RPI")		
First 50% of salary	9%	9%
Next 150% of salary	12%	18%
Next 50% of salary	15%	30%
Greater than 250% of salary	15%-21%	N/A

Adjusted headline EPS was 270.5 pence in 2016/17 (288.9 pence prior to adjustment). Adjusted headline EPS in 2013/14 was 195.0 pence (173.2 pence prior to adjustment), this represents growth of 38.7 per cent. Over the same three-year period, RPI growth was 6.6 per cent. The growth above RPI in the period was therefore 32.1 per cent and accordingly all performance targets have been achieved, as set out below:

Performance level	Total margin of EPS growth Over UK inflation after three years ("RPI")	
Value of shares under option as a multiple of salary	Performance required	Target achieved
First 50% of salary	9%	Yes
Next 150% of salary	18%	Yes
Next 50% of salary	30%	Yes

Accordingly, the total percentage of executive options vesting is set out below:

Value of shares under option as a multiple of salary	Total number of shares subject to option	Percentage of award vesting	Number of shares vesting	Value of shares vesting (£000)[2]
J Martin	35,113	100%	35,113	512.6
F Roach	33,842	100%	33,842	494.1
I Meakins[1]	41,994	100%	41,994	613.1

1. As detailed on page 66 of the Company's 2016 Annual Report, Ian Meakins' awards reflect the completed financial years served prior to his retirement on 31 August 2016, in line with the Committee's exercise of discretion. His original award grant was 62,992 share options.
2. Value determined using the share price noted on page 72 under the heading "Information" less exercise price of 3,362 pence.

LTIP

Vested awards – 2012 LTIP

The performance condition which applied to the awards made in November 2014 ended on 31 July 2017 and actual performance achieved is detailed below.

	TSR relative to FTSE 100 at date of grant	
Performance level	Performance required	% of total award vesting
Below threshold	Below median	0%
Threshold	Median	25%
Between threshold and stretch	Between median and top decile	25%-100%
Stretch or above	Top decile	100%
Actual TSR rank achieved	24th	71.6%

Accordingly, the total percentage of shares vesting is set out below:

Value of shares under option as a multiple of salary	Total number of shares granted	Percentage of award vesting	Number of shares vesting	Value of shares vesting (£000)[2,3]
J Martin	24,527	71.6%	17,561	899.6
F Roach	26,341	71.6%	18,860	966.1
I Meakins[1]	35,201	71.6%	25,204	1,291.1

1. As detailed on page 66 of the Company's 2016 Annual Report, Ian Meakins' awards reflect the completed financial years served prior to his retirement on 31 August 2016, in line with the Committee's exercise of discretion. His original award was 52,802 nil cost options.
2. Value determined using the share price noted on page 72 under the heading "Information".
3. Dividend equivalents have accrued on the 2014 share awards and will be paid out in cash after vesting of the awards. The value above includes the cash payment.

Unvested awards – 2015 LTIP

The performance conditions for comparative TSR set out in the table on page 73 and the more challenging performance conditions for EPS set out in the table on page 78 apply for unvested share awards made under the 2015 LTIP. The following tables set out the performance conditions for OpCF which apply for unvested awards under the 2015 LTIP made in 2015/16 and 2016/17 respectively.

2015/16 award

Operating cash flow[1]	Percentage of award subject to operating cash flow which will vest[2]
$4.213 billion	100%
Between $3.577 billion and $4.213 billion	25%-100%
$3.577 billion	25%
Below $3.577 billion	0%

1. Cash generated from operations (before interest and tax) as presented in the audited annual Group cash flow statement in the Company's Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance, and specifically would be adjusted downwards to reflect the impact on operating cash flow following the expected disposal of the Nordic business). As described on page 70, these targets have been restated into US dollars. The exchange rate used for this calculation was £1:$1.59 being the average exchange rate for the three-year period preceding the grant of the 2015/16 award.
2. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.

2016/17 award

Operating cash flow[1]	Percentage of award subject to operating cash flow which will vest[2]
$4.495 billion	100%
Between $3.875 billion and $4.495 billion	25%-100%
$3.875 billion	25%
Below $3.875 billion	0%

1. Cash generated from operations (before interest and tax) as presented in the audited annual Group cash flow statement in the Company's Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance, and specifically would be adjusted downwards to reflect the impact on operating cash flow following the expected disposal of the Nordic business). As described on page 70, these targets have been restated into US dollars. The exchange rate used for this calculation was £1:$1.55 being the average exchange rate for the three-year period preceding the grant of the 2016/17 award.
2. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.

Calculations for TSR are independently carried out and verified before being approved by the Committee. Calculations for EPS and OpCF are checked and verified internally.

The following table sets out the indicative vesting percentage of the comparative TSR element of the awards based on performance as at 31 July 2017:

Year of award	Year of vesting	Indicative vesting percentage based on performance as at 31 July 2017
2015/16	2018/19	68.8 (Performance at 24 months)
2016/17	2019/20	62.5 (Performance at 12 months)

The following table sets out the indicative vesting percentage of the EPS growth element of the awards based on performance as at 31 July 2017:

Year of award	Year of vesting	Indicative vesting percentage based on performance as at 31 July 2017
2015/16	2018/19	0.0 (Performance at 24 months)
2016/17	2019/20	25.0 (Performance at 12 months)

The following table sets out the indicative vesting percentage of the OpCF element of the awards based on performance as at 31 July 2017:

Year of award	Year of vesting	Indicative vesting percentage based on performance as at 31 July 2017
2015/16	2018/19	100.0 (Performance at 24 months)
2016/17	2019/20	100.0 (Performance at 12 months)

Share awards exercised during the year

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

Director	Sharesave	LTIP	ESOP	Total[1,2]
J Martin	–	11,000	34,913	45,913
F Roach	90	12,403	35,329	47,822

1. The aggregate gain made on the exercise of options during the year by John Martin and Frank Roach was £308,500 and £313,700 respectively.
2. The aggregate value of assets received or receivable by John Martin and Frank Roach under long-term incentive plans during the year was £461,900 and £520,800 respectively.

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 31 July 2017 are set out below and there has been no change in interests since that date and up to the date of this Report.

	Shares beneficially owned as at 31 July 2017	Shareholding guideline (as a multiple of salary/fees)[1,2]	Vested (unexercised) share awards[3,4]	Unvested share awards: With performance conditions LTIP[5]	ESOP[5]	PBBO[5]	Without performance conditions RSBO[5]	Sharesave[5]
Executive Directors								
J Martin	**90,574**	2.5	–	121,232	35,113	–	–	957
F Roach	**60,179**	2	38,014	135,135	33,842	–	–	–
M Powell	**–**	2	–	–	–	18,859	22,160	–
Chairman and Non Executive Directors								
G Davis	**15,346**	1	–	–	–	–	–	–
T Bamford	**2,048**	1	–	–	–	–	–	–
J Daly	**2,050**	1	–	–	–	–	–	–
P López	**2,602**	1	–	–	–	–	–	–
A Murray	**2,500**	1	–	–	–	–	–	–
D Shapland	**2,100**	1	–	–	–	–	–	–
N Shouraboura	**–**	1	–	–	–	–	–	–
J Simmonds	**2,000**	1	–	–	–	–	–	–

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 Deferred Bonus Plan. Beneficially owned shares count towards the guideline whilst unvested awards of shares or share options do not. Vested share awards do not count towards the guideline until exercised.
2. All Directors met their shareholding guideline targets set for 2016/17. Shareholding guideline targets for Mike Powell, Kevin Murphy and Nadia Shouraboura were set on 1 August 2017 and as such they had no targets to meet as at the end of the 2016/17 financial year. Shareholding guideline targets are first set by reference to the salary or fees of a Director as at 1 August in the financial year following appointment to the Board and calculated using the average share price for the two months ended 31 July of the financial year in which the appointment was made and are re-tested annually until met. Once met, the target is only increased annually in line with base salary or fee increases, if any.
3. There were no vested (unexercised) awards under the Sharesave. There was an award under the ESOP held by Frank Roach who had 38,014 conditional shares vested but unexercised.
4. Details of share awards exercised in the year are detailed in the Share awards exercised during the year table at the bottom of page 79.
5. LTIP, ESOP and PBBO awards are subject to performance conditions but RSBO and Sharesave awards are not. LTIP awards are awarded in the form of nil cost options to John Martin and in the form of conditional share awards to Frank Roach. PBBO and RSBO awards were awarded to Mike Powell in the form of conditional share awards. Further details of the performance conditions which apply to the LTIP and PBBO awards are set out on pages 78 and 79.

Scheme interests awarded during the financial year (Audited)

Awards under the 2015 LTIP were made on 1 November 2016. Awards are based on a percentage of salary determined by the Committee. The Committee considers annually the size of each grant, determined by individual performance, the ability of each individual to contribute to the achievement of the performance conditions, and market levels of remuneration. The maximum vesting is 100 per cent of the award granted. Details of performance conditions for awards which were granted during the year are set out on pages 78 and 79. Further information on the buy-out awards granted to Mike Powell is provided on page 78.

The scheme interests awarded during 2016/17 are summarised below:

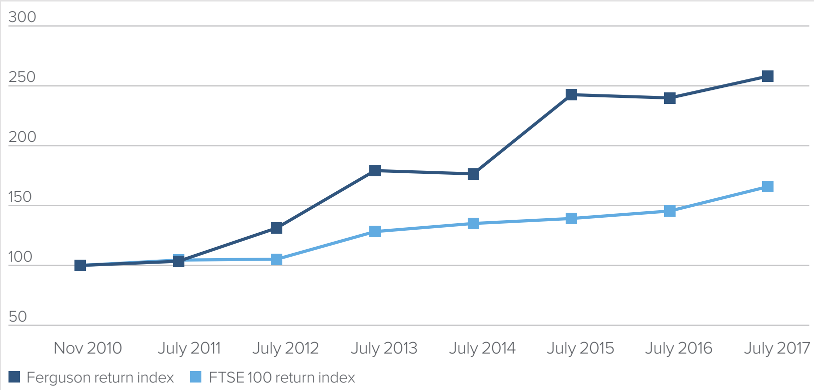
Director	Award	Type of award	Number of shares[1]	Face value[2,3] of award (£000)	Performance criteria period	Threshold performance	Performance conditions
J Martin	LTIP	Nil cost options	58,858	2,579.7	1 August 2016 – 31 July 2019	25% of award vesting	Growth in EPS above RPI target; Comparator TSR target against FTSE100; Cumulative operating cash flow growth
F Roach	LTIP	Conditional shares	51,493	2,256.9	1 August 2016 – 31 July 2019	25% of award vesting	Growth in EPS above RPI target; Comparator TSR target against FTSE100; Cumulative operating cash flow growth
M Powell	PBBO	Conditional shares	18,859	932.5	1 August 2016 – 31 July 2019	25% of award vesting	Growth in EPS above RPI target; Comparator TSR target against FTSE100; Cumulative operating cash flow growth
M Powell	RSBO	Conditional shares	14,026	693.5	21 June 2017 – 28 March 2018	N/A	N/A
M Powell	RSBO	Conditional shares	5,695	281.6	21 June 2017 – 27 March 2019	N/A	N/A
M Powell	RSBO	Conditional shares	2,439	120.6	21 June 2017 – 1 April 2020	N/A	N/A

1. John Martin and Frank Roach's awards during the financial year were based on a percentage of salary as follows: John Martin (300 per cent); and Frank Roach (275 per cent). Following his appointment as Group Chief Financial Officer on 1 June 2017 buy out awards were granted to Mike Powell that broadly replicate the structure and fair value of unvested long-term incentive awards forfeited by Mr Powell as a result of joining Ferguson.
2. The share price used to calculate the face value of the LTIP share awards granted on 1 November 2016 was 4,383 pence which was the average share price over a 10-dealing day period immediately preceding the date of grant. The LTIP award made to John Martin was in the form of nil cost options. At vesting, the exercise price per share will be nil. The LTIP award made to Frank Roach was a conditional share award and there is no exercise price. The share price used to calculate the face value of the PBBO and RSBO share awards granted on 21 June 2017 was 4,944.6 pence which was the average share price over a five-dealing day period preceding 28 February 2017. The PBBO and RSBO awards made to Mike Powell were conditional share awards and there is no exercise price. Face value is calculated as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("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 PBBO awards and the amount which may be due to an Executive Director is not included in the calculation of face value.
3. The maximum dilution which may arise through issue of shares to satisfy the entitlement to these LTIP, PBBO and RSBO scheme interests would be 0.00057 per cent calculated as at 31 July 2017.

Ferguson TSR performance and Group CEO remuneration comparison

The graph opposite shows Ferguson's TSR performance against the performance of the FTSE 100 Index from the creation of the new holding company (formerly known as Wolseley plc), which was created at the time of the redomiciliation to Switzerland in November 2010, to 31 July 2017. 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 eight-year period from 1 August 2009 to 31 July 2017.



	Group CEO		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Single figure of total remuneration (£000)[2]	I Meakins		1,943	2,011	5,603	5,109	5,890	3,901	3,375[3]	2,023
	J Martin		–	–	–	–	–	–	–	3,458
Annual bonus award rates against maximum opportunity	I Meakins		96%	98%	85%	84%	97%	85%	55%	–
	J Martin		–	–	–	–	–	–	–	97%
Long-term incentive vesting rates against maximum opportunity	I Meakins	LTIP	0%	0%	76%	100%	88%	75%	47%	72%
		ESOP	0%	0%	100%	100%	100%	100%	100%	100%
	J Martin	LTIP	–	–	–	–	–	–	–	72%
		ESOP	–	–	–	–	–	–	–	100%

1. During the eight-year period, Ian Meakins was the Group Chief Executive until his retirement on 31 August 2016. Since 1 September 2016, John Martin has served as Group Chief Executive. The single figure total shown for Mr Martin in the 2016/17 financial year includes one month's pay as Group Chief Financial Officer.
2. The single figure for all eight years is calculated on the same basis as that used in the Remuneration table on page 76.
3. The single figure for the year ended 31 July 2016 has been adjusted from the value of £3,114 million estimated in that year's report to reflect the actual value of LTI at the dates of vesting in November 2016.

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

No payments for loss of office were made during the financial year. Ian Meakins served as Group Chief Executive Officer for one month during the year until his retirement on 31 August 2016. Payments made to Mr Meakins are set out in the Remuneration table on page 76. Additionally, detail on ESOP and LTIP awards granted to Mr Meakins that vested during the year are disclosed on pages 78 and 79. No other payments have been made to past Directors that have not already been included in the Remuneration table.

Relative importance of spend on pay

The following table sets out the amounts and percentage change in total employee remuneration costs, dividends and returns of capital for the year ended 31 July 2017 compared to the year ended 31 July 2016.

	Year ended 31 July 2017 £m	Year ended 31 July 2016 £m	Percentage change
Total employee remuneration costs[1]	**2,140**	1,766	+21.2%
Ordinary dividends paid[2]	**259**	238	+8.8%
Share buyback[3]	**–**	300	–

1. Further details on employee remuneration can be found in note 11 of the consolidated financial statements on page 99.
2. Further details of dividends paid can be found in note 9 of the consolidated financial statements on page 98.
3. Further details of the share buyback programme can be found in note 27 of the consolidated financial statements on page 113. Details of the share buyback programme to be commenced in 2017/18 are not included as no shares were purchased during 2016/17.

Change in Group Chief Executive pay for the year compared to that of Ferguson employees

The table below shows the percentage year-on-year change in base salary, benefits and annual bonus between the year ended 31 July 2017 and the previous financial year for the Group Chief Executive compared to the average for UK-based employees[1].

Chairman and Non Executive Directors	% change in salary	% change in benefits	% change in annual bonus[2]
Group Chief Executive[3,4]	0.0%	+56.4%	+53.3%
Average for all UK-based employees	+3.5%	+9.7%	+140.8%

1. Although the Group Chief Executive has a global role and responsibilities, UK-based employees were chosen as a suitable comparator group as he is based in the UK (except to attend Board and Committee meetings in Switzerland or other worldwide locations outside of the UK). Also pay structures and changes to pay vary widely across the Group, depending on the local market conditions.
2. The Group Chief Executive's bonus is determined by both his performance and the performance of the whole of the Ferguson Group, whereas employees' bonuses are based on their performance and the performance of the businesses in the countries in which they work. The percentage change in annual bonus for UK-based employees is based on the best available estimates at time of publication.
3. During the year ended 31 July 2017, John Martin replaced Ian Meakins as Group CEO on 1 September 2016. Changes in Group Chief Executive pay have been calculated using the sum of Mr Meakins and Mr Martin's salary, benefits and bonus for their respective one and 11 months of service as Group CEO during 2016/17. Mr Meakins did not receive an annual bonus for the year ended 31 July 2017.
4. The change in benefits for the Group Chief Executive, includes a tax gross up payment made to Ian Meakins in August that relates to the previous tax year and a tax gross up payment made to John Martin in September that relates to the previous tax year. The change in benefits without this duplication would have been 9.0 per cent.

Policy extracts

Ferguson's Remuneration Policy remains unchanged from that approved by shareholders at the AGM on 1 December 2015. For convenience, some extracts from the Policy are included below to provide the context within which individual remuneration decisions have been made during the year. The full Policy can be found on the Ferguson plc website at **www.fergusonplc.com**.

In these extracts, the following definitions apply:

DBP	Deferred Bonus Plan
OSP	Ordinary Share Plan

Recruitment policy

Executive Directors

As noted earlier, the Committee will consider the need to attract the best talent whilst aiming to pay no more than is appropriate or necessary in the circumstances. In determining each element of pay and the package as a whole upon recruitment, the Committee will take into account all relevant factors including, but not limited to, the skills and experience of the individual, the market rate for an individual of that experience, as well as the importance of securing the best person for the role.

Fixed pay (base salary, benefits, pension)

A newly appointed Executive Director will be offered a base salary, benefits and pension package in line with the Policy. The Committee retains the flexibility to review and decide on a case-by-case basis whether it is appropriate to award increases to allow a newly appointed Executive Director whose base salary has been set below the mid-market level to progress quickly to or around that mid-market level once expertise and performance has been proven. This decision would take into account all relevant factors noted above.

Variable pay (annual bonus and long-term incentive awards)

A newly appointed Executive Director will be offered an annual bonus and long-term incentives in line with the Policy. The maximum level of variable remuneration (annual bonus and 2015 LTIP awards) which may be awarded to new Executive Directors is limited to 500 per cent of base salary excluding any buy out awards, the policy for which is set out below. The Committee retains the flexibility to vary the weighting between annual bonus and 2015 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 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.

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 Policy the Committee may make any statutory payments it is required to make and/or settle claims brought against the Company in relation to a termination. In addition, the Committee may agree to payment of outplacement counselling costs and disbursements (such as legal costs) if considered to be appropriate and dependent on the circumstances of departure.

It is the Company's policy for the period of notice from the Company to the Executive Directors not to exceed 12 months and for Non Executive Directors to the Company not to exceed six months.

There are no pre-determined contractual provisions for Directors regarding compensation in the event of loss of office except those listed in the table below:

Details of provision	Executive Directors	Chairman and Non Executive Directors
Notice period	– 12 months' notice from the Company. – Six months' notice from the Executive.	Six months' notice by either party.
Termination payment	The Company may terminate an Executive Director's service contract by making a payment in lieu of notice equal to: – 12 months' base salary and benefits; and – 12 months' pension contributions or cash pension supplement.	Fees and expenses accrued up to the termination date only.
	The Company would seek to ensure that any termination payment is mitigated in the event that the Executive Director starts alternative employment within the notice period.	
	In the case of the UK-based Executive Directors, the Company may pay a lump sum in respect of six months and the remaining six months in monthly instalments subject to reductions if the Executive Director commences alternative employment with a base salary/fee of at least £20,000.	
	No payment will be made to Executive Directors in the event of gross misconduct.	
Post-termination covenants	Non-compete and non-solicitation covenants apply for a period of 12 months after the termination date.	Not applicable.

The policy on loss of office and contractual provisions above would be applied to any new Director's service contract or letter of appointment.

Executive Directors

On loss of office, there is no automatic entitlement to a bonus. Executive Directors may receive a bonus in respect of the year of cessation of employment based on, and subject to, performance conditions and pro-rated to reflect the actual period of service in the year of cessation (except pro-ration may not be applied in exceptional circumstances such as death in service or ill health). The Committee will take into account the reason for the Executive Director's departure and any other relevant factors when considering a bonus payment of a departing Executive Director.

The treatment of leavers under the 2012 LTIP and 2012 ESOP plans as approved under the 2014 Remuneration Policy and the 2015 LTIP (together the "LTI plans"), together with awards under all-employee plans and, if applicable the DBP, would be determined by the relevant leaver provisions in accordance with the plan rules.

Under the 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, for example, at the date of cessation or at the usual vesting date. 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 LTI plans, awards would generally be pro-rated to reflect the period of service of the Executive Director; although, if the Committee considers it appropriate, the Committee has the discretion set out in the plan rules not to pro-rate.

Under the all-employee plans, any unvested awards will lapse at cessation unless the individual has a "good leaver" status – for UK Executive Directors this will be specifically as prescribed by HMRC in the SAYE appendix of the relevant plan rules and for Executive Directors in other jurisdictions as set out in the relevant section of the applicable plan rules.

Under the DBP, any unvested awards will be forfeited if an Executive Director ceases to be an employee of the Group by reason of misconduct or if the Company becomes aware, after termination, of facts or circumstances which would have entitled it to dismiss the Executive Director for misconduct. If an Executive Director ceases to be an employee for any other reason, an award shall vest in full at the end of the deferral period unless the reason for cessation is death or other circumstances which the Committee considers sufficiently exceptional, the award shall vest in full at the date of death or cessation of employment.

Discretion, flexibility and judgement of the Committee

The Committee operates the annual bonus plan, DBP, LTI plans and all-employee plans, according to their respective rules and in accordance with tax authorities' rules where relevant. To ensure the efficient administration of those plans, the Committee may apply certain operational discretions. These include the following:

– selecting the participants in the plans on an annual basis;
– determining the timing of grants of awards and/or payment;
– determining the quantum of awards and/or payments (within the limits set out in the Policy table above);
– determining the extent of vesting based on the assessment of performance;
– making the appropriate adjustments required in certain circumstances (e.g. change of control, changes to accounting rules, rights issues, corporate restructuring events, and special dividends);
– determining "good leaver" status for the purposes of the LTI plans and applying the appropriate treatment; and
– undertaking the annual review of performance measures and weighting between them (within the limits set out in the Policy table), and setting targets for the annual bonus plan and LTI plans from year to year.

If an event occurs which results in the performance conditions and/or targets of the annual bonus plan or LTI plans 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 Future policy table 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.

Further information

External Directorships

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

During the year, and until his retirement as Group CEO on 31 August 2016, Ian Meakins was a Non Executive Director and Senior Independent Director of Centrica plc and received an annualised fee of £92,500 for his services (2015/16: £89,375). During the year, and until his retirement as Group CEO on 31 August 2016, Mr Meakins also served as a Non Executive Director of Rexel SA. The annualised fee for his service was set at €40,000 per annum (2015/16: €40,000). The Company allowed Mr Meakins to retain the fees paid to him during the year.

During the year, and from the date of appointment as Group CFO of Ferguson plc on 1 June 2017, Mike Powell was a Non Executive Director and Audit Committee Chairman of Low & Bonar plc and received an annualised fee of £47,000 per annum for his services. The Company allowed Mr Powell to retain the fees paid to him during the year.

Detail of Employee Benefit Trusts

The Ferguson plc 2011 Employee Benefit Trust ("Jersey Trust") and Ferguson plc US Trust ("US Trust") (together, "the Trusts") were established in connection with the obligation to satisfy historical and future share awards under the LTI plans and OSP and any other employee incentive schemes ("Share Awards").

The trustees of each of the Trusts have waived their rights to receive dividends on any shares held by them. As at 31 July 2017, the Jersey Trust held 379,154 ordinary shares of 10$\frac{53}{66}$ pence and £1,942 in cash; and the US Trust held 1,056,001 ordinary shares of 10$\frac{53}{66}$ pence. The number of shares held by the Trusts represented 0.54 per cent of the Company's issued share capital at 31 July 2017.

On 7 November 2016, shares were purchased by the US Trust to ensure that it continues to have sufficient shares to satisfy share awards. The US Trust purchased 142,000 ordinary shares of 10$\frac{53}{66}$ pence and paid £5.96 million. The Company provided funds to the US Trust to enable it to make the purchase. The number of shares purchased represented 0.05 per cent of the Company's issued share capital at that date.

Detail of all-employee sharesave plans

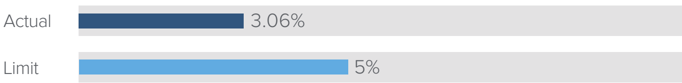
The Company operates two all-employee sharesave plans which Executive Directors can participate in. In the USA and Canada, the Employee Share Purchase Plan ("ESPP") operates as a one-year savings contract plan. In all other business units, employees may participate in the International Sharesave Plan ("ISP") saving for a period of three or five years.

Dilution

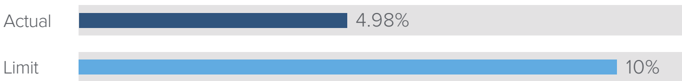
Awards under the LTI plans and all-employee plans may be met by the issue of new shares when options are exercised, by the use of Treasury Shares or by market purchase. Awards under the OSP are met by market purchase of shares or from the Trusts. The Company monitors the number of shares issued under 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 all share plans (10 per cent in any rolling 10-year period) and executive share plans (5 per cent in any rolling 10-year period) as at 31 July 2017 the Company's headroom was 5.02 per cent and 1.94 per cent respectively.

Executive share plans



All share plans



This Report has been approved by the Board and is signed on its behalf by the Chair of the Remuneration Committee.

On behalf of the Board

Jacky Simmonds
Chair of the Remuneration Committee
2 October 2017

This Report, approved by the Board, has been prepared in accordance with the requirements of the Listing Rules of the Financial Conduct Authority and the Remuneration Reporting Regulations. Furthermore, the Board has also applied the principles of good governance relating to Directors' remuneration contained within the UK Corporate Governance Code updated in April 2016. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions.

Financials

Group income statement

Year ended 31 July 2017

	Notes	2017 Before exceptional items £m	2017 Exceptional items (note 5) £m	2017 Total £m	2016 Before exceptional items £m (Restated*)	2016 Exceptional items (note 5) £m (Restated*)	2016 Total £m (Restated*)
Revenue	3	**15,224**	**–**	**15,224**	12,549	–	12,549
Cost of sales		**(10,814)**	**(2)**	**(10,816)**	(8,956)	(1)	(8,957)
Gross profit		**4,410**	**(2)**	**4,408**	3,593	(1)	3,592
Operating costs:							
amortisation of acquired intangible assets		**(64)**	**–**	**(64)**	(48)	–	(48)
impairment of goodwill and acquired intangible assets		**–**	**–**	**–**	(94)	–	(94)
other		**(3,351)**	**231**	**(3,120)**	(2,736)	(3)	(2,739)
Operating costs		**(3,415)**	**231**	**(3,184)**	(2,878)	(3)	(2,881)
Operating profit	3, 4	**995**	**229**	**1,224**	715	(4)	711
Finance costs	6	**(43)**	**–**	**(43)**	(36)	–	(36)
Share of result of associate	15	**(1)**	**–**	**(1)**	–	–	–
Profit before tax		**951**	**229**	**1,180**	679	(4)	675
Tax	7	**(270)**	**(22)**	**(292)**	(211)	1	(210)
Profit from continuing operations		**681**	**207**	**888**	468	(3)	465
(Loss)/profit from discontinued operations	8	**(47)**	**(58)**	**(105)**	31	154	185
Profit for the year		**634**	**149**	**783**	499	151	650
Attributable to:							
Shareholders of the Company		**634**	**149**	**783**	508	151	659
Non-controlling interests		**–**	**–**	**–**	(9)	–	(9)
		634	**149**	**783**	499	151	650

	Notes	2017	2016
Earnings per share	10		
Continuing operations and discontinued operations			
Basic earnings per share		**311.6p**	256.4p
Diluted earnings per share		**309.4p**	254.8p
Continuing operations only			
Basic earnings per share		**353.4p**	183.4p
Diluted earnings per share		**350.8p**	182.3p

Alternative performance measures	Notes	2017	2016
Trading profit from ongoing operations	2, 3	**1,032**	827
Trading profit from non-ongoing operations	2, 3	**27**	30
Trading profit from continuing operations	2, 3	**1,059**	857
EBITDA before exceptional items	2	**1,199**	971
Headline earnings per share	2, 10	**288.9p**	234.7p

* Restated to present the Nordic businesses as discontinued operations in accordance with IFRS 5.

Group statement of comprehensive income

Year ended 31 July 2017

	Notes	2017 £m	Restated 2016 £m
Profit for the year		**783**	650
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of overseas operations[(a)]		**26**	495
Exchange loss on translation of borrowings and derivatives designated as hedges of overseas operations[(a)]		**(6)**	(107)
Cumulative currency translation differences on disposals[(a)]		**(49)**	(125)
Tax credit/(charge) on items that may be reclassified to profit or loss[(b)]	7	**1**	(7)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on retirement benefit plans[(b)]	26	**(1)**	(120)
Tax (charge)/credit on items that will not be reclassified to profit or loss[(b)]	7, 26	**(1)**	25
Other comprehensive (expense)/income for the year		**(30)**	161
Total comprehensive income for the year		**753**	811
Total comprehensive income/(expense) attributable to:			
Continuing operations		**850**	744
Discontinued operations		**(97)**	67
Total comprehensive income for the year		**753**	811

(a) Impacting the translation reserve.
(b) Impacting retained earnings.

Group statement of changes in equity

				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
At 1 August 2015		29	42	117	(240)	(63)	2,715	7	2,607
Profit for the year		–	–	–	–	–	659	(9)	650
Other comprehensive income/(expense)		–	–	263	–	–	(102)	–	161
Total comprehensive income/(expense)		–	–	263	–	–	557	(9)	811
Purchase of own shares by Employee Benefit Trusts	27	–	–	–	–	(14)	–	–	(14)
Issue of own shares by Employee Benefit Trusts	27	–	–	–	–	20	(19)	–	1
Credit to equity for share-based payments	28	–	–	–	–	–	20	–	20
Purchase of Treasury shares	27	–	–	–	(300)	–	–	–	(300)
Disposal of Treasury shares	27	–	–	–	24	–	(10)	–	14
Dividends paid	9	–	–	–	–	–	(238)	–	(238)
At 31 July 2016		**29**	**42**	**380**	**(516)**	**(57)**	**3,025**	**(2)**	**2,901**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**783**	**–**	**783**
Other comprehensive expense		**–**	**–**	**(29)**	**–**	**–**	**(1)**	**–**	**(30)**
Total comprehensive (expense)/income		**–**	**–**	**(29)**	**–**	**–**	**782**	**–**	**753**
Purchase of own shares by Employee Benefit Trusts	27	**–**	**–**	**–**	**–**	**(6)**	**–**	**–**	**(6)**
Issue of own shares by Employee Benefit Trusts	27	**–**	**–**	**–**	**–**	**15**	**(15)**	**–**	**–**
Credit to equity for share-based payments	28	**–**	**–**	**–**	**–**	**–**	**22**	**–**	**22**
Tax relating to share-based payments	7	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Disposal of Treasury shares	27	**–**	**–**	**–**	**31**	**–**	**(10)**	**–**	**21**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**(259)**	**–**	**(259)**
At 31 July 2017		**29**	**42**	**351**	**(485)**	**(48)**	**3,549**	**(2)**	**3,436**

Group balance sheet

As at 31 July 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Intangible assets: goodwill	12	**888**	902
Intangible assets: other	13	**182**	202
Property, plant and equipment	14	**808**	1,434
Interests in associates	15	**124**	–
Financial assets		**11**	23
Retirement benefit assets	26	**3**	–
Deferred tax assets	16	**121**	127
Trade and other receivables	17	**226**	212
Derivative financial assets	18	**15**	20
		2,378	2,920
Current assets			
Inventories		**1,816**	2,017
Trade and other receivables	17	**2,093**	2,207
Current tax receivable		**2**	–
Derivative financial assets	18	**5**	11
Cash and cash equivalents	19	**1,911**	940
		5,827	5,175
Assets held for sale	20	**1,298**	56
Total assets		**9,503**	8,151
Liabilities			
Current liabilities			
Trade and other payables	21	**2,279**	2,634
Current tax payable		**88**	101
Bank loans and overdrafts	22	**1,627**	701
Obligations under finance leases	24	**3**	4
Provisions	25	**81**	88
Retirement benefit obligations	26	**8**	9
		4,086	3,537
Non-current liabilities			
Trade and other payables	21	**180**	163
Bank loans	22	**831**	1,175
Obligations under finance leases	24	**4**	27
Deferred tax liabilities	16	**9**	65
Provisions	25	**120**	133
Retirement benefit obligations	26	**16**	138
		1,160	1,701
Liabilities held for sale	20	**821**	12
Total liabilities		**6,067**	5,250
Net assets		**3,436**	2,901
Equity			
Share capital	27	**29**	29
Share premium		**42**	42
Reserves		**3,367**	2,832
Equity attributable to shareholders of the Company		**3,438**	2,903
Non-controlling interest		**(2)**	(2)
Total equity		**3,436**	2,901

The accompanying notes are an integral part of these consolidated financial statements. The consolidated financial statements on pages 86 to 127 were approved and authorised for issue by the Board of Directors on 2 October 2017 and were signed on its behalf by:

John Martin

John Martin
Group Chief Executive

Mike Powell

Mike Powell
Chief Financial Officer

Group cash flow statement

Year ended 31 July 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	29	**1,115**	1,019
Interest received		**3**	2
Interest paid		**(56)**	(41)
Tax paid		**(310)**	(193)
Net cash generated from operating activities		**752**	787
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	30	**(256)**	(113)
Disposals of businesses (net of cash disposed of)	31	**231**	9
Purchases of property, plant and equipment		**(153)**	(187)
Proceeds from sale of property, plant and equipment and assets held for sale		**19**	56
Purchases of intangible assets		**(25)**	(31)
Disposals of financial assets		**17**	–
Net cash used in investing activities		**(167)**	(266)
Cash flows from financing activities			
Purchase of own shares by Employee Benefit Trusts	27	**(6)**	(14)
Purchase of Treasury shares	27	**–**	(300)
Proceeds from the sale of shares by Employee Benefit Trusts	27	**–**	1
Proceeds from the sale of Treasury shares	27	**21**	14
Proceeds from borrowings and derivatives		**339**	585
Repayments of borrowings		**(464)**	(591)
Finance lease capital payments		**(5)**	(4)
Dividends paid to shareholders	9	**(259)**	(238)
Net cash used by financing activities		**(374)**	(547)
Net cash generated/(used)		**211**	(26)
Effects of exchange rate changes		**(15)**	18
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**196**	(8)
Cash, cash equivalents and bank overdrafts at the beginning of the year		**248**	256
Cash, cash equivalents and bank overdrafts at the end of the year		**444**	248

		2017 £m	2016 £m
Cash, cash equivalents and bank overdrafts at the end of the year in the Group balance sheet	32	**411**	248
Cash, cash equivalents and bank overdrafts in assets held for sale	20	**33**	–
Cash, cash equivalents and bank overdrafts at the end of the year		**444**	248

Notes to the consolidated financial statements

Year ended 31 July 2017

1 – Accounting policies and critical estimates and judgements

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.

Ferguson plc is a public company limited by shares incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in Switzerland.

The Company changed its name from Wolseley plc to Ferguson plc on 31 July 2017.

The consolidated financial statements have been prepared on a going concern basis (see page 41) and under the historical cost convention as modified by the revaluation of financial assets and liabilities held for trading.

The consolidated financial statements are presented in sterling, which is the presentational currency of the Group. The Group's presentational currency will change from sterling to US dollars from 1 August 2017.

The Nordic businesses have been reclassified as discontinued operations in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" and the consolidated financial statements and affected notes for the year ended 31 July 2016 have been restated to reflect this.

Accounting developments and changes

At the time of this report a number of accounting standards have been published, but not yet applied.

IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" are effective for the Group from the year ending 31 July 2019.

The Group has completed an initial assessment of the impact of IFRS 9 and IFRS 15 and it is expected adoption will not have a material impact on the Group's consolidated financial results.

IFRS 16 "Leases", which is yet to be endorsed by the EU, is effective for the Group for the year ending 31 July 2020. IFRS 16 represents a significant change for the treatment of leases in the lessee's financial results. Lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards (note 34), unless the underlying asset has a low value or the lease term is 12 months or less.

On adoption of IFRS 16 there will be a significant change to the financial statements, as each lease will give rise to a right of use asset, which will be depreciated on a straight-line basis, and a lease liability, with the related interest charge. This will replace existing lease balances on the balance sheet and charges to the income statement.

The Group continues to assess the full impact of IFRS 16, however the impact will depend on the transition approach and the contracts in effect at the time of adoption. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated financial results.

Choices permitted by IFRS

The Group has elected to apply hedge accounting to some of its financial instruments.

Accounting policies

Note 37 details the principal accounting policies applied in the preparation of the consolidated financial statements.

Critical accounting judgements

Exceptional Items

Note 2 provides a definition of exceptional items. The classification of exceptional items requires significant management judgement to determine the nature and intentions of a transaction. Note 5 provides further details on current year exceptional items.

Pensions and other post-retirement benefits

The Group operates defined benefit pension plans in the UK and in a number of overseas locations that are accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the financial statements. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions.

The cost of providing benefits is determined annually using the Projected Unit Credit Method, which includes actuarial assumptions for discount rates, expected salary and pension increases, inflation and life expectancy and are disclosed in note 26. The discount rate used is the yield at the valuation date on high quality corporate bonds that have a maturity approximating to the terms of the pension obligations. Significant judgement is required when setting the criteria from which the yield curve is derived.

Sources of estimation uncertainty

In applying the Group's accounting policies, various transactions and balances are valued using estimates or assumptions. Should these estimates or assumptions prove incorrect there may be an impact on the following year's financial statements. The Group believes that the estimates and assumptions that have been applied would not give rise to a material impact within the next financial year.

2 – Alternative performance measures

The Group uses alternative performance measures ("APMs"), which are not defined or specified under IFRS. The Group believes that 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.

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

Non-ongoing operations: businesses and groups of branches, which do not meet the criteria to be classified as discontinued operations under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which have been disposed of, closed or classified as held for sale. In 2017, the Group's Swiss business, Tobler, and a small Industrial business in the USA, Endries, have been classified as non-ongoing.

Ongoing operations: continuing operations excluding non-ongoing operations.

A reconciliation between ongoing and continuing operations is shown below.

	Revenue		Trading profit	
	2017 £m	Restated 2016 £m	**2017 £m**	Restated 2016 £m
Ongoing operations	**14,878**	12,146	**1,032**	827
Non-ongoing operations	**346**	403	**27**	30
Continuing operations	**15,224**	12,549	**1,059**	857
Discontinued operations	**2,100**	2,136	**63**	59

Constant exchange rates

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

	Ongoing revenue		Ongoing trading profit	
	£m	**%**	**£m**	**%**
Reported 2016 at 2016 exchange rates	**12,146**		**827**	
Impact of exchange rates	**1,550**		**122**	
Reported 2016 at 2017 exchange rates	**13,696**		**949**	
Constant currency growth	**1,182**	**8.6**	**83**	**8.7**
Reported 2017	**14,878**		**1,032**	

Like-for-like revenue growth

Management uses like-for-like revenue growth as it provides a consistent measure of the percentage increase/decrease in revenue year-on-year, excluding the effect of currency exchange, acquisitions and disposals, trading days and branch openings and closures.

	Ongoing revenue	
	£m	**%**
Reported 2016 at 2017 exchange rates	**13,696**	
Like-for-like revenue growth	**818**	**6.0**
Opened and closed branches	**10**	
Trading days	**60**	
Acquisitions and divestments	**294**	
Reported 2017	**14,878**	

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 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:

– material restructuring costs within a segment 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.
– costs or credits arising as a result of material regulatory and litigation matters.

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 year are disclosed in note 5.

2 – Alternative performance measures continued

Gross margin

The ratio of gross profit, excluding exceptional items, to revenue. This is presented for both ongoing operations and continuing operations. Gross margin is used by management for assessing business unit performance and it is a key performance indicator for the Group (see page 26).

Trading profit

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

	Ongoing		Continuing	
	2017 £m	Restated 2016 £m	**2017 £m**	Restated 2016 £m
Operating profit	**931**	675	**1,224**	711
Amortisation and impairment of acquired intangible assets	**64**	142	**64**	142
Exceptional items	**37**	10	**(229)**	4
Trading profit	**1,032**	827	**1,059**	857

Ongoing trading margin

The ratio of ongoing trading profit to ongoing revenue is used to assess business unit profitability and is a key performance indicator for the Group (see page 26).

EBITDA before exceptional items

The profit before charges/credits relating to interest, tax, depreciation, amortisation and exceptional items. EBITDA before exceptional items is used in the net debt to EBITDA ratio to assess the appropriateness of the Group's financial gearing.

	2017 £m	Restated 2016 £m
Trading profit	**1,059**	857
Depreciation, amortisation and impairment of property, plant and equipment and software excluding exceptional items in operating profit	**140**	114
EBITDA before exceptional items	**1,199**	971

Ongoing effective tax rate

The ongoing effective tax rate is the ratio of the ongoing tax expense to ongoing profit before tax and is used as a measure of the tax rate of the ongoing business. See reconciliation in note 7.

Headline profit after tax and headline earnings per share

Headline profit after tax is calculated as the profit from continuing operations after tax, before charges for amortisation and impairment of acquired intangible assets net of tax, exceptional items net of tax and non-recurring tax relating to changes in tax rates.

Headline earnings per share is the ratio of headline profit after tax to the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trusts and those held by the Company as Treasury shares. Headline earnings per share is used for the purpose of setting remuneration targets for executive directors and other senior executives. See reconciliation in note 10.

Net debt and adjusted net debt

Net debt comprises cash and cash equivalents, bank overdrafts, bank loans, derivative financial instruments and obligations under finance leases. Net debt is a good indicator of the strength of the Group's balance sheet position and is widely used by credit rating agencies. See note 32 for a reconciliation.

Adjusted net debt is net debt after the year-end working capital adjustment used in the return on gross capital employed calculation below.

Return on gross capital employed

Return on gross capital employed is the ratio of the Group's total trading profit to the average year-end aggregate of shareholders' equity, adjusted net debt and cumulative goodwill and other acquired intangible assets written off. Return on gross capital employed is a key performance indicator (see page 27).

	Gross capital employed 2017 £m	Gross capital employed 2016 £m	Average capital employed £m	Trading profit[c] £m	Return on gross capital employed
Net debt[a]	**580**	936			
Year-end working capital adjustment	**–**	120			
Adjusted net debt	**580**	1,056			
Cumulative goodwill and other acquired intangibles written off[b]	**1,868**	1,646			
Shareholders' equity	**3,438**	2,903			
	5,886	5,605	5,746	1,122	19.5%

(a) Includes £46 million in assets and liabilities held for sale.
(b) Includes amounts in assets held for sale.
(c) Includes continuing and discontinued operations.

3 – Segmental analysis

The Group's reportable segments are the operating businesses overseen by distinct divisional management teams responsible for their performance. All reportable segments derive their revenue from a single business activity, the distribution of plumbing and heating products.

The Group's business is not highly seasonal and the Group's customer base is highly diversified, with no individually significant customer.

In the year ended 31 July 2017, the Nordic businesses have been reclassified into discontinued operations and all comparatives have been restated for consistency and comparability.

The changes in revenue and trading profit for continuing operations between the years ended 31 July 2016 and 31 July 2017 include changes in exchange rates, disposals, acquisitions and organic change.

Where businesses are disposed in the year, the difference between the revenue and trading profit in the current year up to the date of disposal and the revenue and trading profit in the equivalent portion of the prior year is included in organic change.

Revenue by reportable segment for continuing operations is as follows:

Analysis of change in revenue	Restated 2016 £m	Exchange £m	Disposals £m	Acquisitions £m	Organic change £m	**2017 £m**
USA	9,456	1,445	(35)	285	843	**11,994**
UK	1,996	–	–	–	16	**2,012**
Canada and Central Europe	1,097	164	(85)	9	33	**1,218**
Group	12,549	1,609	(120)	294	892	**15,224**

Trading profit/(loss) (note 2) by reportable segment for continuing operations is as follows:

Analysis of change in trading profit/(loss) (note 2)	Restated 2016 £m	Exchange £m	Disposals £m	Acquisitions £m	Organic change £m	**2017 £m**
USA	775	118	(4)	33	44	**966**
UK	74	–	–	–	2	**76**
Canada and Central Europe	53	8	(5)	1	(1)	**56**
Central and other costs	(45)	–	–	–	6	**(39)**
Group	857	126	(9)	34	51	**1,059**

The reconciliation between trading profit/(loss) (note 2) and operating profit/(loss) by reportable segment for continuing operations is as follows:

	2017				Restated 2016			
	Trading profit/(loss) £m	**Exceptional items £m**	**Amortisation and impairment of acquired intangible assets £m**	**Operating profit/(loss) £m**	Trading profit/(loss) £m	Exceptional items £m	Amortisation and impairment of acquired intangible assets £m	Operating profit/(loss) £m
USA	**966**	**94**	**(62)**	**998**	775	2	(34)	743
UK	**76**	**(28)**	**–**	**48**	74	(9)	(106)	(41)
Canada and Central Europe	**56**	**170**	**(2)**	**224**	53	–	(2)	51
Central and other costs	**(39)**	**(7)**	**–**	**(46)**	(45)	3	–	(42)
Group	**1,059**	**229**	**(64)**	**1,224**	857	(4)	(142)	711
Finance costs				**(43)**				(36)
Share of after tax loss of associate				**(1)**				–
Profit before tax				**1,180**				675

Notes to the consolidated financial statements continued
Year ended 31 July 2017

3 – Segmental analysis continued

In 2016 and 2017, a number of Group businesses or groups of branches have been disposed of, closed or are classified as held for sale. The revenue and trading profit of the Group's segments excluding those businesses and branches ("ongoing operations") are analysed in the following table. These are alternative performance measures.

	Revenue		Trading profit	
	2017 £m	Restated 2016 £m	**2017 £m**	Restated 2016 £m
Ongoing operations				
USA	**11,824**	9,288	**950**	761
UK	**2,012**	1,996	**76**	74
Canada and Central Europe	**1,042**	862	**45**	37
Central and other costs	**–**	–	**(39)**	(45)
Total ongoing operations	**14,878**	12,146	**1,032**	827
Non-ongoing operations	**346**	403	**27**	30
Continuing operations	**15,224**	12,549	**1,059**	857

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

	2017			Restated 2016		
Segment assets and liabilities	**Segment assets £m**	**Segment liabilities £m**	**Segment net assets/ (liabilities) £m**	Segment assets £m	Segment liabilities £m	Segment net assets/ (liabilities) £m
USA	**4,681**	**(1,872)**	**2,809**	4,268	(1,645)	2,623
UK	**850**	**(492)**	**358**	856	(508)	348
Canada and Central Europe [(a)]	**598**	**(195)**	**403**	599	(265)	334
Central and other costs	**16**	**(95)**	**(79)**	18	(103)	(85)
Discontinued	**1,304**	**(851)**	**453**	1,312	(656)	656
Total	**7,449**	**(3,505)**	**3,944**	7,053	(3,177)	3,876
Tax assets and liabilities	**123**	**(97)**	**26**	127	(166)	(39)
Net cash/(debt)	**1,931**	**(2,465)**	**(534)**	971	(1,907)	(936)
Group assets/(liabilities)	**9,503**	**(6,067)**	**3,436**	8,151	(5,250)	2,901

(a) 2017 segmental assets includes £124 million relating to interest in associate.

	2017				Restated 2016			
	Additions to goodwill £m	**Additions to other acquired intangible assets £m**	**Additions to non-acquired intangible assets £m**	**Additions to property, plant and equipment £m**	Additions to goodwill £m	Additions to other acquired intangible assets £m	Additions to non-acquired intangible assets £m	Additions to property, plant and equipment £m
USA	**136**	**80**	**11**	**81**	34	25	17	123
UK	**–**	**–**	**8**	**21**	–	–	5	15
Canada and Central Europe	**–**	**–**	**3**	**9**	6	3	2	18
Central and other costs	**–**	**–**	**1**	**–**	–	–	1	1
Discontinued	**3**	**1**	**2**	**46**	–	–	6	33
Group	**139**	**81**	**25**	**157**	40	28	31	190

3 – Segmental analysis continued

	2017 Impairment of goodwill and other acquired intangible assets £m	2017 Amortisation of other acquired intangible assets £m	2017 Amortisation and impairment of non-acquired intangible assets £m	2017 Depreciation and impairment of property, plant and equipment £m	Restated 2016 Impairment of goodwill and other acquired intangible assets £m	Restated 2016 Amortisation of other acquired intangible assets £m	Restated 2016 Amortisation and impairment of non-acquired intangible assets £m	Restated 2016 Depreciation and impairment of property, plant and equipment £m
USA	–	62	11	92	–	34	7	72
UK	–	–	5	17	94	12	5	17
Canada and Central Europe	–	2	2	8	–	2	1	9
Central and other costs	–	–	3	2	–	–	1	2
Discontinued	102	4	3	24	–	5	1	25
Group	102	68	24	143	94	53	15	125

4 – Operating profit

Amounts charged/(credited) in arriving at operating profit include:

	Notes	2017 £m	Restated 2016 £m
Depreciation of property, plant and equipment	14	118	99
Impairment of property, plant and equipment	14	1	1
Gain on disposal and closure of businesses	31	(266)	(6)
Loss on disposal of property, plant and equipment and assets held for sale		–	1
Staff costs	11	2,140	1,766
Amortisation of non-acquired intangible assets	13	19	14
Amortisation of acquired intangible assets	13	64	48
Impairment of non-acquired intangible assets	13	2	–
Impairment of goodwill and acquired intangible assets	12, 13	–	94
Operating lease rentals: land and buildings		187	161
Operating lease rentals: plant and machinery		59	49
Amounts included in costs of goods sold with respect to inventory		10,758	8,806
Trade receivables impairment		10	9

	2017 £m	2016 £m
During the year, the Group obtained the following services from the Company's auditor and its associates:		
Fees for the audit of the parent company and consolidated financial statements	0.9	0.9
Fees for the audit of the Company's subsidiaries pursuant to legislation	2.5	2.0
Total audit fees	3.4	2.9
Audit related assurance services	0.5	0.2
Other assurance services	0.1	–
Other services	0.2	–
Total non-audit fees	0.8	0.2
Total fees payable to the auditor	4.2	3.1

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 was safeguarded are set out in the Audit Committee Report on page 62. No services were provided pursuant to contingent fee arrangements.

Notes to the consolidated financial statements continued
Year ended 31 July 2017

5 – Exceptional items

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

	2017 £m	Restated 2016 £m
Gain on disposal of businesses (note 31)	**266**	6
Business restructuring	**(40)**	(10)
Other exceptional items	**3**	–
Total included in operating profit	**229**	(4)

For the year to 31 July 2017, business restructuring comprises costs incurred in the UK in respect of its business transformation strategy and includes £2 million charged to cost of sales for inventory write downs.

Other exceptional items include an £11 million one-off credit relating to the UK defined benefit pension plan which arose as a result of a change in future earnings assumptions.

The net cash outflow from exceptional items, excluding the gain on disposal of businesses, was £20 million (2016: £6 million). The net inflow of cash in respect of the disposal of businesses is detailed in note 31.

Exceptional items relating to discontinued operations are disclosed in note 8.

6 – Finance costs

	2017 £m	Restated 2016 £m
Interest payable		
– Bank loans and overdrafts	**48**	45
– Unwind of fair value adjustment to senior unsecured loan notes	**(8)**	(9)
– Finance lease charges	**1**	2
Net interest expense/(income) on defined benefit obligation (note 26)	**2**	(1)
Valuation gains on financial instruments		
– Derivatives held at fair value through profit and loss	**–**	(1)
Total finance costs	**43**	36

Finance costs relating to discontinued operations are detailed in note 8.

7 – Tax

The tax charge for the year comprises:	**2017 £m**	Restated 2016 £m
Current year tax charge	**294**	225
Adjustments to tax charge in respect of prior years	**1**	(13)
Total current tax charge	**295**	212
Deferred tax credit: origination and reversal of temporary differences	**(3)**	(2)
Total tax charge	**292**	210

An exceptional tax charge of £22 million was recorded against exceptional items (2016: credit £1 million). The deferred tax credit of £3 million (2016: credit £2 million) includes a charge of £10 million (2016: charge £5 million) resulting from changes in tax rates.

Tax on items credited/(charged) to the statement of other comprehensive income:	**2017 £m**	2016 £m
Deferred tax (charge)/credit on actuarial loss on retirement benefits	**(3)**	25
Current tax credit on actuarial loss on retirement benefits	**2**	–
Deferred tax credit/(charge) on losses	**1**	(7)
Total tax on items credited to the statement of other comprehensive income	**–**	18

In 2017, there is no tax in the statement of other comprehensive income which relates to changes in tax rates. In 2016, £1 million of the £18 million credit related to changes in tax rates.

7 – Tax continued

Tax on items credited/(charged) to equity:	2017 £m	2016 £m
Current tax credit on share-based payments	**3**	6
Deferred tax credit/(charge) on share-based payments	**1**	(6)
Total tax on items credited to equity	**4**	–

	2017					
	Ongoing profit/tax [h]		**Non-ongoing and other profit/tax [i]**		**Total profit/tax from continuing operations**	
Tax reconciliation:	**£m**	**%**	**£m**	**%**	**£m**	**%**
Profit before tax	**989**		**191**		**1,180**	
Expected tax at weighted average tax rate [a]	**(241)**	**24.4**	**(52)**	**27.2**	**(293)**	**24.8**
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods [b]	**(5)**	**0.5**	**11**	**(5.7)**	**6**	**(0.5)**
exceptional items which are non-taxable/(non-tax deductible) [d]	**–**	**–**	**26**	**(13.6)**	**26**	**(2.2)**
current year increase in uncertain tax provisions [e]	**(25)**	**2.5**	**–**	**–**	**(25)**	**2.1**
tax credits and incentives	**3**	**(0.3)**	**–**	**–**	**3**	**(0.2)**
non-taxable income	**8**	**(0.8)**	**–**	**–**	**8**	**(0.7)**
other non-tax deductible expenditure [f]	**(9)**	**0.9**	**–**	**–**	**(9)**	**0.8**
other	**2**	**(0.2)**	**–**	**–**	**2**	**(0.2)**
effect of UK tax rate changes [g]	**(10)**	**1.0**	**–**	**–**	**(10)**	**0.8**
Tax charge/effective tax rate	**(277)**	**28.0**	**(15)**	**7.9**	**(292)**	**24.7**

	Restated 2016					
	Ongoing profit/tax [h]		Non-ongoing and other loss/tax [i]		Total profit/tax from continuing operations	
Tax reconciliation:	£m	%	£m	%	£m	%
Profit/(loss) before tax	792		(117)		675	
Expected tax at weighted average tax rate [a]	(202)	25.5	26	22.2	(176)	26.1
Adjusted for the effects of:						
over provisions in respect of prior periods [b]	18	(2.3)	–	–	18	(2.7)
non-tax deductible amortisation/impairment of acquired intangible assets [c]	–	–	(15)	(12.8)	(15)	2.2
exceptional items which are non-taxable/(non-tax deductible) [d]	–	–	1	0.9	1	(0.1)
current year increase in uncertain tax provisions [e]	(31)	3.9	–	–	(31)	4.6
tax credits and incentives	3	(0.4)	–	–	3	(0.4)
non-taxable income	4	(0.5)	–	–	4	(0.6)
other non-tax deductible expenditure [f]	(6)	0.8	–	–	(6)	0.9
other	(3)	0.4	–	–	(3)	0.4
effect of UK tax rate changes [g]	–	–	(5)	(4.3)	(5)	0.7
Tax (charge)/credit/effective tax rate	(217)	27.4	7	6.0	(210)	31.1

(a) 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 37.2 per cent (2016: 37.6 per cent) and this is reduced to a post intra-group financing ongoing expected weighted average tax rate of 24.4 per cent (2016: 25.5 per cent). The 1.1 per cent decrease in the post intra-group financing ongoing expected weighted average tax rate is primarily due to a change in profit mix.
(b) 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 accounts. The non-ongoing and other credit of £11 million relates primarily to a one-off settlement of tax enquiries in the UK.
(c) In 2016, this relates primarily to non-tax deductible impairment of goodwill in the UK.
(d) In 2017, this relates primarily to non-taxable disposals of businesses.
(e) This reflects management's assessment of the potential tax liability for the current year in relation to open tax issues and audits.
(f) This relates to certain expenditure for which no tax relief is available such as disallowable business entertaining costs.
(g) This relates to the reduction in the UK standard rate of corporation tax from 20 per cent to 19 per cent from 1 April 2017 and to 17 per cent from 1 April 2020. The rate change was considered exceptional in 2016 on the grounds that it was only announced at the end of the 2015 financial year and could not be foreseen in the Group's forecast ongoing effective tax rate for the 2016 financial year.
(h) Ongoing profit means profit before tax, exceptional items and the amortisation and impairment of acquired intangible assets for ongoing operations as defined in note 2. Ongoing tax is the tax expense arising on ongoing profit.
(i) Non-ongoing and other profit or loss is profit or loss from non-ongoing operations as defined in note 2 and from the amortisation and impairment of acquired intangible assets and exceptional items. Non-ongoing and other tax is the tax expense or credit arising on the non-ongoing and other profit or loss.

Notes to the consolidated financial statements continued
Year ended 31 July 2017

8 – Discontinued operations

The Group is in the process of selling its business and property assets (the "disposal group") in the Nordic region and, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the disposal group has been classified as discontinued and prior periods have been restated to reflect this.

As at 31 July 2017, the sales process for the remaining French property assets is in progress and these are classified as discontinued.

The results from discontinued operations, which have been included in the Group income statement, are set out below.

			2017			Restated 2016
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	**2,100**	**–**	**2,100**	2,136	–	2,136
Cost of sales	**(1,565)**	**(8)**	**(1,573)**	(1,573)	–	(1,573)
Gross profit	**535**	**(8)**	**527**	563	–	563
Operating costs:						
gain on disposal of businesses	**–**	**–**	**–**	–	139	139
amortisation of acquired intangible assets	**(4)**	**–**	**(4)**	(5)	–	(5)
impairment of goodwill and acquired intangible assets	**(102)**	**–**	**(102)**	–	–	–
other	**(472)**	**(60)**	**(532)**	(504)	16	(488)
Operating costs	**(578)**	**(60)**	**(638)**	(509)	155	(354)
Operating (loss)/profit	**(43)**	**(68)**	**(111)**	54	155	209
Finance (costs)/income	**(4)**	**8**	**4**	(2)	4	2
(Loss)/profit before tax	**(47)**	**(60)**	**(107)**	52	159	211
Attributable tax	**–**	**2**	**2**	(21)	(5)	(26)
(Loss)/profit from discontinued operations	**(47)**	**(58)**	**(105)**	31	154	185
Basic (loss)/earnings per share	**(18.7)p**	**(23.1)p**	**(41.8)p**	12.3p	60.7p	73.0p
Diluted (loss)/earnings per share	**(18.5)p**	**(22.9)p**	**(41.4)p**	12.1p	60.4p	72.5p

The discontinued exceptional items in 2017 relate predominantly to restructuring activities in the Nordic region.

During the year, discontinued operations generated cash of £51 million (2016: £51 million) in respect of operating activities, used £28 million (2016: generated £17 million) in respect of investing activities and used £54 million (2016: generated £26 million) in respect of financing activities.

9 – Dividends

		2017		2016
	£m	Pence per share	£m	Pence per share
Amounts recognised as distributions to equity shareholders:				
Final dividend for the year ended 31 July 2015	**–**	**–**	154	60.50p
Interim dividend for the year ended 31 July 2016	**–**	**–**	84	33.28p
Final dividend for the year ended 31 July 2016	**167**	**66.72p**	–	–
Interim dividend for the year ended 31 July 2017	**92**	**36.67p**	–	–
Dividends paid	**259**		238	

Since the end of the financial year, the Directors have proposed a final ordinary dividend of £185 million (73.33 pence per share). The dividend is subject to approval by shareholders at the Annual General Meeting and is therefore not included in the balance sheet as a liability at 31 July 2017.

10 – Earnings per share

	2017 Earnings £m	2017 Basic earnings per share pence	2017 Diluted earnings per share pence	Restated 2016 Earnings £m	Restated 2016 Basic earnings per share pence	Restated 2016 Diluted earnings per share pence
Headline profit after tax from continuing operations	**726**	**288.9**		595	234.7	
Exceptional items (net of tax)	**207**	**82.4**		(3)	(1.2)	
Amortisation and impairment of acquired intangible assets (net of tax)	**(45)**	**(17.9)**		(122)	(48.1)	
Non-recurring tax charge relating to changes in tax rates	**–**	**–**		(5)	(2.0)	
Profit from continuing operations	**888**	**353.4**	**350.8**	465	183.4	182.3
(Loss)/profit from discontinued operations	**(105)**	**(41.8)**	**(41.4)**	185	73.0	72.5
Profit from continuing and discontinued operations	**783**	**311.6**	**309.4**	650	256.4	254.8

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 251.3 million (2016: 253.5 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 253.1 million (2016: 255.1 million).

11 – Employee information and Directors' remuneration

	2017 £m	Restated 2016 £m
Wages and salaries	**1,936**	1,585
Social security costs	**134**	111
Pension costs – defined contribution plans	**57**	48
Pension (credit)/costs – defined benefit plans (note 26)	**(7)**	5
Share-based payments (note 28)	**20**	17
Total staff costs	**2,140**	1,766

The total staff costs, including discontinued operations, was £2,451 million (2016: £2,071 million).

Average number of employees	2017	Restated 2016
USA	**24,086**	22,468
UK	**6,064**	6,208
Canada and Central Europe	**3,257**	3,489
Central and other	**104**	104
Group	**33,511**	32,269

The average number of employees including discontinued operations was 39,205 (2016: 39,717).

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 69 to 84, which form part of these financial statements. The aggregate emoluments for all key management are set out in the following table:

Key management personnel compensation (including Directors)	2017 £m	2016 £m
Salaries, bonuses and other short-term employee benefits	**11**	8
Termination and post-employment benefits	**–**	1
Share-based payments	**4**	4
Total compensation	**15**	13

12 – Intangible assets – goodwill

	2017 £m	2016 £m
Cost		
At 1 August	**1,711**	1,404
Exchange rate adjustment	**54**	266
Acquisitions	**139**	40
Adjustment to fair value on prior year acquisitions	**–**	1
Disposal of businesses	**(65)**	–
Reclassification as held for sale	**(871)**	–
At 31 July	**968**	1,711
Accumulated impairment losses		
At 1 August	**809**	588
Exchange rate adjustment	**48**	135
Impairment charge for the year	**82**	86
Disposal of businesses	**(3)**	–
Reclassification as held for sale	**(856)**	–
At 31 July	**80**	809
Net book amount at 31 July	**888**	902

The impairment charge for the year includes £82 million (2016: £nil) in respect of discontinued operations.

Goodwill and intangible assets acquired during the year have been allocated to the individual cash generating units or aggregated cash generating units (together "CGUs") which are deemed to be the smallest identifiable group of assets generating independent cash inflows. CGUs have been aggregated in the disclosure below at a segmental level except for certain CGUs in the USA which are considered to be significant (more than 10 per cent of the current year goodwill balance). Impairment reviews were performed for each individual CGU during the year ended 31 July 2017.

	2017				2016			
	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				**327**				314
B2C				**199**				89
Waterworks				**128**				127
Rest of USA				**110**				113
USA	**2.3**	**9.3**	**15.2**	**764**	2.2	8.2	13.4	643
UK	**2.0**	**8.1**	**10.0**	**32**	2.0	8.2	10.2	32
Canada	**2.0**	**8.7**	**11.9**	**92**	2.0	8.0	10.8	88
Central Europe	**n/a**	**n/a**	**n/a**	**–**	1.0	6.6	8.4	48
Nordic (held for sale)	**n/a**	**n/a**	**n/a**	**–**	2.2	7.5	9.7	91
Total				**888**				902

The relevant inputs to the value in use calculations of each CGU were:

Cash flow forecasts for years one to three are derived from the most recent Board approved strategic plan. The forecast for year five represents an estimate of "mid-cycle" trading performance for the CGU based on historic analysis. Year four is calculated as the average of the final year of the strategic plan and year five's mid-cycle estimate. The other inputs include a risk-adjusted, pre-tax discount rate, calculated by reference to the weighted average cost of capital ("WACC") of each country and the 30-year long-term growth rate by country, as published by the IMF in April 2017.

The strategic plan is developed based on analyses of sales, markets and costs at a regional level. Consideration is given to past events, knowledge of future contracts and the wider economy. It takes into account both current business and future initiatives.

Management has performed a sensitivity analysis across all CGUs which have goodwill and acquired intangible assets using reasonably possible changes in the following key impairment review assumptions: compound average revenue growth rate, post-tax discount rate and long-term growth rate, keeping all other assumptions constant. The sensitivity testing identified no reasonably possible changes in key assumptions that would cause the carrying amount of any CGU to exceed its recoverable amount.

12 – Intangible assets – goodwill continued

Nordic

During the period, the performance of our Swedish building materials business, Beijer, deteriorated sharply with trading profit significantly lower compared with the corresponding period last year and below management's expectations. This generated a trigger event for management to reassess the recoverability of its associated goodwill and acquired intangible assets. This assessment resulted in an impairment charge, as follows:

CGU	Goodwill £m	Acquired intangible assets £m	Total £m	Impairment £m	Remaining balance £m	Post-tax discount rate %	Pre-tax discount rate %
Beijer	**82**	**20**	**102**	**(102)**	**–**	**7.5**	**9.6**

As at 31 July 2017, the Nordic businesses have been classified as held for sale (note 20) and discontinued operations (note 8).

13 – Intangible assets – other

		Acquired intangible assets			
	Software £m	Trade names and brands £m	Customer relationships £m	Other £m	Total £m
Cost					
At 1 August 2015	125	264	481	61	931
Exchange rate adjustment	15	51	86	11	163
Acquisitions	–	7	16	5	28
Additions	31	–	–	–	31
Disposals and transfers	(19)	–	(2)	–	(21)
At 31 July 2016	**152**	**322**	**581**	**77**	**1,132**
Exchange rate adjustment	**1**	**17**	**14**	**–**	**32**
Acquisitions	**–**	**46**	**25**	**10**	**81**
Additions	**25**	**–**	**–**	**–**	**25**
Disposals and transfers	**(7)**	**–**	**–**	**–**	**(7)**
Disposal of businesses	**(13)**	**(2)**	**(20)**	**(4)**	**(39)**
Reclassification as held for sale	**(11)**	**(289)**	**(251)**	**–**	**(551)**
At 31 July 2017	**147**	**94**	**349**	**83**	**673**
Accumulated amortisation and impairment losses					
At 1 August 2015	82	234	383	37	736
Exchange rate adjustment	10	45	72	7	134
Amortisation charge for the year	15	8	40	5	68
Impairment charge for the year	–	2	6	–	8
Disposals and transfers	(14)	–	(2)	–	(16)
At 31 July 2016	**93**	**289**	**499**	**49**	**930**
Exchange rate adjustment	**–**	**15**	**15**	**–**	**30**
Amortisation charge for the year	**22**	**13**	**36**	**19**	**90**
Impairment charge for the year	**2**	**13**	**7**	**–**	**22**
Disposals and transfers	**(7)**	**–**	**–**	**–**	**(7)**
Disposal of businesses	**(10)**	**(1)**	**(18)**	**(4)**	**(33)**
Reclassification as held for sale	**(5)**	**(286)**	**(250)**	**–**	**(541)**
At 31 July 2017	**95**	**43**	**289**	**64**	**491**
Net book amount at 31 July 2017	**52**	**51**	**60**	**19**	**182**
Net book amount at 31 July 2016	59	33	82	28	202

The amortisation charge includes £7 million (2016: £6 million) in respect of discontinued operations of which £3 million relates to software (2016: £1 million). The impairment charge includes £20 million (2016: £nil) in respect of discontinued operations of which £nil relates to software.

14 – Property, plant and equipment

	Land and buildings				
	Freehold £m	Finance leases £m	Operating leasehold improvements £m	Plant machinery and equipment £m	Total £m
Cost					
At 1 August 2015	1,076	28	278	637	2,019
Exchange rate adjustment	193	4	43	91	331
Acquisitions	9	–	–	2	11
Additions	85	1	12	92	190
Disposals and transfers	(1)	(1)	(7)	(39)	(48)
Reclassification as held for sale	(3)	–	–	–	(3)
At 31 July 2016	**1,359**	**32**	**326**	**783**	**2,500**
Exchange rate adjustment	**43**	**–**	**1**	**8**	**52**
Acquisitions	**12**	**–**	**–**	**14**	**26**
Additions	**55**	**–**	**25**	**77**	**157**
Disposal of businesses	**(11)**	**(24)**	**(1)**	**(44)**	**(80)**
Disposals and transfers	**(7)**	**(6)**	**(22)**	**(65)**	**(100)**
Reclassification as held for sale	**(745)**	**–**	**(7)**	**(96)**	**(848)**
At 31 July 2017	**706**	**2**	**322**	**677**	**1,707**
Accumulated depreciation					
At 1 August 2015	219	7	182	447	855
Exchange rate adjustment	42	–	28	63	133
Depreciation charge for the year	30	1	20	72	123
Impairment charge for the year	2	–	–	–	2
Disposals and transfers	–	–	(7)	(39)	(46)
Reclassification as held for sale	(1)	–	–	–	(1)
At 31 July 2016	**292**	**8**	**223**	**543**	**1,066**
Exchange rate adjustment	**6**	**–**	**2**	**3**	**11**
Depreciation charge for the year	**35**	**–**	**24**	**83**	**142**
Impairment charge for the year	**1**	**–**	**–**	**–**	**1**
Disposal of businesses	**(1)**	**(3)**	**(2)**	**(34)**	**(40)**
Disposals and transfers	**(2)**	**(5)**	**(8)**	**(61)**	**(76)**
Reclassification as held for sale	**(142)**	**–**	**(6)**	**(57)**	**(205)**
At 31 July 2017	**189**	**–**	**233**	**477**	**899**
Owned assets	**517**	**–**	**89**	**194**	**800**
Assets under finance leases	**–**	**2**	**–**	**6**	**8**
Net book amount at 31 July 2017	**517**	**2**	**89**	**200**	**808**
Owned assets	1,067	–	103	232	1,402
Assets under finance leases	–	24	–	8	32
Net book amount at 31 July 2016	1,067	24	103	240	1,434

At 31 July 2017, the book value of property, plant and equipment that had been pledged as security for liabilities was £12 million (2016: £591 million). In addition, £179 million of property, plant and equipment included in assets held for sale (note 20) had been pledged as security for liabilities at 31 July 2017.

The depreciation charge and impairment charge for the year include £24 million (2016: £24 million) and £nil (2016: £1 million) respectively relating to discontinued operations.

15 – Associates

In April 2017, the Group acquired a 39.21% share in Walter Meier AG, a trading company whose principal place of business is Switzerland and which is engaged in the distribution and maintenance of heating and air conditioning systems.

The investment in Walter Meier AG is accounted for as an associate using the equity method. Walter Meier AG prepares accounts under Swiss GAAP FER with a year-end of 31 December. The Group's accounts have been prepared based on Walter Meier AG's half year accounts ended 30 June 2017. There were no significant transactions between that date and 31 July 2017 and no material differences would arise if the accounts were prepared under IFRS.

Summarised financial information from Walter Meier AG's half year accounts ended 30 June 2017 is set out below. Trading results are from the date of acquisition.

	2017 £m
Non-current assets	138
Current assets	244
Current liabilities	(149)
Non-current liabilities	(96)
Net assets	137
Revenue	109
Loss from continuing operations	(3)
Other comprehensive income attributable to the owners of the company	–
Total comprehensive income	(3)

The amount recognised in the Group's consolidated financial statements is as follows:

Share of result of associate	39.21%	(1)

There were no dividends received from the associate in the year.

The reconciliation of associate net assets to the carrying amount recognised in the Group's consolidated financial statements is as follows:

	%	2017 £m
Net assets of associate		137
Proportion of the Group's ownership interest in the associate	39.21	54
Goodwill		70
Carrying amount of the Group's interest in the associate		124

16 – Deferred tax assets and liabilities

The deferred tax assets and liabilities shown in the balance sheet are analysed as follows:

Deferred tax	2017 £m	2016 £m
Deferred tax assets	**121**	127
Deferred tax liabilities	**(9)**	(65)
	112	62

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year:

	Goodwill and intangible assets £m	Share-based payments £m	Property, plant and equipment £m	Retirement benefit obligations £m	Inventory £m	Tax losses £m	Other £m	Total £m
At 31 July 2015	(47)	21	16	45	(75)	58	44	62
Credit/(charge) to income	5	–	(13)	2	9	(2)	(5)	(4)
Credit/(charge) to other comprehensive income	–	–	–	25	–	(7)	–	18
Charge to equity	–	(6)	–	–	–	–	–	(6)
Acquisitions	(2)	–	–	–	–	–	–	(2)
Exchange rate adjustment	(8)	3	(10)	12	(12)	2	7	(6)
At 31 July 2016	**(52)**	**18**	**(7)**	**84**	**(78)**	**51**	**46**	**62**
Credit/(charge) to income	**7**	**(1)**	**(4)**	**(3)**	**(4)**	**21**	**(9)**	**7**
(Charge)/credit to other comprehensive income	**–**	**–**	**–**	**(3)**	**–**	**1**	**–**	**(2)**
Credit to equity	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Acquisitions	**(6)**	**–**	**(3)**	**–**	**–**	**–**	**–**	**(9)**
Disposals of businesses	**–**	**–**	**1**	**(1)**	**2**	**–**	**–**	**2**
Transferred to held for sale	**2**	**(1)**	**61**	**(3)**	**(4)**	**(6)**	**2**	**51**
Transfers between categories	**–**	**–**	**–**	**–**	**–**	**(7)**	**7**	**–**
Exchange rate adjustment	**–**	**–**	**(1)**	**1**	**–**	**–**	**–**	**–**
At 31 July 2017	**(49)**	**17**	**47**	**75**	**(84)**	**60**	**46**	**112**

Legislation has been enacted in the UK to reduce the standard rate of UK corporation tax from 20 per cent to 19 per cent with effect from 1 April 2017 and to 17 per cent with effect from 1 April 2020. Accordingly, the UK deferred tax assets and liabilities have predominantly been calculated based on a 17 per cent tax rate which materially reflects the rate for the period in which the deferred tax assets and liabilities are expected to reverse.

Net deferred tax assets have been recognised on the basis that sufficient taxable profits are forecast to be available in the future to enable them to be utilised.

In addition, the Group has unrecognised gross tax losses totalling £328 million (2016: £68 million) that have not been recognised on the basis that their future economic benefit is uncertain. These losses have no expiry date and relate predominantly to capital losses.

No deferred tax liability has been recognised in respect of temporary differences associated with investments in subsidiaries. However, tax may arise on £284 million (2016: £253 million) of temporary differences but the Group is in a position to control the timing of their reversal and it is probable that such differences will not reverse in the foreseeable future.

17 – Trade and other receivables

Current	2017 £m	2016 £m
Trade receivables	**1,795**	1,933
Less: provision for impairment	**(24)**	(39)
Net trade receivables	**1,771**	1,894
Other receivables	**92**	81
Prepayments	**230**	232
	2,093	2,207
Non-current		
Other receivables	**226**	212

Included in prepayments is £177 million (2016: £182 million) due in relation to Supplier Rebates where there is no right to offset against trade payable balances.

Movements in the provision for impairment of trade receivables are as follows:

	2017 £m	2016 £m
At 1 August	**39**	35
Net charge for the year	**13**	14
Utilised in the year	**(17)**	(14)
Disposal of businesses and reclassified as held for sale	**(11)**	–
Exchange rate adjustment	**–**	4
At 31 July	**24**	39

Provisions for impairment of receivables have two components comprising a provision for amounts that have been individually determined not to be collectable in full, because of known financial difficulties of the debtor or evidence of default or delinquency in payment, amounting to £13 million at 31 July 2017 (2016: £16 million); and a provision based on historic experience of non-collectability of receivables, amounting to £11 million at 31 July 2017 (2016: £23 million).

Trade receivables have been aged with respect to the payment terms specified in the terms and conditions established with customers as follows:

	2017 £m	2016 £m
Amounts not yet due and less than one month past due	**1,620**	1,452
Past due more than one month	**175**	481
	1,795	1,933

18 – Derivative financial instruments

The Group uses interest rate swaps to manage its exposure to interest rate movements on its borrowings and foreign exchange swaps to hedge cash flows in respect of committed transactions or to hedge its investment in overseas operations. The fair values of derivative financial instruments are as follows:

			2017			2016
Derivative financial instrument type	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Interest rate swaps	**20**	**–**	**20**	29	–	29
Foreign exchange swaps	**–**	**–**	**–**	2	–	2
	20	**–**	**20**	31	–	31

The current element of derivative financial assets is £5 million (2016: £11 million) and the non-current element is £15 million (2016: £20 million).

The Group's accounting and risk management policies, and further information about the derivative financial instruments that it uses, are set out on pages 123 to 126.

19 – Cash and cash equivalents

	2017 £m	2016 £m
Cash and cash equivalents	**1,911**	940

Included in the balance at 31 July 2017 is an amount of £1,420 million (2016: £606 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within bank overdrafts (note 22). These amounts are subject to a master netting arrangement.

At 31 July 2017, cash and cash equivalents included £64 million (2016: £60 million) which is used to collateralise letters of credit on behalf of Wolseley Insurance Limited.

Restricted cash held by the Group at the balance sheet date amounted to £17 million (2016: £3 million) and is recorded in other receivables.

20 – Assets and liabilities held for sale

	2017 £m	2016 £m
Properties awaiting disposal	**66**	10
Assets of disposal groups held for sale	**1,232**	46
Assets held for sale	**1,298**	56
Liabilities of disposal groups held for sale	**821**	12

During the year ended 31 July 2017, the Group announced its decision to sell its Nordic businesses and subsequently classified these as held for sale. At 31 July 2017, the sales process for the remaining French property assets was progressing and accordingly these properties have been reclassified as properties awaiting disposal.

The assets and liabilities of disposal groups held for sale consist of:

	2017 £m	2016 £m
Intangible assets	**25**	–
Property, plant and equipment	**615**	42
Inventories	**274**	–
Trade and other receivables	**256**	4
Tax receivables	**29**	–
Cash and cash equivalents	**33**	–
Bank loans	**(79)**	–
Trade and other payables	**(598)**	(7)
Provisions and retirement benefit obligations	**(73)**	(1)
Tax payables	**(71)**	(4)
	411	34

21 – Trade and other payables

Current	2017 £m	2016 £m
Trade payables	**1,767**	2,121
Tax and social security	**66**	88
Other payables	**90**	71
Accruals	**354**	346
Deferred income	**2**	8
	2,279	2,634
Non-current		
Other payables	**180**	163

Trade payables are stated net of £nil (2016: £15 million) due from suppliers with respect to Supplier Rebates where an agreement exists that allows these to be net settled.

22 – Bank loans and overdrafts

	2017			2016		
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts	1,500	–	1,500	692	–	692
Bank and other loans	2	4	6	1	224	225
Senior unsecured loan notes	125	827	952	8	951	959
Total bank loans and overdrafts	1,627	831	2,458	701	1,175	1,876

Included in bank overdrafts at 31 July 2017 is an amount of £1,420 million (2016: £606 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within cash and cash equivalents (note 19). These amounts are subject to a master netting arrangement.

£2 million of bank loans are secured against the Group's freehold property (2016: £130 million). In addition, £79 million of bank loans included in liabilities held for sale (note 20) are secured against freehold property included in assets held for sale. No bank loans were secured against trade receivables at 31 July 2017 (2016: £nil) as the trade receivables facility of £454 million was undrawn as at 31 July 2017.

Non-current loans are repayable as follows:

	2017 £m	2016 £m
Due in one to two years	6	124
Due in two to three years	4	4
Due in three to four years	214	4
Due in four to five years	1	215
Due in over five years	606	828
Total	831	1,175

The carrying value of the senior unsecured loan notes of £952 million comprises a par value of £937 million and a fair value adjustment of £15 million (2016: £959 million, £936 million and £23 million respectively). The fair value adjustment arose before 30 November 2011 when the loan notes were hedged by a series of interest rate swaps. From 30 November 2011, the hedge relationship was de-designated and the fair value adjustment is being released to the income statement on an amortised cost basis and the fair value hedge is based on a recalculated effective interest rate at the date when hedge accounting was discontinued. The adjustment will be fully amortised at the point the unsecured loan notes mature. Finance costs are disclosed in note 6.

There have been no significant changes during the year to the Group's policies on accounting for, valuing and managing the risk of financial instruments. These policies are summarised on pages 123 to 126.

23 – Financial instruments and financial risk management

Capital structure

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 EBITDA before exceptional items. The Group aims to operate with investment grade credit metrics and ensure this ratio remains within 1 to 2 times. The Group's main borrowing facilities contain a financial covenant limiting the ratio of net debt to EBITDA before exceptional items to 3.5:1. The reconciliation of opening to closing net debt is detailed in note 32.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, repurchase its own shares, issue new shares or sell assets to reduce debt.

Liquidity

During the year ended 31 July 2017, the Group's US$600 million revolving credit facility has been extended by one year and matures in December 2019. The Group also entered into a US$190 million bilateral revolving credit facility agreement maturing in December 2017. As at 31 July 2017, all of the Group's revolving credit facilities were undrawn. The maturity profile of the Group's undrawn facilities is as follows:

	2017 £m	2016 £m
Less than one year	144	–
Between one and two years	–	–
Between two and three years	454	454
Between three and four years	–	–
Between four and five years	800	–
Greater than five years	–	705
Total	1,398	1,159

Notes to the consolidated financial statements continued

Year ended 31 July 2017

23 – Financial instruments and financial risk management continued

Foreign currency

Net debt by currency was as follows:

As at 31 July 2017	Interest rate swaps £m	Finance lease obligations £m	Cash, overdrafts and bank loans £m	Currency (sold)/bought forward £m	Total £m
Pounds sterling	–	(3)	62	(7)	52
US dollars	20	(4)	(604)	7	(581)
Euro, Danish kroner and Swedish kronor	–	–	6	–	6
Other currencies	–	–	(11)	–	(11)
Total	20	(7)	(547)	–	(534)

As at 31 July 2016	Interest rate swaps £m	Finance lease obligations £m	Cash, overdrafts and bank loans £m	Currency bought/(sold) forward £m	Total £m
Pounds sterling	–	(3)	(60)	65	2
US dollars	29	(6)	(789)	(151)	(917)
Euro, Danish kroner and Swedish kronor	–	–	(102)	88	(14)
Other currencies	–	(22)	15	–	(7)
Total	29	(31)	(936)	2	(936)

Currency bought/(sold) forward comprises short-term foreign exchange swaps which were designated and effective as hedges of overseas operations.

Interest rates

The interest rate profile of the Group's net debt including the effect of interest rate swaps is set out in the following tables:

			2017			2016
As at 31 July	Floating £m	Fixed £m	Total £m	Floating £m	Fixed £m	Total £m
Pounds sterling	55	(3)	52	5	(3)	2
US dollars	360	(941)	(581)	48	(965)	(917)
Euro, Danish kroner and Swedish kronor	6	–	6	113	(127)	(14)
Other currencies	(11)	–	(11)	15	(22)	(7)
Total	410	(944)	(534)	181	(1,117)	(936)

Fixed rate borrowings at 31 July 2017 carried a weighted average interest rate of 3.3 per cent fixed for a weighted average duration of 6.5 years (31 July 2016: 3.2 per cent for 7.6 years). The Group had no floating rate borrowings at 31 July 2017 (31 July 2016: floating rate borrowings carried a weighted average interest rate of 0.9 per cent).

24 – Obligations under finance leases

	Gross 2017 £m	Gross 2016 £m	Net 2017 £m	Net 2016 £m
Due within one year	4	5	3	4
Due in one to five years	3	10	3	7
Due in over five years	4	25	1	20
	11	40	7	31
Less: future finance charges	(4)	(9)		
Present value of finance lease obligations	7	31		
Current			3	4
Non-current			4	27
Total obligations under finance leases			7	31

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. Finance lease obligations included above are secured against the assets concerned.

25 – Provisions

	Environmental and legal £m	Wolseley Insurance £m	Restructuring £m	Other provisions £m	Total £m
At 31 July 2015	70	41	32	63	206
Utilised in the year	(7)	(12)	(12)	(4)	(35)
Amortisation of discount	3	–	–	–	3
Charge for the year	5	18	8	7	38
Disposal of businesses and reclassified as held for sale	(7)	–	(1)	(11)	(19)
Exchange rate adjustment	11	6	1	10	28
At 31 July 2016	**75**	**53**	**28**	**65**	**221**
Utilised in the year	**(11)**	**(13)**	**(23)**	**(4)**	**(51)**
Changes in discount rate	**(10)**	**–**	**–**	**–**	**(10)**
Charge for the year	**7**	**14**	**50**	**5**	**76**
Disposal of businesses and reclassified as held for sale	**(3)**	**–**	**(10)**	**(24)**	**(37)**
Exchange rate adjustment	**1**	**–**	**–**	**1**	**2**
At 31 July 2017	**59**	**54**	**45**	**43**	**201**

Provisions have been analysed between current and non-current as follows:

At 31 July 2017	**Environmental and legal £m**	**Wolseley Insurance £m**	**Restructuring £m**	**Other provisions £m**	**Total £m**
Current	**10**	**18**	**28**	**25**	**81**
Non-current	**49**	**36**	**17**	**18**	**120**
Total provisions	**59**	**54**	**45**	**43**	**201**

At 31 July 2016	Environmental and legal £m	Wolseley Insurance £m	Restructuring £m	Other provisions £m	Total £m
Current	23	14	16	35	88
Non-current	52	39	12	30	133
Total provisions	75	53	28	65	221

The environmental and legal provision includes £52 million (2016: £61 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 2.3 per cent (2016: 1.5 per cent). This amount has been actuarially determined as at 31 July 2017 based on advice from independent professional advisers. The Group has insurance that it believes is sufficient cover for the estimated liability and accordingly an equivalent insurance receivable has been recorded in other receivables. Based on current estimates, the amount of performing insurance cover significantly exceeds the expected level of future claims and no material profit or cash flow impact is therefore expected to arise in the foreseeable future. Due to the nature of these provisions, the timing of any settlements is uncertain.

Wolseley Insurance provisions represent an estimate, based on historical experience, of the ultimate cost of settling outstanding claims and claims incurred but not reported on certain risks retained by the Group (principally USA casualty and global property damage). Due to the nature of these provisions, the timing of any settlements is uncertain.

Restructuring provisions include provisions for staff redundancy costs and future lease rentals on closed branches. In determining the provision for onerous leases, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates. The weighted average maturity of these obligations is approximately three years.

Other provisions include warranty costs relating to businesses disposed of, rental commitments on vacant properties and dilapidations on leased properties. The weighted average maturity of these obligations is approximately three years.

26 – Retirement benefit obligations

(i) Long-term benefit plans provided by the Group

The Group has a defined benefit pension plan for certain of its UK employees. This plan was closed for future service accrual in December 2013 and during October 2016 the plan was closed for future non-inflationary salary accrual. The Group operates a number of smaller plans in other jurisdictions, providing pensions or other long-term benefits such as long service or termination awards. More information about the plans operated by the Group is set out on page 126.

During the year, the Group secured a buy-in insurance policy with Pension Insurance Corporation (PIC) for the UK pension plan. This policy covered all of the pensioner members of the plan and exactly matches the benefits provided by the plan. This has led to the recognition of an asset in respect of this policy exactly equal to the insured liabilities at 31 July 2017. The difference between the premium paid and the asset recognised in respect of this policy has been recognised as an actuarial movement in other comprehensive income.

(ii) Financial impact of plans

As disclosed in the Group balance sheet	2017 £m	2016 £m
Non-current asset	3	–
Current liability	(8)	(9)
Non-current liability	(16)	(138)
Total liability	(24)	(147)
Net liability	(21)	(147)

Analysis of Group balance sheet net asset/(liability)	2017 UK £m	2017 Non-UK £m	2017 Total £m	2016 UK £m	2016 Non-UK £m	2016 Total £m
Fair value of plan assets	1,337	164	1,501	1,308	250	1,558
Present value of defined benefit obligation	(1,334)	(188)	(1,522)	(1,336)	(369)	(1,705)
Net asset/(liability)	3	(24)	(21)	(28)	(119)	(147)

Analysis of total (income)/expense recognised in the Group income statement	2017 £m	2016 £m
Current service cost	5	7
Administration costs	3	2
Exceptional past service gain (note 5)	(11)	–
Past service gain from settlements	(2)	(4)
(Credited)/charged to operating costs [(a)]	(5)	5
Charged to finance costs (note 6) [(b)]	3	–
Total (income)/expense recognised in the Group income statement	(2)	5

(a) Includes a charge of £2 million (2016: £nil) relating to discontinued operations.
(b) Includes a charge of £1 million (2016: £1 million) relating to discontinued operations.

Expected employer contributions to the defined benefit plans for the year ending 31 July 2018 are £14 million. The remeasurement of the defined benefit net liability is included in the Group statement of comprehensive income.

Analysis of amount recognised in the Group statement of comprehensive income	2017 £m	2016 £m
The return on plan assets (excluding amounts included in net interest expense)	5	40
Actuarial gain arising from changes in demographic assumptions	32	17
Actuarial loss arising from changes in financial assumptions	(78)	(200)
Actuarial gain arising from experience adjustments	40	23
Tax	(1)	25
Total amount recognised in the Group statement of comprehensive income	(2)	(95)

The cumulative amount of actuarial losses recognised in the Group statement of comprehensive income is £370 million (2016: £369 million).

26 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

The fair value of plan assets is as follows:

Fair value of plan assets	2017 UK £m	2017 Non-UK £m	2017 Total £m	2016 UK £m	2016 Non-UK £m	2016 Total £m
At 1 August	**1,308**	**250**	**1,558**	1,262	215	1,477
Interest income	**31**	**5**	**36**	45	6	51
Employer's contributions	**37**	**30**	**67**	2	7	9
Participants' contributions	**–**	**2**	**2**	–	3	3
Benefit payments	**(46)**	**(14)**	**(60)**	(45)	(15)	(60)
Settlement payments	**–**	**(3)**	**(3)**	–	–	–
Disposal of businesses	**–**	**(102)**	**(102)**	–	–	–
Reclassification as held for sale	**–**	**(8)**	**(8)**	–	–	–
Remeasurement gain/(loss):						
Return on plan assets (excluding amounts included in net interest expense)	**7**	**(2)**	**5**	44	(4)	40
Currency translation	**–**	**6**	**6**	–	38	38
At 31 July	**1,337**	**164**	**1,501**	1,308	250	1,558
Actual return on plan assets	**38**	**3**	**41**	89	2	91

Employer's contributions included special funding contributions of £55 million (2016: £nil).

At 31 July 2017, the plan assets were invested in a diversified portfolio comprised of:

Value at 31 July		2017 UK £m	2017 Non-UK £m	2017 Total £m	2016 UK £m	2016 Non-UK £m	2016 Total £m
Equity type assets	quoted	**406**	**53**	**459**	663	85	748
Government bonds	quoted	**255**	**36**	**291**	356	22	378
Corporate bonds	quoted	**31**	**56**	**87**	147	75	222
Real estate		**40**	**–**	**40**	4	24	28
Cash		**35**	**8**	**43**	12	10	22
Insurance policies		**505**	**–**	**505**	–	17	17
Other		**65**	**11**	**76**	126	17	143
Total market value of assets		**1,337**	**164**	**1,501**	1,308	250	1,558

Present value of defined benefit obligation	2017 UK £m	2017 Non-UK £m	2017 Total £m	2016 UK £m	2016 Non-UK £m	2016 Total £m
At 1 August	**1,336**	**369**	**1,705**	1,206	286	1,492
Current service cost (including administrative costs)	**2**	**6**	**8**	2	7	9
Past service gain	**(11)**	**(2)**	**(13)**	(2)	(2)	(4)
Interest cost	**31**	**8**	**39**	41	10	51
Benefit payments	**(46)**	**(14)**	**(60)**	(45)	(15)	(60)
Settlement and curtailment payments	**–**	**(5)**	**(5)**	–	–	–
Participants' contributions	**–**	**2**	**2**	–	3	3
Remeasurement (gain)/loss:						
Actuarial gain arising from changes in demographic assumptions	**(31)**	**(1)**	**(32)**	(14)	(3)	(17)
Actuarial loss/(gain) arising from changes in financial assumptions	**91**	**(13)**	**78**	174	26	200
Actuarial (gain)/loss arising from experience adjustments	**(38)**	**(2)**	**(40)**	(26)	3	(23)
Disposal of businesses	**–**	**(120)**	**(120)**	–	–	–
Reclassified as held for sale	**–**	**(49)**	**(49)**	–	–	–
Currency translation	**–**	**9**	**9**	–	54	54
At 31 July	**1,334**	**188**	**1,522**	1,336	369	1,705

26 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

Analysis of present value of defined benefit obligation	2017 £m	2016 £m
Amounts arising from wholly unfunded plans	3	44
Amounts arising from plans that are wholly or partly funded	1,519	1,661
	1,522	1,705

(iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2017		2016	
	UK	Non-UK	UK	Non-UK
Discount rate	2.6%	3.6%	2.4%	2.2%
Inflation rate	3.2%	2.5%	2.8%	1.4%
Increase to deferred benefits during deferment	2.1%	n/a	1.7%	1.8%
Increases to pensions in payment	2.9%	2.0%	2.5%	1.8%
Salary increases	2.1%	2.5%	1.7%	1.8%

The life expectancy assumptions used to estimate defined benefit obligations are:

	2017		2016	
	UK Years	Non-UK Years	UK Years	Non-UK Years
Current pensioners (at age 65) – male	22	21	22	22
Current pensioners (at age 65) – female	24	24	24	24
Future pensioners (at age 65) – male	24	23	25	24
Future pensioners (at age 65) – female	26	25	27	26

The weighted average duration of the defined benefit obligation is 20.4 years (2016: 21.2 years).

(iv) Sensitivity analysis

The Group considers that the most sensitive assumptions are the discount rate, inflation and life expectancy. The table below shows the impact of the sensitivities on the Group's defined benefit plan net liability.

	2017			2016		
	Change	UK £m	Non-UK £m	Change	UK £m	Non-UK £m
Discount rate	+0.25%	69	4	+0.25%	68	13
	(0.25)%	(75)	(4)	(0.25)%	(71)	(14)
Inflation	+0.25%	(65)	–	+0.25%	(61)	(2)
	(0.25)%	63	–	(0.25)%	52	2
Life expectancy	+1 year	52	6	+1 year	57	9

27 – Share capital

(i) Ordinary shares in issue

	Authorised numbers		Allotted and issued numbers	
	2017	2016	**2017**	2016
Number of ordinary $10^{53}/_{66}$ pence shares in the Company (million)	**463**	463	**267**	267
Nominal value of ordinary $10^{53}/_{66}$ pence shares in the Company (£ million)	**50**	50	**29**	29

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:

	2017	2016
Number of ordinary shares $10^{53}/_{66}$ pence ordinary shares in the Company in issue at 1 August	**266,636,106**	266,592,678
New shares issued to settle share options	**–**	43,428
Number of $10^{53}/_{66}$ pence ordinary shares in the Company in issue at 31 July	**266,636,106**	266,636,106

Consideration received, net of transaction costs, in respect of shares issued to participants in the long term incentive plans and all-employee sharesave plans amounted to £nil (2016: £nil).

(ii) Treasury shares

The shares purchased under the Group's buyback programme have been retained in issue as Treasury shares and represent a deduction from equity attributable to owners of the parent.

A summary of the movements in Treasury shares in the year is detailed in the following table:

	2017		2016	
Treasury shares	**Number of shares**	**Cost £m**	Number of shares	Cost £m
As at 1 August	**14,259,276**	**516**	7,105,842	240
Treasury shares purchased	**–**	**–**	7,862,836	300
Disposal of Treasury shares to settle share options	**(876,696)**	**(31)**	(709,402)	(24)
As at 31 July	**13,382,580**	**485**	14,259,276	516

Consideration received in respect of shares transferred to participants in the long term incentive plans and all-employee sharesave plans amounted to £21 million (2016: £14 million). After the reporting date the Directors proposed a further share buyback programme of up to £500 million.

(iii) Own shares

Two Employee Benefit Trusts have been established in connection with the Company's discretionary share option plans and long term incentive plans.

A summary of the movements in own shares held in Employee Benefit Trusts is detailed in the following table below:

	2017		2016	
Own shares	**Number of shares**	**Cost £m**	Number of shares	Cost £m
As at 1 August	**1,762,657**	**57**	2,019,377	63
New shares purchased	**142,000**	**6**	368,441	14
Exercise of share options	**(469,502)**	**(15)**	(625,161)	(20)
As at 31 July	**1,435,155**	**48**	1,762,657	57

Consideration received in respect of shares transferred to participants in the discretionary share option plans and long term incentive plans amounted to £nil (2016: £1 million). At 31 July 2017, the shares held in the trusts had a market value of £65 million (2016: £74 million).

Dividends due on shares held by the Employee Benefit Trusts are waived in accordance with the provisions of the trust deeds.

28 – Share-based payments

Analysis of charge to income statement	2017 £m	Restated 2016 £m
Executive share option plans	–	2
Ordinary share plans	15	12
All-employee sharesave plans	2	1
Long term incentive plans	3	2
	20	17

The total share-based payments charge including discontinued operations was £22 million (2016: £20 million).

The number and weighted average exercise price of outstanding and exercisable share options and share awards are detailed below:

	2017		2016	
	Number of shares/options 000's	Weighted average exercise price £	Number of shares/options 000's	Weighted average exercise price £
Outstanding at 1 August	3,728	13.21	4,423	13.91
Granted	1,282	8.60	1,022	9.80
Options exercised or shares vested	(1,350)	15.61	(1,438)	11.89
Surrendered or expired	(401)	9.99	(279)	18.65
Outstanding at 31 July	3,259	10.80	3,728	13.21
Exercisable at 31 July	353	18.80	696	18.35

	2017	2016
Weighted average fair value per share/option granted during the year (£)	32.95	24.28

At 31 July 2017 and 31 July 2016, all of the shares and options outstanding had an exercise price which was below the market price. The market price at 31 July 2017 was £45.27 (2016: £42.09) and the average share price in the year to 31 July 2017 was £47.28 (2016: £38.30). For executive share option plans and all-employee sharesave plans, the range of exercise prices for shares and options outstanding at 31 July 2017 was £12.69 to £42.96 (2016: £7.01 to £33.62). For the ordinary share plan and long term incentive plans, all share options outstanding at 31 July 2017 had an exercise price of £nil (2016: £nil).

For shares and options outstanding at 31 July 2017, the weighted average remaining contractual life was three years (2016: four years).

The fair value at the date of grant of options awarded during the year has been estimated using the binomial methodology for all plans except the portion of the grants awarded under the long term incentive plan that are subject to a relative Total Shareholder Return ("TSR") performance condition, for which a Monte Carlo simulation was used.

The fair value of shares granted under the ordinary share plan was calculated as the market price of the shares at the date of grant reduced by the present value of dividends expected to be paid over the vesting period.

The principal assumptions required by these methodologies were:

	Ordinary share plans		All-employee sharesave plans		Long term incentive plans	
	2017	2016	2017	2016	2017	2016
Risk-free interest rate	0.3%	0.7%	0.1%	0.6%	0.3%	0.7%
Expected dividend yield	2.7%	3.0%	2.4%	2.7%	0.0%	2.2%
Expected volatility	22%	23%	22%	25%	22%	23%
Expected life	1–3 years	3 years	1–6 years	1–6 years	3 years	3 years

There were no executive share options granted in the period.

Expected volatility has been estimated on the basis of historical volatility over the expected term, excluding the effect of extraordinary volatility due to the Group's capital reorganisation and rights issue in 2009. Expected life has been estimated on the basis of historical data on the exercise pattern.

Additional information on share-based payment plans operated by the Group is provided on page 127.

29 – Reconciliation of profit to cash generated from operations

Profit for the year is reconciled to cash generated from continuing and discontinued operations as follows:

	2017 £m	2016 £m
Profit for the year	783	650
Net finance costs	39	34
Share of result of associate	1	–
Tax expense	290	236
Gain on disposal and closure of businesses and revaluation of assets held for sale	(256)	(147)
Depreciation and impairment of property, plant and equipment	143	125
Amortisation and impairment of non-acquired intangible assets	24	15
Amortisation and impairment of goodwill and acquired intangible assets	170	147
Loss/(profit) on disposal of property, plant and equipment and assets held for sale	9	(18)
Increase in inventories	(97)	(36)
Increase in trade and other receivables	(211)	(21)
Increase in trade and other payables	231	13
(Decrease)/increase in provisions and other liabilities	(33)	1
Share-based payments	22	20
Cash generated from operations	1,115	1,019

Trading profit is reconciled to cash generated from continuing and discontinued operations as follows:

	2017 £m	Restated 2016 £m
Trading profit	1,059	857
Exceptional items in operating profit	229	(4)
Gain on disposal and closure of businesses and revaluation of assets held for sale	(256)	(147)
Operating (loss)/profit from discontinued operations before the amortisation and impairment of goodwill and acquired intangible assets (note 8)	(5)	214
Depreciation and impairment of property, plant and equipment	143	125
Amortisation and impairment of non-acquired intangible assets	24	15
Loss/(profit) on disposal of property, plant and equipment and assets held for sale	9	(18)
Increase in inventories	(97)	(36)
Increase in trade and other receivables	(211)	(21)
Increase in trade and other payables	231	13
(Decrease)/increase in provisions and other liabilities	(33)	1
Share-based payments	22	20
Cash generated from operations	1,115	1,019

30 – Acquisitions

The Group acquired the following 11 businesses in the year ended 31 July 2017. All these businesses are engaged in the distribution of plumbing and heating products and building materials. All transactions have been accounted for by the purchase method of accounting. The Group also acquired a share of Walter Meier AG (see note 15), which has been accounted for as an associate.

Name	Date of acquisition	Country of incorporation	Shares/asset deal	% acquired
Clawfoot Supply LLC (t/a Signature Hardware)	August 2016	USA	Shares	100
Westfield Lighting Co., Inc.	August 2016	USA	Asset	100
Mölnlycke Trä AB	October 2016	Sweden	Shares	100
Berners Tunga Fordon Fastighet AB	October 2016	Sweden	Shares	100
Ramapo Wholesalers Inc.	October 2016	USA	Asset	100
The Plumbing Source Co., Inc.	October 2016	USA	Shares	100
Underground Pipe & Valve, Incorporated	November 2016	USA	Asset	100
Matera Paper Company, Inc.	December 2016	USA	Shares	100
P.V. Sullivan Supply Co., Inc.	February 2017	USA	Asset	100
Custom Lighting Incorporated and Custom Hardware and Accessories, Inc.	February 2017	USA	Asset	100
Lighting Unlimited, LLC	February 2017	USA	Asset	100

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

	Book values acquired £m	Fair value adjustments £m	Provisional fair values acquired £m
Intangible assets			
– Customer relationships	–	25	25
– Trade names and brands	–	46	46
– Other	–	10	10
Property, plant and equipment	25	1	26
Inventories	47	(9)	38
Receivables	23	–	23
Cash, cash equivalents and bank overdrafts	8	–	8
Payables	(14)	–	(14)
Deferred tax	–	(9)	(9)
Total	89	64	153
Goodwill arising			139
Consideration			292
Satisfied by:			
Cash			254
Deferred consideration			38
Total consideration			292

The fair value adjustments are provisional figures, being the best estimates currently available. Further adjustments may be necessary when additional information is available for some of the judgemental areas.

The goodwill arising on these acquisitions is attributable to the anticipated profitability of the new markets and product ranges to which the Group has gained access and additional profitability and operating efficiencies available in respect of existing markets.

The acquisitions contributed £214 million to revenue, £29 million to trading profit and £12 million to the Group's operating profit for the period between the date of acquisition and the balance sheet date. It is not practicable to disclose profit before and after tax, as the Group manages its borrowings as a portfolio and cannot attribute an effective borrowing rate to an individual acquisition.

If each acquisition had been completed on the first day of the financial year, Group revenue would have been £15,277 million and Group trading profit would have been £1,062 million. It is not practicable to disclose profit before tax or profit attributable to equity shareholders, as stated above. It is also not practicable to disclose operating profit as the Group cannot estimate the amount of intangible assets that would have been acquired at a date other than the acquisition date.

30 – Acquisitions continued

The net outflow of cash in respect of the purchase of businesses is as follows:

	2017 £m	2016 £m
Purchase consideration	**254**	94
Deferred and contingent consideration in respect of prior year acquisitions	**10**	21
Cash consideration	**264**	115
Cash acquired	**(8)**	(2)
Net cash outflow in respect of the purchase of businesses	**256**	113

31 – Disposals

In the year ended 31 July 2017, the Group disposed of the following businesses:

Name	Country	Date of disposal	Shares/asset deal
HR Sandvold AS	Norway	March 2017	Shares
Tobler Haustechnik AG	Switzerland	April 2017	Shares
Endries International Inc.	USA	June 2017	Shares
Endries International Canada Inc.	Canada	June 2017	Shares
Endries International de Mexico SA de C.V.	Mexico	June 2017	Shares
Wolseley Liegenschaftsverwaltung GmbH	Austria	June 2017	Shares

The Group recognised a total gain on current year disposals of £266 million.

	Continuing operations £m	Discontinued operations £m	Group 2017 £m
Consideration received	**408**	–	**408**
Net assets disposed of	**(166)**	–	**(166)**
Disposal costs	**(25)**	–	**(25)**
Recycling of deferred foreign exchange gains	**49**	–	**49**
Gain on disposal	**266**	–	**266**

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

	Continuing operations £m	Discontinued operations £m	Group 2017 £m
Goodwill and intangible assets	**68**	–	**68**
Property, plant and equipment	**40**	–	**40**
Inventories	**78**	**1**	**79**
Receivables	**71**	–	**71**
Payables	**(63)**	**(1)**	**(64)**
Provisions	**(2)**	–	**(2)**
Pensions	**(18)**	–	**(18)**
Current and deferred tax	**(4)**	–	**(4)**
Net debt	**(4)**	–	**(4)**
Total net assets disposed of	**166**	–	**166**

The net inflow/(outflow) of cash in respect of the disposal of businesses is as follows:

	Continuing operations £m	Discontinued operations £m	Group 2017 £m
Cash consideration received for current year disposals (net of cash disposed of)	**257**	–	**257**
Cash paid in respect of prior year disposals	–	**(1)**	**(1)**
Disposal costs paid	**(25)**	–	**(25)**
Net cash inflow/(outflow)	**232**	**(1)**	**231**

32 – Reconciliation of opening to closing net debt

For the year ended 31 July 2017	At 1 August 2016 £m	Cash flows £m	Acquisitions and new finance leases £m	Disposal of businesses £m	Fair value and other adjustments £m	Held for sale movements £m	Exchange movement £m	At 31 July 2017 £m
Cash and cash equivalents	940							1,911
Bank overdrafts	(692)							(1,500)
	248	228	8	(25)	–	(33)	(15)	411
Derivative financial instruments	31	(9)	–	–	–	–	(2)	20
Bank and other loans	(1,184)	134	–	7	8	79	(2)	(958)
Obligations under finance leases	(31)	5	(3)	22	–	–	–	(7)
Net debt	(936)	358	5	4	8	46	(19)	(534)

For the year ended 31 July 2016	At 1 August 2015 £m	Cash flows £m	Acquisitions and new finance leases £m	Disposal of businesses £m	Fair value and other adjustments £m	Held for sale movements £m	Exchange movement £m	At 31 July 2016 £m
Cash and cash equivalents	1,105							940
Bank overdrafts	(848)							(692)
	257	(28)	2	–	–	(1)	18	248
Derivative financial instruments	33	(10)	–	–	1	–	7	31
Bank and other loans	(1,066)	16	–	27	9	–	(170)	(1,184)
Obligations under finance leases	(29)	4	(2)	–	–	–	(4)	(31)
Net debt	(805)	(18)	–	27	10	(1)	(149)	(936)

33 – Related party transactions

There are no related party transactions requiring disclosure under IAS 24 “Related Party Disclosures” other than the compensation of key management personnel which is set out in note 11.

34 – Operating lease commitments

Future minimum lease payments under non-cancellable operating leases for the following periods are:

	2017 £m	2016 £m
Within one year	260	253
Later than one year and less than five years	461	457
After five years	133	143
Total operating lease commitments	854	853

Operating lease payments mainly represent rents payable for properties. Some of the Group’s operating lease arrangements have renewal options and rental escalation clauses. No arrangements have been entered into for contingent rental payments.

The commitments shown above include commitments for onerous leases which have already been provided for. At 31 July 2017, provisions include an amount of £27 million (2016: £25 million) in respect of minimum lease payments for such onerous leases net of sublease income expected to be received. The total minimum sublease income expected to be received under non-cancellable subleases at 31 July 2017 is £7 million (2016: £8 million).

The commitments above include £91 million operating lease commitments (2016: £102 million) for discontinued operations.

35 – Contingent liabilities

Group companies are, from time to time, subject to certain claims and litigation arising in the normal course of business in relation to, among other things, the products that they supply, contractual and commercial disputes and disputes with employees. Provision is made if, on the basis of current information and professional advice, liabilities are considered likely to arise. In the case of unfavourable outcomes, the Group may benefit from applicable insurance protection.

Warranties and indemnities in relation to business disposals

Over the past few years, the Group has disposed of a number of non-core businesses and various Group companies have provided certain standard warranties and indemnities to acquirers and other third parties. Provision is made where the Group considers that a liability is likely to crystallise, though it is possible that claims in respect of which no provision has been made could crystallise in the future. Group companies have also made contractual commitments for certain property and other obligations which could be called upon in an event of default. As at the date of this report, there are no significant outstanding claims in relation to business disposals.

Environmental liabilities

The operations of certain Group companies are subject to specific environmental regulations. From time to time, the Group conducts preliminary investigations through third parties to assess potential risks including potential soil or groundwater contamination of sites. Where an obligation to remediate contamination arises then this is provided for, though future liabilities could arise from sites for which no provision is made.

Outcome of claims and litigation

The outcome of claims and litigation to which Group companies are party cannot readily be foreseen as, in some cases, the facts are unclear, further time is needed to assess properly the merits of the case, or they are part of continuing legal proceedings. However, based on information currently available, the Directors consider that the cost to the Group of an unfavourable outcome arising from such litigation is not expected to have a material adverse effect on the financial position of the Group.

36 – Post-balance sheet events

Since the year-end, the Group has acquired five businesses, two in the USA and three in Canada and Central Europe with a combined annual revenue of £109 million. As at the date of this report, the accounting for these transactions has not been finalised.

On 31 August 2017, the Group disposed of Silvan, its DIY business in Denmark.

37 – Additional information

(i) Group 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.

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 the results of its associate drawn up to 31 July 2017.

The trading results of business operations are included in profit from continuing operations from the date of acquisition or up to the date of sale.

Intra-group transactions and balances and any unrealised gains and losses arising from intra-group transactions are eliminated on consolidation, with the exception of gains or losses required under relevant IFRS accounting standards.

Discontinued operations

When the Group has disposed of or intends to dispose of a business component that represents a separate major line of business or geographical area of operations, it classifies such operations as discontinued. The post-tax profit or loss of the discontinued operations is shown as a single line on the face of the income statement, separate from the other results of the Group.

Foreign currencies

Items included in the financial statements of 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 sterling, which is the presentational currency of the Group and the functional currency of the parent company.

The trading results of overseas subsidiary undertakings are translated into sterling using the average rates of exchange ruling during the relevant financial period. The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the period end. Exchange differences arising between the translation into sterling of the net assets of these subsidiary undertakings are recognised in the currency translation reserve (as are exchange differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against foreign currency net assets).

Changes in the fair value of derivative financial instruments, entered into to hedge foreign currency net assets and that satisfy the hedging conditions of IAS 39, are recognised in the currency translation reserve (see the separate accounting policy on derivative financial instruments).

In the event that a subsidiary undertaking which has a non-sterling functional currency is disposed of, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the subsidiary undertaking concerned.

Foreign currency transactions entered into during the year are translated into sterling 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 with the exception of differences on foreign currency net borrowings to the extent that they are used to finance or provide a hedge against foreign currency net assets as detailed above.

Business combinations

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Acquisition-related costs are expensed as incurred.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the equity attributable to shareholders of the Company. The interests of non-controlling shareholders are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests showing a deficit balance.

37 – Additional information continued

(i) Group accounting policies continued

Interests in associates

Investments in companies where significant influence is exercised are accounted for as interests in associates using the equity method of accounting from the date the investee becomes an associate. The investment is initially recognised at cost and adjusted thereafter for changes in the Group's share in the net assets of the investee. The Group's share of profit or loss after tax is recognised in the Group income statement and share of other comprehensive income or expense is recognised in the Group statement of other comprehensive income.

On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net assets of the investee is recognised as goodwill, which is included within the carrying amount of the investment. The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate.

Revenue

Revenue is the amount receivable for the provision of goods and services falling within the Group's ordinary activities, excluding intra-group sales, estimated and actual sales returns, trade and early settlement discounts, value added tax and similar sales taxes.

The Group acts as principal for direct sales which are delivered directly to the customer by the supplier.

Revenue from the provision of goods is recognised when the risks and rewards of ownership of goods have been transferred to the customer. The risks and rewards of ownership of goods are deemed to have been transferred when the goods are shipped to, or picked up by, the customer.

Revenue from services is recognised when the service provided to the customer has been completed.

Customer loyalty credits are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the loyalty credits and recognised in the period that loyalty credits are redeemed.

Revenue from the provision of goods and services is only recognised when the amounts to be recognised are fixed or determinable and collectability is reasonably assured.

Cost of sales

Cost of sales includes purchased goods, the cost of bringing inventory to its present location and condition and labour and overheads attributable to assembly and construction services.

Supplier rebates

In line with industry practice, the Group has agreements ("Supplier Rebates") with a number of its suppliers whereby volume-based rebates, marketing support and other discounts are received in connection with the purchase of goods for resale from those suppliers. Rebates relating to the purchase of goods for resale are accrued as earned and are recorded initially as a deduction in inventory with a subsequent reduction in cost of sales when the related product is sold.

Volume-based rebates

The majority of volume-based rebates are determined by reference to guaranteed rates of rebate. These are calculated through a mechanical process with minimal judgement required to determine the amount recorded in the income statement.

A small proportion of volume-based rebates are subject to stepped 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 stepped rebates, judgement is required to estimate the rebate amount recorded in the income statement at the end of the period. The Group assesses the probability that targeted volumes will be achieved in the year based on forecasts which are informed by historical trading patterns, current performance and trends. This judgement is exercised consistently with historically insignificant true ups at the end of the period.

An amount due in respect of Supplier Rebates is not recognised within the income statement until all the relevant performance criteria, where applicable, have been met and the goods have been sold to a third party.

Marketing support

Marketing support, which represents a smaller element of the Group's overall Supplier Rebates, is recognised in the income statement when all performance conditions have been fulfilled.

Supplier Rebates receivable

Where Supplier Rebates are netted off the amounts owing to that supplier, any outstanding amount at the balance sheet date is included within trade payables. Where the Supplier Rebates are not offset against amounts owing to a supplier, the outstanding amount is included within prepayments. The carrying value of inventory is reduced by the relevant amount where the inventory has not been sold by the balance sheet date.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on acquisitions of subsidiary undertakings is included within intangible assets. Goodwill is allocated to cash generating units or aggregations of cash generating units (together "CGUs") where synergy benefits are expected. CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group considers that a CGU is a business unit because independent cash flows cannot be identified below this level.

Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. For goodwill impairment testing purposes, no CGU is larger than the reporting segments determined in accordance with IFRS 8 "Operating Segments". The recoverable amount of goodwill and acquired intangible assets is assessed on the basis of the value in use estimate for CGUs to which they are attributed. Where carrying value exceeds the recoverable amount a provision for the impairment is established with a charge included in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Intangible assets, primarily brands, trade names and customer relationships, acquired as part of a business combination are capitalised separately from goodwill and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the reducing balance method for customer relationships and the straight-line method for other intangible assets.

37 – Additional information continued

(i) Group accounting policies continued

The cost of the intangible assets is amortised and charged to operating costs in the income statement over their estimated useful lives as follows:

Customer relationships	4–25 years
Trade names and brands	1–15 years
Other	1–4 years

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences and external and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training and data conversion are expensed as incurred. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to operating costs in the income statement over its estimated useful life of between three and five years.

Property, plant and equipment ("PPE")

PPE is carried at cost less accumulated depreciation and accumulated impairment losses, except for land and assets in the course of construction, which are not depreciated and are carried at cost less accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. In addition, subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Assets are depreciated to their estimated residual value using the straight-line method over their useful lives as follows:

Freehold buildings and long leaseholds	20–50 years
Operating leasehold improvements	over the period of the lease
Plant and machinery	7–10 years
Computer hardware	3–5 years
Fixtures and fittings	5–7 years
Motor vehicles	4 years

The residual values and useful lives of PPE are reviewed and adjusted if appropriate at each balance sheet date.

Borrowing costs directly attributable to the long-term construction or production of an asset are capitalised as part of the cost of the asset.

Leased assets

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group, are capitalised in the balance sheet and depreciated over the shorter of the lease term or their useful lives. The asset is recorded at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. The capital elements of future obligations under finance leases are included in liabilities in the balance sheet and analysed between current and non-current amounts. The interest elements of future obligations under finance leases are charged to the income statement over the periods of the leases and represent a constant proportion of the balance of capital repayments outstanding in accordance with the effective interest rate method.

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.

Assets and disposal groups held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. Where a group of assets and their directly associated liabilities are to be disposed of in a single transaction, such disposal groups are also classified as held for sale. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition and management must be committed to and have initiated a plan to sell the asset or disposal group which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are not depreciated. Assets or disposal groups that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Inventories

Inventories, which comprise goods purchased for resale, are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("FIFO") method or the average cost method as appropriate to the nature of the transactions in those items of inventory. The cost of goods purchased for resale includes import and custom duties, transport and handling costs, freight and packing costs and other attributable costs less trade discounts, rebates and other subsidies. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provisions are made against slow-moving, obsolete and damaged inventories for which the net realisable value is estimated to be less than the cost. The risk of obsolescence of slow-moving inventory is assessed by comparing the level of inventory held to estimated future sales on the basis of historical experience.

Trade receivables

Trade receivables are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the loss is recognised in the income statement. Trade receivables are written off against the provision when recoverability is assessed as being remote. Subsequent recoveries of amounts previously written off are credited to the income statement.

Provisions

Provisions for self-insured risks, legal claims, environmental restoration and onerous leases are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Such provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

Retirement benefit obligations

Contributions to defined contribution pension plans and other post-retirement benefits are charged to the income statement as incurred.

For defined benefit pension plans and other retirement benefits, the cost of providing benefits is determined annually using the Projected Unit Credit Method by independent qualified actuaries. The current service cost of defined benefit plans is recorded within operating profit. Past service costs are recognised immediately in income.

37 – Additional information continued

(i) Group accounting policies continued

The net interest amount is calculated by applying the discount rate used to measure the defined benefit net asset or liability at the beginning of the period. The pension plan net interest is presented as finance income or expense.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. The liability/asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period.

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 (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax provisions

The Group is subject to income taxes in numerous jurisdictions. Judgement is sometimes required in determining the worldwide provision for income taxes. There may be transactions and calculations for which the ultimate tax determination is uncertain and may be challenged by the tax authorities. The Group recognises liabilities for anticipated or actual tax audit issues based on estimates of whether additional taxes will be due. Where an outflow of funds to a tax authority is considered probable and the Group can make a reliable estimate of the outcome of the dispute, management calculates the provision using the single best estimate of likely outcome approach. In assessing its uncertain tax provisions, management takes into account the specific facts of each dispute, the likelihood of settlement and the advice from its in-house tax specialists and professional advisers. 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.

The Group believes that it has made adequate provision for the liabilities likely to arise from open audits and assessments. At 31 July 2017, the Group has recognised provisions of £162 million in respect of its uncertain tax positions (2016: £166 million). The total provision has decreased by £4 million in the year due to the settlement of various open tax issues in the UK. The remaining open significant tax issues relate predominantly to cross border transfer pricing risks. Given the uncertainty regarding the timing of the resolution of these matters, it is difficult for the Group to estimate whether there will be a material change in its estimate of uncertain tax provisions within the next 12 months.

Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Share-based payments

Share-based incentives are provided to employees under the Group's executive share option plan, long term incentive plan, all-employee sharesave plan, ordinary share plan, performance ordinary share plan and revised ordinary share plan. The Group recognises a compensation cost in respect of these plans that is based on the fair value of the awards, measured using Binomial and Monte Carlo valuation methodologies. For equity-settled plans, the fair value is determined at the date of grant (including the impact of any non-vesting conditions such as a requirement for employees to save) and is not subsequently remeasured unless the conditions on which the award were granted are modified. For cash-settled plans, the fair value is determined at the date of grant and is remeasured at each balance sheet date until the liability is settled. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or non-market performance conditions.

Dividends payable

Dividends on ordinary shares are recognised in the Group's financial statements in the period in which the dividends are approved by the shareholders of the Company or paid.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no legal right of offset and no practice of net settlement with cash balances.

Cash which is not freely available to the Group is disclosed as restricted cash.

Derivative financial instruments

Derivative financial instruments, in particular interest rate swaps and foreign exchange swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities. There is no trading activity in derivative financial instruments.

At the inception of a hedging transaction involving the use of derivative financial instruments, the Group documents the relationship between the hedged item and the hedging instrument together with its risk management objective and the strategy underlying the proposed transaction. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfil the criteria for hedge accounting contained in IAS 39, changes in their fair values are recognised in the income statement. When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges.

37 – Additional information continued

(ii) Additional information about financial instruments

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised directly in equity.

When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity are either recycled to the income statement or, if the hedged item results in a non-financial asset, are recognised as adjustments to its initial carrying amount. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Borrowings

Borrowings are recognised initially at the fair value of the consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial instruments by measurement basis

The carrying amount of financial instruments by category as defined by IAS 39 "Financial Instruments: Recognition and Measurement" is as follows:

	2017 £m	2016 £m
Financial assets		
Financial assets at fair value through profit and loss	**20**	31
Loans and receivables	**2,277**	2,392
Financial liabilities		
Financial liabilities at amortised cost	**4,596**	4,403

Financial instruments in the category "fair value through profit and loss" are measured in the balance sheet at fair value. Fair value measurements can be classified in the following hierarchy:

– quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
– inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
– inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following tables present the Group's assets and liabilities that are measured at fair value at 31 July 2017 and 31 July 2016:

				2017				2016
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivatives at fair value through profit and loss	**–**	**20**	**–**	**20**	–	31	–	31

As at 31 July 2017 and 31 July 2016, there were no derivative liabilities held at fair value through profit and loss. No transfers between levels occurred during the current or prior year.

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. The Group's other financial instruments are measured on bases other than fair value. Other receivables include an amount of £50 million (2016: £60 million) which has been discounted at a rate of 2.3 per cent (2016: 1.5 per cent) due to the long-term nature of the receivable. Other current assets and liabilities are either of short maturity or bear floating rate interest and their fair values approximate to book values. The only non-current financial assets or liabilities for which fair value does not approximate to book value are the senior unsecured loan notes, which had a book value of £952 million (2016: £959 million) and a fair value (level 2) of £991 million (2016: £1,027 million).

Notes to the consolidated financial statements continued
Year ended 31 July 2017

37 – Additional information continued

(ii) Additional information about financial instruments continued

Financial instruments: disclosure of offsetting arrangements

The financial instruments that have been offset in the financial statements are disclosed below:

At 31 July 2017	Notes	Gross balances [(a)] £m	Offset amounts [(b)] £m	Financial statements [(c)] £m	Cash pooling amounts [(d)] £m	Net total [(e)] £m
Financial assets						
Non-current assets						
Derivative financial assets	18	**39**	**(24)**	**15**	**–**	**15**
Current assets						
Derivative financial assets	18	**17**	**(12)**	**5**	**–**	**5**
Cash and cash equivalents	19	**1,911**	**–**	**1,911**	**(1,420)**	**491**
		1,967	**(36)**	**1,931**	**(1,420)**	**511**
Financial liabilities						
Current liabilities						
Derivative financial liabilities	18	**12**	**(12)**	**–**	**–**	**–**
Bank loans and overdrafts	22	**1,627**	**–**	**1,627**	**(1,420)**	**207**
Finance leases	24	**3**	**–**	**3**	**–**	**3**
Non-current liabilities						
Derivative financial liabilities	18	**24**	**(24)**	**–**	**–**	**–**
Bank loans	22	**831**	**–**	**831**	**–**	**831**
Finance leases	24	**4**	**–**	**4**	**–**	**4**
		2,501	**(36)**	**2,465**	**(1,420)**	**1,045**
Closing net debt	32	**(534)**	**–**	**(534)**	**–**	**(534)**

At 31 July 2016	Notes	Gross balances [(a)] £m	Offset amounts [(b)] £m	Financial statements [(c)] £m	Cash pooling amounts [(d)] £m	Net total [(e)] £m
Financial assets						
Non-current assets						
Derivative financial assets	18	51	(31)	20	–	20
Current assets						
Derivative financial assets	18	24	(13)	11	–	11
Cash and cash equivalents	19	940	–	940	(606)	334
		1,015	(44)	971	(606)	365
Financial liabilities						
Current liabilities						
Derivative financial liabilities	18	13	(13)	–	–	–
Bank loans and overdrafts	22	701	–	701	(606)	95
Finance leases	24	4	–	4	–	4
Non-current liabilities						
Derivative financial liabilities	18	31	(31)	–	–	–
Bank loans	22	1,175	–	1,175	–	1,175
Finance leases	24	27	–	27	–	27
		1,951	(44)	1,907	(606)	1,301
Closing net debt	32	(936)	–	(936)	–	(936)

(a) The gross amounts of the recognised financial assets and liabilities under a master netting agreement, or similar arrangement.
(b) The amounts offset in accordance with the criteria in IAS 32.
(c) The net amounts presented in the Group balance sheet.
(d) The amounts subject to a master netting arrangement, or similar arrangement, not included in (c).
(e) The net amount after deducting the amounts in (d) from the amounts in (c).

37 – Additional information continued

(ii) Additional information about financial instruments continued

Financial instruments: risk management policies

The Group is exposed to market risks arising from its international operations and the financial instruments which fund them. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and liquidity risk. The Group has well-defined policies for the management of interest rate, liquidity, foreign exchange and counterparty exposures, which have been consistently applied during the financial years ended 31 July 2017 and 31 July 2016. By the nature of its business, the Group also has trade credit and commodity price exposures, the management of which is delegated to the operating businesses. There has been no change since the previous year in the major financial risks faced by the Group.

Policies for managing each of these risks are regularly reviewed and are summarised below. When the Group enters into derivative transactions (principally interest rate swaps and foreign exchange contracts), the purpose of such transactions is to hedge certain interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments or speculative transactions be undertaken.

Capital risk management

The Group's sources of funding currently comprise cash flows generated by 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.

Liquidity risk

The Group maintains a policy of ensuring sufficient borrowing headroom to finance all investment and capital expenditure included in its strategic plan, with an additional contingent safety margin.

The Group has estimated its anticipated contractual cash outflows (excluding interest income and income from derivatives) including interest payable in respect of its trade and other payables and bank borrowings on an undiscounted basis. The principal assumptions are that floating rate interest is calculated using the prevailing interest rate at the balance sheet date and cash flows in foreign currency are translated using spot rates at the balance sheet date. These cash flows can be analysed by maturity as follows:

				2017				2016
As at 31 July	**Trade and other payables £m**	**Debt £m**	**Interest on debt £m**	**Total £m**	Trade and other payables £m	Debt £m	Interest on debt £m	Total £m
Due in less than one year	**1,935**	**125**	**40**	**2,100**	2,280	5	44	2,329
Due in one to two years	**20**	**4**	**37**	**61**	19	122	40	181
Due in two to three years	**21**	**1**	**34**	**56**	12	2	37	51
Due in three to four years	**10**	**213**	**34**	**257**	14	1	37	52
Due in four to five years	**9**	**1**	**27**	**37**	8	215	31	254
Due in over five years	**120**	**606**	**66**	**792**	110	847	116	1,073
Total	**2,115**	**950**	**238**	**3,303**	2,443	1,192	305	3,940

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 79 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 139. The net effect of currency translation was to increase revenue by £1,609 million (2016 restated: increase by £548 million) and to increase trading profit by £126 million (2016 restated: increase by £46 million). These currency effects primarily reflect a movement of the average sterling exchange rate against US dollars, euro and Canadian dollars as follows:

	2017 Weakening of sterling	2016 (Weakening)/ strengthening of sterling
US dollars	**(15.3%)**	(6.8%)
Euro	**(13.5%)**	(0.8%)
Canadian dollars	**(15.5%)**	4.1%

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 £1,528 million (2016: £1,636 million). The loss on translation of these financial instruments into sterling of £6 million (2016: £107 million) has been taken to the translation reserve.

37 – Additional information continued

(ii) Additional information about financial instruments continued

Net investment hedging

Exchange differences arising from the translation of the net investment in foreign operations are recognised directly in equity. Gains and losses on those hedging instruments designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective; these amounts are included in exchange differences on translation of foreign operations as stated in the Group statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the translation reserve are included in the income statement when the foreign operation is disposed of.

Interest rate risk

At 31 July 2017, 100 per cent of loans were at fixed rates. The Group borrows in the desired currencies principally at rates determined by reference to short-term benchmark rates applicable to the relevant currency or market, such as LIBOR. Rates which reset at least every 12 months are regarded as floating rates and the Group then, if appropriate, considers interest rate swaps to generate the desired interest rate profile.

The Group reviews deposits and borrowings by currency at Treasury Committee and Board meetings. The Treasury Committee gives prior approval to any variations from floating rate arrangements.

During November 2011, the Group entered into interest rate swap contracts comprising fixed interest payable on US$729 million of notional principal. The residual contracts of US$438 million expire between November 2017 and November 2020 and the fixed interest rates range between 2.06 per cent and 2.94 per cent (2016: 2.06 per cent and 2.94 per cent). These contracts have been held since inception at fair value through profit and loss. With effect from 1 December 2011, interest rate swap contracts comprising fixed interest receivable on an original notional principal of US$729 million and as at 31 July 2017, residual contracts of US$438 million have been classified as held at fair value through profit and loss. The contracts expire between November 2017 and November 2020 and the fixed interest rates range between 5.18 per cent and 5.32 per cent (2016: 5.18 per cent and 5.32 per cent).

The table below shows the income statement movement on interest rate swaps at fair value through profit and loss.

At fair value through profit and loss (hedge accounting not applied)	**2017 £m**	2016 £m
At 1 August	**29**	34
Settled	**(9)**	(11)
Valuation gain credited to income statement	**–**	1
Exchange	**–**	5
At 31 July	**20**	29

There are no fixed rate interest borrowings that form part of a hedge relationship.

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 Group has estimated that an increase of one percentage point in the principal floating interest rates to which it is exposed would result in a charge to the income statement of £nil (2016: £1 million). The Group has estimated that a weakening of sterling by 10 per cent against gross borrowings denominated in foreign currency in which the Group does business would result in a charge to equity of £156 million (2016: £177 million).

The Group does not require operating businesses to adhere to a formalised risk management policy in respect of trade credit risk or commodity price risk and 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.

Credit risk

The Group provides sales on credit terms to most of its customers. There is an associated risk that customers may not be able to pay outstanding balances. At 31 July 2017, the maximum exposure to credit risk was £2,022 million (2016: £2,187 million).

Each of the Group's businesses have established procedures in place to review and collect outstanding receivables. Significant outstanding and overdue balances are reviewed on a regular basis and resulting actions are put in place on a timely basis. In some cases, protection is provided through credit insurance arrangements. All of the major businesses use professional, dedicated credit teams, in some cases field-based. Appropriate provisions are made for debts that may be impaired on a timely basis. Concentration of credit risk in trade receivables is limited as the Group's customer base is large and unrelated. Accordingly, the Group considers that there is no further credit risk provision required above the current provision for impairment.

The 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 £424 million (2016: £237 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.

(iii) Additional information on the allotment of equity securities for cash

During the year, the Company did not issue any ordinary shares to participants in the long term incentive plans and all-employee sharesave plans (2016: issued 43,428 ordinary shares with a nominal value of $10\frac{53}{66}$ pence per share).

(iv) Additional information about pensions and other long-term employee benefits

Description of plans

The principal UK defined benefit plan is the Wolseley Group Retirement Benefits Plan which provides benefits based on final pensionable salaries. This plan was closed to new entrants in 2009. The assets are held in separate trustee administered funds. The Group contribution rate is calculated on the Projected Unit Credit Method and agreed with an independent consulting actuary. The Group Retirement Benefits Plan was closed to future service accrual in December 2013 and was replaced by a defined contribution plan. During October 2016, the plan was closed for future non-inflationary salary accrual.

The principal plans operated for USA employees are defined contribution plans, which are established in accordance with USA 401k rules. Companies contribute to both employee compensation deferral and profit sharing plans. The Group also operates two defined benefit plans in the USA which are closed to new entrants. One of the plans is funded and the majority of assets are held in trustee administered funds independent of the assets of the companies. The closed plans now provide a minimum pension guarantee in conjunction with a defined contribution plan. The contribution rate is calculated on the Projected Unit Credit Method as agreed with independent consulting actuaries.

In Canada, defined benefit plans and a defined contribution plan are operated. Most of the Canadian defined benefit plans are funded.

37 – Additional information continued

(iv) Additional information about pensions and other long-term employee benefits continued

The contribution rate is calculated on the Projected Unit Credit Method as agreed with independent consulting actuaries.

In Europe, both defined contribution and defined benefit plans are operated. Liabilities arising under defined benefit plans are calculated in accordance with actuarial advice.

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 40 per cent of the plan assets. For the remaining assets, the strategy is to invest predominantly in growth assets including equities and diversified growth assets. The investment strategy is subject to regular review by the plan trustees in consultation with the Company. For the overseas plans, the investment strategy involves the investment in defined levels of predominantly equities with the remainder of the assets being invested in cash and bonds.

Investment risk

The present value of the UK defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the actual return on plan assets is below this rate, it will decrease a net surplus or increase a net pension liability. Currently, the plan has a relatively balanced investment in equity securities, debt instruments and property. Due to the long-term nature of the plan liabilities, the trustees of the pension plan consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest risk

A decrease in the bond interest rate will increase the UK plan liability and this will be partially offset by an increase in the value of the plan's debt investments.

Longevity risk

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the UK plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

(v) Additional information about share-based payment plans

The Group currently operates five types of discretionary plans and two types of all-employee sharesave plans.

Historical awards granted under the executive share option plans are subject to a condition such that they may not be exercised unless the growth in headline earnings per share over a period of three consecutive financial years exceeds the growth in the UK Retail Price Index over the same period by at least 9 per cent and consequently vest over a period of three years.

For historical awards granted under the long term incentive plan ("LTIP 2012"), senior executives were awarded a variable number of shares depending on the level of total shareholder return over a three-year period relative to that of the FTSE 100. The maximum award under the LTIP 2012 was determined at grant date and then adjusted at vesting date in accordance with the market performance condition. The vesting period is three years.

For awards granted under the new long term incentive plan ("LTIP 2015") senior executives are awarded a variable number of shares depending on three equally weighted conditions of: (1) level of total shareholder return over a three-year period relative to that of the FTSE 100; (2) growth in headline earnings per share over a period of three consecutive financial years, which must exceed the growth in the UK Retail Price Index over the same period by at least 9 per cent; and (3) a cumulative three-year figure of operating cash flow measured against the agreed three-year target. The vesting period is three years.

For awards granted to eligible employees (excluding Executive Directors) under the ordinary share plan, such employees may be granted a variable number of awards in any form or combination of options, restricted share awards, conditional share awards or phantom share awards up to a maximum of 100 per cent of their current salary. The vesting period is typically three years and there are no performance measures other than retained employment.

For awards granted to eligible employees (excluding Executive Directors) under the performance ordinary share plan, such employees may be granted a variable number of awards in any form or combination of options, restricted share awards, conditional share awards or phantom share awards with a maximum amount typically set at 5 times salary. The vesting period is typically three years and the performance period relating to the relevant operating business' performance is typically over a three-year period.

For awards granted to eligible employees (excluding Executive Directors) under the revised ordinary share plan, such employees may be granted a variable number of awards in any form or combination of options, restricted share awards, conditional share awards with a maximum amount typically set at 3 times salary. The vesting period is typically three years and the performance period relating to the relevant operating business' performance is typically over a one-year performance period.

Awards granted under the all-employee sharesave plans vest over periods ranging from three to seven years, except for awards granted under the Employee Share Purchase Plan ("ESPP") in the USA and Canada, which vest over a one-year period.

(vi) Additional information about the parent company of the Group

The Company is incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in Switzerland. It operates as the ultimate parent company of the Ferguson Group. Its registered office is 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands.

The Group's subsidiary undertakings are set out on pages 140 and 141.

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 give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2017 and of the Group's and the parent company'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 101 "Reduced Disclosure Framework"; and
– the financial statements have been properly prepared in accordance with the Companies (Jersey) Law, 1991.

We have audited the financial statements of Ferguson plc (the "parent company") and its subsidiaries (the "Group") which comprise:

– the Group Income Statement;
– the Group Statement of Comprehensive Income;
– the Parent Company Profit and Loss Account;
– the Group and Parent Company Balance Sheets;
– the Group Cash Flow Statement;
– the Group and Parent Company Statements of Changes in Equity;
– the notes to the Group financial statements 1 to 37; and
– the notes to the Parent Company financial statements 1 to 15.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

While the parent company is not a public interest entity as defined by European Regulation 537/2014, the Directors have decided that the parent company should follow the same requirements as if that Regulation applied to the parent company.

Summary of our audit approach

Key audit matters	The key risks that we identified in the current year were: – Appropriateness of supplier rebates; – Inventory provision for slow-moving and obsolete inventory; and – Accounting for restructuring costs.
Materiality	The materiality that we used in the current year was £45m (2016: £40m) which was determined on the basis of approximately 5% of profit before tax excluding exceptional items.
Scoping	We performed full audits on the three key regions of continuing businesses, Head office entities and the consolidation process, representing 97% (2016: 96%) of revenue, 99% (2016: 86%) of profit before tax and 98% (2016: 99%) of net assets.
Significant changes in our approach	Our approach is consistent with the previous year with the exception of: – the inclusion of an additional key audit matter relating to the accounting for restructuring costs. This relates to the disposal of the Nordic region businesses and the restructuring in the UK where judgements are made over the costs categorised as exceptional. – the exclusion of the key audit matter relating to goodwill and intangible asset carrying values. Following the impairment charge recognised for Beijer and the proposed sale of the Nordic businesses, the judgement over the carrying value of goodwill and intangible assets reduced; and – our planned audit scope has changed, taking into consideration changes in the Group structure as a result of completed and planned disposals. The Nordic regions (Denmark, Sweden, Finland and Norway) and Switzerland were subject to full scope audits in the previous year. This year the scope has been reduced to analytical procedures.

Conclusions related to principal risks, going concern and viability statement

We have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the Financial Statements and the Directors' statement on the longer-term viability of the Group contained within the principal risks and their management section on page 43.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 42-49 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 51 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- 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 and the parent company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- the Directors' explanation on page 43 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; or
- whether the Directors' statements relating to going concern and the prospects of the Company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of supplier rebates	
Key audit matter description	As described in the Audit Committee report on page 61 as a significant judgement and the Accounting Policies in note 37 to the Financial Statements, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers in the form of rebate arrangements. Where the rebate arrangements are non-tiered arrangements (flat rate), there is limited judgement. However, a proportion of the rebate arrangements comprise annual volume rebates, for which the end of the period is often non coterminous with the Group's year-end. Additionally, in some cases the rebate rises as a portion of purchases, as higher quantities or values of the purchases are made. There is complexity in supplier rebates which give rise to management judgement and scope for fraud and error in accounting for this income. Judgement is required in estimating the expected level of rebates for the rebate year, driven by the forecast purchase volumes. This requires a detailed understanding of the specific contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to.
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of manual and automated controls over the recording of supplier rebate income. Our procedures on supplier rebates included: – evaluating the design and implementation of key controls operating across the Group over the appropriateness of supplier rebates; – in certain components, testing the operating effectiveness of the controls relating to supplier rebates; – interviewing a sample of Ferguson's internal buyers to supplement our understanding of the key contractual rebate arrangements; – testing the accuracy of the amounts recognised by agreeing a sample to individual supplier agreements; – circularising a sample of suppliers to test whether the arrangements recorded were complete; – testing the completeness and accuracy of the inputs to the calculations for recording supplier rebates by agreement to supporting evidence, including historical volume data. We challenged the assumptions underlying management's estimates of purchase volumes including looking at the historical accuracy of previous estimates and historical purchase trends and recalculation of rebates for a sample of suppliers; – consider the adequacy of rebate related disclosure within the Group's financial statement; – holding discussions with management to understand if there has been any whistleblowing; and – testing post year-end cash receipts, where relevant, to test the recoverability of amounts recorded.
Key observations	We consider the Group's estimation methodology to be prudent based on a number of factors, including a look back at historical cash receipts. However, the methodology is consistently applied year-on-year and the understatement of rebate income is not material to the financial position or the reported financial result as at 31 July 2017.

Inventory provision for slow-moving and obsolete inventory	
Key audit matter description	The Group had inventory of £1,816m at 31 July 2017, held in distribution centres, warehouses and numerous branches, and across multiple product lines. Details of its valuation are included in the Audit Committee report on page 61 and the Accounting policies in note 37 to the 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. Inventory is net of a provision of £113m which is primarily driven by comparing the level of inventory held to future projected sales. The provision is calculated within the Group's accounting systems using an automated process. We consider the assessment of inventory provisions to require judgement based on the size of the inventory balance held at year-end and the manual intervention required in the calculation. There is risk that inappropriate management override and/or error may occur.
How the scope of our audit responded to the key audit matter	We challenged the appropriateness of management's assumptions applied in calculating the value of the inventory provisions by: – evaluating the design and implementation of key inventory provision controls operating across the Group, including those at a sample of distribution centres, warehouses and branches; – evaluating the design and implementation of key system controls around the provision calculation and their operating effectiveness; – comparing the net realisable value, obtained through a detailed review of sales subsequent to the year-end, to the cost price of a sample of inventories and comparison to the associated provision to assess whether inventory provisions are complete; – reviewing the historical accuracy of inventory provisioning, and the level of inventory write-offs during the year; and – challenging the completeness of inventory provisions through assessing actual and forecast sales of inventory lines to assess whether provisions for slow moving or obsolete stock are valid and complete.
Key observations	We consider the Group's provisioning methodology to be prudent when compared with historical levels of inventory write-offs. However, the methodology is consistently applied year-on-year and our estimate of the potential overstatement of the provision is not material to the financial position or the reported result as at 31 July 2017.

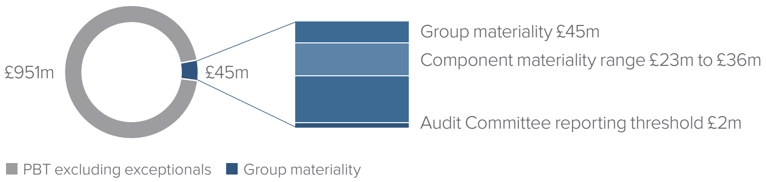
Accounting for restructuring costs	
Key audit matter description	As described in notes 5 and 8 to the Financial Statements, the Group has announced a restructuring plan for the UK business and the disposal of the Nordic region businesses. The key judgements related to this risk lie in the estimation of the restructuring costs where they may differ from the future obligations. By nature, the provision is difficult to estimate and includes many variables. There is a risk that the provision could be underestimated by management to minimise the liabilities. Additionally, depending on timing there is a risk that costs could be provided inappropriately that are not yet committed. The impact of strategic reviews within the business and other future events gives rise to a source of estimation uncertainty. The Group has recognised a cost of £40m in the year in respect of the UK restructuring, which is reported as an exceptional item in note 5, and an additional amount related to the Nordic region businesses, which is shown within discontinued exceptional items (note 8). There is a judgement required in determining whether disclosure as an exceptional item is appropriate. The UK business is in phase 2 of the restructuring and given the branch closures and expected job losses, there is judgement around the estimated costs.
How the scope of our audit responded to the key audit matter	Our procedures on restructuring costs included: – challenging the key judgements made by management including evaluating the positions taken on which costs were provided for; – determining whether what is disclosed as exceptional directly related to the restructuring was incremental; – checking the consistency of items included year-on-year and assessing adherence to IFRS requirements and latest Financial Reporting Council ("FRC") guidance; – holding discussions with the finance teams on the provision recorded; – testing the provision in place by agreeing it to documentation to assess appropriateness of the level of provisioning; and – understanding if any aspects of the restructuring could result in items to be classified as impaired.
Key observations	We consider the restructuring charge recorded in the year to have been appropriately calculated.

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 materiality	£45m (2016: £40m)
Basis for determining materiality	Approximately 5% of profit before tax excluding exceptional items. The profit before tax excluding exceptional items was £951m, which is £229m lower than the statutory profit of £1,180m. The exceptional items we excluded from our determination are non-recurring in nature and explained further in note 5.
Rationale for the benchmark applied	Profit before tax is a key metric for users of the financial statements and adjusting for exceptional items is to reflect the manner in which business performance is reported and assessed by external users of the financial statements.



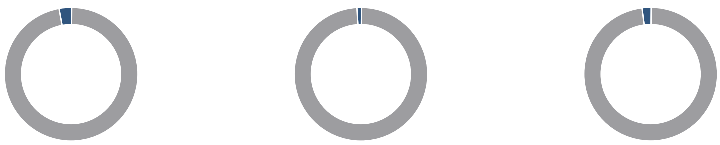
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2m (2016: £1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. This is a change from the prior year where we reported all misstatements above £1m. This reflects the continued growth in the business.

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. In addition, the understanding gained in our first year audit was utilised in scoping our second year audit. Based on that assessment we focused our Group audit scope primarily on the audit work at the three key regions of continuing businesses (USA, UK and Canada). Full audits were performed in these locations. At the Group level we also tested Head office entities and the consolidation process. Of continuing results, this provided coverage of 97% of revenue, 99% of the profit before tax and 98% of the net assets.

In 2016, Switzerland (Tobler) and the Nordic regions (Denmark, Sweden, Norway and Finland) were in full audit scope. Following changes to the Group structure as a result of completed and planned disposals, Switzerland and the Nordic regions are subject to analytical procedures in the current year, which is consistent with the remaining entities in the Group.



	Revenue	Profit before tax	Net assets
■ Full audit scope	97%	99%	98%
■ Analytical procedures	3%	1%	2%

The Group team is responsible for the Head Office entities in the UK and Switzerland and the consolidation. The Group team carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

The component teams in the USA, UK and Canada perform audit work and report into the Group team.

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits each of the most significant locations where the Group audit scope was focused every year, being the USA, UK and Canada. Senior members of the Group team also visited Denmark. In years when we do not visit a significant component we will include the component audit partner in our team briefing, send detailed instructions to our component audit teams, discuss their risk assessment, and review documentation of the findings from their work. For all components we attend the local close meetings.

Independent auditor's report to the members of Ferguson plc continued

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 auditor's 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 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 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 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 parent 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 parent 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.

A further description of our responsibilities for the audit for the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 UK Companies Act 2006 as if that Act had applied to the Company.

In our opinion, based on the work undertaken in the course of the audit:

– the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
– the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent 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
– adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
– the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

We are also required to report, under the Companies Act 2006 (as if that Act had applied to the Company) 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 Company on 12 November 2015 to audit the financial statements for the year ending 31 July 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering periods from our appointment to 31 July 2017.

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).

Ian Waller

Ian Waller
For and on behalf of Deloitte LLP
Recognized Auditor
London, UK

2 October 2017

Company profit and loss account

Year ended 31 July 2017

	2017 £m	2016 £m
Administrative expenses	**(11)**	(11)
Operating loss	**(11)**	(11)
Income from shares in Group undertakings	**466**	600
Profit on ordinary activities before interest	**455**	589
Interest payable and similar charges	**(8)**	(12)
Profit before tax	**447**	577
Tax	**–**	–
Profit for the financial year	**447**	577

Company statement of changes in equity

	Notes	Called up share capital £m	Share premium £m	Treasury shares reserve £m	Own shares reserve £m	Retained earnings £m	Total shareholders' equity £m
At 1 August 2015		29	42	(240)	(63)	7,469	7,237
Profit for the year		–	–	–	–	577	577
Purchase of own shares by Employee Benefit Trusts	9	–	–	–	(14)	–	(14)
Issue of own shares by Employee Benefit Trusts		–	–	–	20	(19)	1
Credit to equity for share-based payments	10	–	–	–	–	20	20
Purchase of Treasury shares	8	–	–	(300)	–	–	(300)
Disposal of Treasury shares	8	–	–	24	–	(10)	14
Dividends paid		–	–	–	–	(238)	(238)
At 31 July 2016		**29**	**42**	**(516)**	**(57)**	**7,799**	**7,297**
Profit for the year		**–**	**–**	**–**	**–**	**447**	**447**
Purchase of own shares by Employee Benefit Trusts	9	**–**	**–**	**–**	**(6)**	**–**	**(6)**
Issue of own shares by Employee Benefit Trusts		**–**	**–**	**–**	**15**	**(15)**	**–**
Credit to equity for share-based payments	10	**–**	**–**	**–**	**–**	**22**	**22**
Disposal of Treasury shares	8	**–**	**–**	**31**	**–**	**(10)**	**21**
Dividends paid		**–**	**–**	**–**	**–**	**(259)**	**(259)**
At 31 July 2017		**29**	**42**	**(485)**	**(48)**	**7,984**	**7,522**

Company balance sheet

Year ended 31 July 2017

	Notes	2017 £m	2016 £m
Fixed assets			
Investments in subsidiaries	3	**8,309**	7,945
		8,309	7,945
Current assets			
Debtors: amounts falling due within one year	4	**1**	2
Current liabilities			
Creditors: amounts falling due within one year	5	**(788)**	(650)
Net current liabilities		**(787)**	(648)
Net assets		**7,522**	7,297
Capital and reserves			
Called up share capital	6	**29**	29
Share premium	7	**42**	42
Treasury shares reserve	8	**(485)**	(516)
Own shares reserve	9	**(48)**	(57)
Retained earnings		**7,984**	7,799
Total shareholders' equity		**7,522**	7,297

The accompanying notes are an integral part of these Company financial statements.

The Company financial statements on pages 134 to 137 were approved by the Board of Directors on 2 October 2017 and were signed on its behalf by:

John Martin
Group Chief Executive

Mike Powell
Chief Financial Officer

Notes to the Company financial statements

Year ended 31 July 2017

1 – Corporate information

Ferguson plc (the "Company") was incorporated and registered in Jersey on 28 September 2010 under the Jersey Companies Law as a public company limited by shares under the name Ferguson plc with registered number 106605. The principal legislation under which the Company operates is the Companies (Jersey) Law 1991, as amended, and regulations made thereunder. The address of its registered office is 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands. It is headquartered in Switzerland.

The principal activity of the Company is to act as the ultimate holding company of the Ferguson Group of companies.

The Company changed its name from Wolseley plc to Ferguson plc on 31 July 2017.

2 – Company accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council ("FRC"). Accordingly, the financial statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) "Reduced Disclosure Framework" as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis.

Note 4 (Operating profit) on page 95, note 9 (Dividends) on page 98, note 27 (Share capital) on page 113, note 28 (Share-based payments) on page 114 and note 36 (Post-balance sheet events) on page 119 of the Ferguson plc consolidated financial statements form part of these financial statements.

Foreign currencies

The financial statements are presented in sterling which was the functional currency of the Company at 31 July 2017.

The cost of the Company's investments in overseas subsidiary undertakings is translated into sterling at the rate ruling at the date of investment.

Foreign currency transactions entered into during the year are translated into sterling at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All currency translation differences are charged or credited to retained earnings.

Investments in subsidiaries

Fixed asset investments are recorded at cost less provision for impairment. The Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

Cash at bank and in-hand

Cash at bank and in-hand includes cash in-hand and deposits held with banks which are readily convertible to known amounts of cash. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent there is no right of offset or intention to net settle with cash balances.

Share capital

The Company has one class of shares, ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where the Company or one of the Company's trusts purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently disposed or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Share-based payments

Share-based incentives are provided to employees under the Company's executive share option, long term incentive and share purchase and ordinary share plans. The Company recognises a compensation cost in respect of these plans that is based on the fair value of the awards, measured using Binomial and Monte Carlo valuation methodologies. For equity-settled plans, the fair value is determined at the date of grant (including the impact of non-vesting conditions such as requirement for employees to save) and is not subsequently remeasured unless the conditions on which the award was granted are modified. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or achieve non-market performance conditions.

Dividends payable

Dividends on ordinary shares are recognised in the Company's financial statements in the period in which the dividends are paid or approved by the shareholders of the Company.

Tax

Ferguson plc is taxed as a holding company in Switzerland so no tax is due at cantonal or communal level. The tax charge is therefore made up of federal tax and capital tax. Federal tax is levied on profits in the year subject to any participation exemption for qualifying dividends from subsidiaries. Capital tax is based on the value of the Company's assets, primarily its investment in Wolseley Limited and Ferguson Holdings (Switzerland) AG.

3 – Fixed asset investments

	Cost £m
At 1 August 2016	**7,945**
Additions	**364**
At 31 July 2017	**8,309**

All of the above investments are in unlisted shares. The Directors believe that the carrying value of the investments is supported by the recoverable amount of their underlying assets.

3 – Fixed asset investments continued

The Company's direct holdings in subsidiary undertakings as at 31 July 2017 were as follows:

Company	Country of registration and operation	Principal activity	Percentage of ordinary shares held
Wolseley Limited	England and Wales	Investment	100%
Ferguson de Puerto Rico, Inc.	Commonwealth of Puerto Rico	Distributor of industrial products	100%
Ferguson Holdings (Switzerland) AG	Switzerland	Investment	100%

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed on pages 140 and 141 of the Ferguson plc Annual Report.

4 – Debtors: amounts falling due within one year

	2017 £m	2016 £m
Other debtors	**1**	2
Total	**1**	2

The fair value of amounts included in debtors approximates to book value.

5 – Creditors: amounts falling due within one year

	2017 £m	2016 £m
Bank overdrafts	**787**	–
Other creditors	**1**	3
Amounts owed to Group companies	**–**	647
Total	**788**	650

The fair value of amounts included in creditors approximates to book value. Bank overdrafts are interest bearing, carrying an interest rate of 2.0 per cent and are payable on demand. Amounts owed to Group companies in 2016 were interest bearing, carrying an interest rate of 1.2 per cent and were payable on demand.

6 – Share capital

Details of the Company's share capital are set out in note 27 on page 113 to the Ferguson plc consolidated financial statements.

7 – Share premium account

Details of new share capital subscribed are set out in note 27 on page 113 to the Ferguson plc consolidated financial statements.

8 – Treasury shares

Details on Treasury shares are set out in note 27 on page 113 to the Ferguson plc consolidated financial statements.

9 – Own shares reserve

During the year, the Company contributed £6 million (2016: £11 million) of cash to its USA Employee Benefit Trust and £nil (2016: £3 million) to its Jersey Employee Benefit Trust to purchase shares. The Treasury shares held by both of these Trusts have been consolidated within the Company's balance sheet as at 31 July 2017 and amount to £48 million (2016: £57 million).

10 – Share-based payments

Details of share awards granted by Group companies to employees, and that remain outstanding over the Company's shares are set out in note 28 on page 114 to the Ferguson plc consolidated financial statements. The net profit and loss charge to the Company for equity-settled share-based payments was £nil (2016: £nil). The Company charged the full amount incurred for equity-settled share-based payments of £22 million (2016: £20 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 26 on pages 110 to 112 to the Ferguson plc consolidated financial statements.

12 – Employees, employee costs and auditor's remuneration

The average number of employees of the Company in the year ended 31 July 2017 was one (2016: one). Other employees of Group companies were seconded or assigned to the Company in the period in order to fulfil their duties or to carry out the work of the Company. Each of the Non Executive Directors of the Company has an appointment letter with the Company. The Executive Directors and certain other senior managers of the Group have assignment letters in place with the Company. Total employment costs of the Company for the period, including Non Executive Directors and seconded employees, were £2 million (2016: £2 million).

Fees payable to the auditor for the audit of the Company's financial statements are set out in note 4 on page 95 to the Ferguson plc consolidated financial statements.

13 – Dividends

Details of the Company's dividends are set out in note 9 on page 98 to the Ferguson plc consolidated financial statements.

14 – Related party transactions

The Company is exempt under the terms of FRS 101 from disclosing related party transactions with entities that are 100 per cent owned by Ferguson plc.

15 – Post-balance sheet events

Details of post-balance sheet events are given in note 36 on page 119 of the Ferguson plc consolidated financial statements.

Five-year summary[a]

	2017 £m	2016 £m	2015 £m	2014 £m	Restated 2013 £m
Revenue					
USA	**11,994**	9,456	8,343	7,070	6,785
UK	**2,012**	1,996	1,987	1,853	1,769
Canada and Central Europe	**1,218**	1,097	1,138	1,413	1,568
Group	**15,224**	12,549	11,468	10,336	10,122
Trading profit					
USA	**966**	775	681	546	492
UK	**76**	74	90	96	95
Canada and Central Europe	**56**	53	55	72	80
Central and other costs	**(39)**	(45)	(43)	(35)	(42)
Group	**1,059**	857	783	679	625
Amortisation of acquired intangible assets	**(64)**	(48)	(41)	(15)	(20)
Impairment of goodwill and acquired intangible assets	**–**	(94)	(4)	–	(10)
Exceptional items	**229**	(4)	(2)	27	(13)
Operating profit	**1,224**	711	736	691	582
Finance costs	**(43)**	(36)	(43)	(24)	(25)
Share of result of associate	**(1)**	–	–	–	–
Profit before tax	**1,180**	675	693	667	557
Tax	**(292)**	(210)	(215)	(199)	(185)
Profit from continuing operations	**888**	465	478	468	372
(Loss)/profit from discontinued operations	**(105)**	185	(265)	36	(76)
Profit attributable to equity shareholders	**783**	650	213	504	296
Ordinary dividends	**(259)**	(238)	(222)	(191)	(173)
Special dividend	**–**	–	–	(298)	(348)
Total dividends	**(259)**	(238)	(222)	(489)	(521)
Net assets employed					
Intangible fixed assets	**1,070**	1,104	1,011	1,198	1,246
Property, plant and equipment	**808**	1,434	1,164	1,226	1,263
Other net assets, excluding liquid funds	**2,094**	1,301	1,230	1,173	955
	3,972	3,839	3,405	3,597	3,464
Financed by					
Share capital	**29**	29	29	29	28
Share premium	**42**	42	42	41	27
Translation reserve	**351**	380	117	127	402
Retained earnings and other reserves	**3,016**	2,452	2,412	2,689	2,596
Equity attributable to shareholders of the Company	**3,438**	2,903	2,600	2,886	3,053
Net debt	**534**	936	805	711	411
Net assets employed	**3,972**	3,839	3,405	3,597	3,464

Continuing operations (unless otherwise stated)	2017	2016	2015	2014	Restated 2013
Like-for-like revenue growth	**5.8%**	2.7%	7.1%	5.2%	5.8%
Gross margin	**29.0%**	28.6%	28.3%	28.1%	27.7%
Trading margin	**7.0%**	6.8%	6.8%	6.6%	6.2%
Headline earnings per share	**288.9p**	234.7p	206.7p	173.2p	154.5p
Basic earnings per share from continuing and discontinued operations	**311.6p**	256.4p	82.1p	189.8p	107.4p
Dividends per share (in respect of the financial year)	**110.0p**	100.0p	90.75p	82.5p	66.0p
Special dividend per share	**–**	–	–	110.0p	122.0p
Cover for ordinary dividends	**2.6**	2.3	2.3	2.1	2.3
Net tangible assets per ordinary share	**886.9p**	673.8p	595.1p	632.1p	659.9p
Return on gross capital employed	**19.6%**	17.2%	16.9%	14.8%	14.3%
Average number of employees	**33,511**	32,269	31,033	29,596	28,990
Number of shares in issue at year-end (million)	**267**	267	267	267	274
Number of branches at year-end					
Continuing operations	**2,310**	2,498	2,480	2,444	2,470
Discontinued operations	**380**	256	427	436	558
Total branches	**2,690**	2,754	2,907	2,880	3,028
US dollar translation rate					
Income statement/profit and loss	**1.27**	1.46	1.56	1.64	1.56
Balance sheet	**1.32**	1.32	1.56	1.69	1.52
Euro translation rate					
Income statement/profit and loss	**1.16**	1.31	1.33	1.21	1.20
Balance sheet	**1.12**	1.18	1.42	1.26	1.14
Canadian dollar translation rate					
Income statement/profit and loss	**1.68**	1.94	1.86	1.76	1.57
Balance sheet	**1.65**	1.72	2.04	1.84	1.56

(a) for an extract of the five-year summary presented in US dollars please visit **www.fergusonplc.com**

Group companies

The Ferguson Group comprises a large number of companies. This list includes only those subsidiaries 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
Beijer Byggmaterial AB	Operating company	Sweden
Capstone Global Solutions AG	Operating company	Switzerland
DT Finland Oy	Operating company	Finland
Ferguson Enterprises Inc	Operating company	USA
Ferguson Finance (Switzerland) AG	Financing company	Switzerland
Ferguson Holdings (Switzerland) AG*	Investment company	Switzerland
Ferguson Group Services Limited	Service company	England and Wales
Neumann Bygg AS	Operating company	Norway
Stark Group Holdings A/S	Operating company	Denmark
Wasco Holding B.V.	Operating company	The Netherlands
Wolseley Canada Inc.	Operating company	Canada
Wolseley UK Limited	Operating company	England and Wales
Wolseley Capital, Inc.	Financing company	USA
Wolseley Insurance Limited	Operating company	Isle of Man
Wolseley Investments North America, Inc.	Investment company	USA
Wolseley Limited*	Investment company	England and Wales

(1) Shareholdings in companies marked * are held 100 per cent directly by Ferguson plc. The proportion of the voting rights in the subsidiary undertakings held directly by Ferguson plc do not differ from the proportion of the ordinary shares held. All other shareholdings in the above mentioned companies are held by intermediate subsidiary undertakings.
(2) All shareholdings in the above subsidiary undertakings are of ordinary shares or equity capital.
(3) All subsidiary undertakings have been included in the consolidation.

Full list of subsidiary undertakings

A full list of subsidiaries, joint ventures, companies in which a Ferguson Group company has a controlling interest and associated undertakings as at 31 July 2017. The country of incorporation and the effective percentage of equity owned (if less than 100 per cent) is also detailed below. Unless otherwise noted, the share capital comprises ordinary shares which are indirectly held by Ferguson plc.

Fully owned subsidiaries

893111 Canada Inc. (Canada)(x)(11)
A C Electrical Holdings Limited (England)(ix)(30)
A C Electrical Wholesale Limited (England)(iii)(30)
A C Ferguson Limited (Scotland)(ii)(iii)(20)
Advancechief Limited (England)(ii)(iii)(2)
B Holding SAS (France)(iii)(7)
B Participations SAS (France)(iii)(7)
Beijer Byggmaterial AB (Sweden)(iii)(14)
Beijer Byggmaterial i Uppsaala AB (Sweden)(iii)(14)
British Fittings Central Limited (England)(ii)(iii)(2)
British Fittings Company (North Eastern) Limited (England)(ii)(ix)(2)
British Fittings Group Limited (England)(ii)(iii)(2)
British Fittings Limited (England)(ii)(iii)(2)
Broughton's Limited (England)(ii)(iii)(2)
Build Center Limited (England)(ii)(iii)(2)
Build.com, Inc.(US)(ix)(3)
Builder Center Limited (England)(ii)(iii)(2)
Building & Engineering Plastics Limited (England)(ii)(iii)(2)
Capstone Global Solutions AG (Switzerland)(iii)(1)
Caselco Limited (England)(ii)(iii)(2)
Clawfoot Supply, LLC (US)(xii)(3)
Clayton International, LLC (US)(xii)(3)
Controls Center Limited (England)(ii)(ix)(2)
Crew-Davis Limited (England)(ii)(iii)(2)
Davidson Group Leasing Co. LLC (US)(xii)(3)
Drain Center Limited (England)(ii)(iii)(2)
DT Finland Oy (Finland)(iii)(21)
DT Holding (Sweden) AB (Sweden)(iii)(14)
DT Holding 1 AS (Denmark)(iii)(17)
Electro Energy A/S (Denmark)(iii)(16)
Energy & Process Corporation (US)(x)(3)
Ferguson Enterprises Inc (US)(x)(3)
Ferguson Enterprises Real Estate, Inc (US)(iii)(3)
Ferguson Finance (Switzerland) AG (Switzerland)(iii)(1)
Ferguson Fire & Fabrication Inc. (US)(iii)(5)
Ferguson Group Services Limited (England)(iii)(2)
Ferguson Holdings (Switzerland) AG (Switzerland)(i)(iii)(1)
Ferguson Panama, S.A. (Panama)(x)(4)
Ferguson Receivables, LLC. (US)(x)(3)
Ferguson Sourcing (Switzerland) AG (Switzerland)(iii)(1)
Fusion Provida Holdco Limited (England)(iii)(30)
Fusion Provida UK Limited (England)(iii)(30)
G. L. Headley Limited (England)(ii)(iii)(2)
Glegg & Thomson Limited (Scotland)(ii)(iii)(20)
H.P. Products Corporation (US)(x)(3)
Hall & Co. Limited (England)(ii)(iii)(30)
Health Equipment Hire Limited (England)(ii)(iii)(2)
Heating Replacement Parts & Controls Limited (England)(ii)(iii)(2)
Heatmerchants Limited (England)(ii)(iii)(2)
Het Onderdeel BV (Netherlands)(iii)(24)
Hobro Ny Trælast A/S (Denmark)(iii)(26)
Home Outlet Online Limited (England)(iii)(30)
HP Logistics, Inc. (US)(x)(3)
Huggjärnet 6 Kommanditbolag (Sweden)(xiii)(14)
Improvement Brand Holdings, Inc. (US)(x)(3)
Julise Limited (England)(ii)(iii)(2)
King & Company (1744) Limited (England)(ii)(iii)(2)
Kommanditbolaget Näringen 8:4 (Sweden)(xiii)(14)
Living Direct, Inc. (US)(x)(3)
M. A. Ray & Sons Limited (England)(ii)(iii)(2)
Matera Paper Company, Inc. (US)(x)(3)
Melanie Limited (England)(ii)(iii)(2)
Mölnlycke Trä AB (Sweden)(iii)(14)
MPS Builders Merchants Limited (England)(iii)(30)
Neumann Bygg AS (Norway)(iii)(29)
Nevill Long Limited (England)(iii)(30)
Ningbo Capstone Service Solutions Company Limited (China)(iii)(27)
Northern Heating Limited (Scotland)(ii)(iii)(20)
Northern Heating Supplies Limited (Scotland)(ii)(iii)(20)

Fully owned subsidiaries (continued)

Nu-Way Heating Plants Limited (England)[(ii)(iii)(2)]
O.B.C. Limited (England)[(ii)(iii)(2)]
O.B.C. Limited (Northern Ireland)[(ii)(iii)(9)]
Oil Burner Components Limited (England)[(ii)(iii)(2)]
P.D.M. (Plumbers Merchants) Limited (Scotland)[(ii)(iii)(20)]
Parts Center Limited (England)[(ii)(iii)(2)]
Pat Murphy Industrial (Sales & Service) Limited (Republic of Ireland)[(iii)(6)]
Pipeline Controls Limited (England)[(ii)(iii)(2)]
Plumb-Center Limited (England)[(ii)(iii)(2)]
Power Equipment Direct Inc. (US)[(x)(3)]
Promandis Limited (England)[(ii)(iii)(2)]
Reay Electrical Distributors Limited (England)[(ii)(iii)(2)]
Rosco Industrial Limited (Scotland)[(ii)(iii)(20)]
Sellers of Leeds (Group Services) Limited (England)[(ii)(iii)(2)]
Sellers of Leeds International Limited (England)[(ii)(iii)(2)]
Sellers of Leeds Limited (England)[(ix)(30)]
SEMSCO Barbados, LLC (US)[(ii)(x)(12)]
Soak B.V. (Netherlands)[(ii)(iii)(32)]
St. Nicholas Finance Limited (England)[(ii)(ix)(2)]
STARK Føroyar PF (Denmark)[(iii)(19)]
Stark Group A/S (Denmark)[(iii)(17)]
Stark Group Holdings A/S (Denmark)[(iii)(17)]
Stark Kalaallit Nunaat A/S (Greenland)[(iii)(22)]
Starkki Property Oy (Finland)[(iii)(21)]
Stock Loan Services LLC (US)[(xii)(3)]
Sundsvall Vagnen 1 Fastighets AB (Sweden)[(ii)(iii)(14)]
T & R Electrical Wholesalers Ltd (England)[(iii)(30)]
Tellum Construction, LLC (US)[(xii)(3)]
Thames Finance Company Limited (England)[(ii)(iii)(2)]
Thomson Brothers Limited (Scotland)[(iii)(20)]
Uni-Rents Limited (England)[(ii)(iii)(2)]
Utility Power Systems Limited (England)[(vi)(30)]
Wasco Distributiecentrum B.V. (Netherlands)[(iii)(24)]
Wasco Energie Centrum B.V. (Netherlands)[(iii)(24)]
Wasco Groothandelsgroep B.V. (Netherlands)[(iii)(24)]
Wasco Holding B.V. (Netherlands)[(iii)(24)]
Wasco Twello B.V. (Netherlands)[(iii)(23)]
Wholesale Group Operations, Inc. (US)[(x)(3)]
Wholesale Supplies (C.I.) Ltd (Jersey)[(iii)(v)(10)]
William Wilson & Co. (Aberdeen) Limited (Scotland)[(ii)(iii)(20)]
William Wilson & Company (Glasgow) Limited (Scotland)[(ii)(iii)(20)]
William Wilson (Rugby) Limited (England)[(ii)(iii)(2)]
William Wilson Holdings Limited (Scotland)[(iii)(vi)(20)]
William Wilson Ltd (Scotland)[(iii)(20)]
WM. C. Yuille & Company Limited (Scotland)[(ii)(iii)(20)]
Wolseley (Barbados) Ltd (Barbados)[(iii)(3)]
Wolseley Bristol Limited (England)[(ii)(iii)(2)]
Wolseley Canada Inc (Canada)[(x)(11)]
Wolseley Capital, Inc. (US)[(x)(3)]
Wolseley Centers Limited (England)[(ii)(iii)(2)]
Wolseley Centres Limited (England)[(ii)(iii)(2)]
Wolseley de Puerto Rico, Inc. (Puerto Rico)[(i)(x)(3)]
Wolseley Developments Limited (England)[(ii)(iii)(2)]
Wolseley Directors Limited (England)[(ii)(iii)(2)]
Wolseley ECD Limited (Northern Ireland)[(ii)(iii)(9)]
Wolseley Engineering Limited (England)[(ii)(iii)(2)]
Wolseley Europe Limited (England)[(iii)(2)]
Wolseley Finance (Isle of Man) Limited (Isle of Man)[(ii)(ix)(xiv)(8)]
Wolseley Finance (Thames) Limited (England)[(ii)(iii)(2)]
Wolseley Finance (Theale) Limited (England)[(ii)(vii)(2)]
WFBM SNC (France)[(iii)(7)]
Wolseley Green Deal Services Limited (England)[(iii)(30)]
Wolseley Group Holdings Limited (England)[(iii)(2)]
Wolseley Haworth Limited (England)[(iii)(30)]
Wolseley Holding A/S (Denmark)[(iii)(17)]
Wolseley Holdings (Ireland) (Republic of Ireland)[(ii)(iii)(xiv)(6)]
Wolseley Holdings Canada Inc. (Canada)[(xi)(11)]
Wolseley Industrial Canada Inc. (Canada)[(iii)(11)]
Wolseley Insurance Limited (Isle of Man)[(ix)(31)]
Wolseley Integrated de Mexico, S.A. de C.V. (Mexico)[(iv)(33)]
Wolseley Integrated Services Inc. (Canada)[(x)(11)]
Wolseley Investments Limited (England)[(ii)(iii)(2)]
Wolseley Investments North America, Inc. (US)[(iii)(3)]
Wolseley Investments, Inc. (US)[(iii)(3)]
Wolseley Limited (England)[(i)(iii)(2)]
Wolseley NA Construction Services, LLC (US)[(xii)(3)]
Wolseley Nordic Holdings AB (Sweden)[(iii)(14)]
Wolseley North America, Inc. (US)[(ii)(iii)(3)]
Wolseley Overseas Limited (England)[(iii)(2)]
Wolseley Pension Trustees Limited (England)[(ii)(iii)(2)]
Wolseley Properties Limited (England)[(ii)(iii)(2)]
Wolseley QUEST Limited (England)[(ii)(iii)(2)]
Wolseley Trinidad Ltd (Trinidad and Tobago)[(iii)(15)]
Wolseley UK Directors Limited (England)[(iii)(30)]
Wolseley UK Finance Limited (Guernsey)[(ii)(iii)(xiv)(18)]
Wolseley UK Limited (England)[(ix)(30)]
Wolseley Utilities Limited (England)[(iii)(30)]
Wolseley-Hughes Limited (England)[(ii)(iii)(2)]
Wolseley-Hughes Merchants Limited (England)[(ii)(iii)(2)]
Wright (Bedford) Limited (England)[(ii)(iii)(2)]
Yorkshire Heating Supplies Limited (England)[(ii)(iii)(2)]

Joint ventures

Brabyggare Sverige AB (Sweden)[(iii)(25)]

Controlling interests

Luxury for Less Limited (England, 68%)[(viii)(13)]
SCI de Lhoumaille (France, 53%)[(iii)(7)]
Shanghai Du De International Trading Company (China)[(iii)(xv)(28)]

Associated undertakings

Walter Meier AG (Switzerland, 39%)[(iii)(34)]

Notes:
(i) Directly owned by Ferguson plc
(ii) Dormant
(iii) Ownership held in ordinary shares
(iv) Ownership held in class of A shares
(v) Ownership held in class of B Shares
(vi) Ownership held in classes of A and B shares
(vii) Ownership held in classes of A, B, C and D shares
(viii) Ownership held in classes of A1, A2, B, C, D, E, G shares
(ix) Ownership held in ordinary and preference shares
(x) Ownership held in common stock
(xi) Ownership held in common stock and preferred stock
(xii) Ownership held as membership interests
(xiii) Ownership held as partnership interests
(xiv) Companies controlled by the Group based on management's assessment
(xv) Ownership held 100% by Luxury for Less Limited

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(5) 18825 San Jose, City of Industry CA, United States
(6) 25/28 North Wall Quay, Dublin 1, Ireland
(7) 3 avenue de l'Opera, 75001, Paris, France
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(22) Industrivej 16, Nuuk, 3900, Greenland
(23) Koppelstraat 9, 7391 AK, Twello, Netherlands
(24) Leigraaf 54, 7391 AL Twello, Twello, Netherlands
(25) Lindingo, Stureplan 6, 4tr, 114 35, Stockholm, Sweden
(26) Lucernevej 2, DK-9500 Hobro, Denmark
(27) Room 1203, Building 1 (Beilun Financial Building), 527 Baoshan Road, Xinqi, Beliun District, Ningbo, China
(28) Room 306-1 Building 2, 3000 Yixian Road, Baoshan district, Shanghai, China
(29) Sandviksboder 58, Postboks 705, Bergen, NO-5807, Norway
(30) The Wolseley Center, Harrison Way, Leamington Spa, CV31 3HH, United Kingdom
(31) Tower House, Loch Promenade, Douglas, Isle of Man, IM1 2LZ, Isle of Man
(32) Bergpoortstraat 71, 7411 cl Deventer, Netherlands
(33) Carretera a General Cepeda 8395, Derramadero, Coahuila, 25300, Mexico
(34) Bahnstrasse 24, 8603 Scherzenbach, Switzerland

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 2017/18 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.

28 November 2017, 2.00pm Swiss time	Ferguson plc 2017 Annual General Meeting
1 December 2017	2017 final dividend payment date
5 December 2017	Interim Management Statement released
27 March 2018	Announcement of Half Year results for the period ending 31 January 2018
27 April 2018	2018 proposed interim dividend payment date
19 June 2018	Interim Management Statement released
31 July 2018	End of financial year 2017/18
2 October 2018	Final results for the year ending 31 July 2018

Ferguson shares

Share price history

Set out below is a graph showing the performance of Ferguson's share price (using normalised share price data) compared to the FTSE 100 Index during the financial year.

FTSE 100 Index – Ferguson and FTSE 100

Recent share capital history

Since 2009, there have been four events affecting the share capital of Ferguson plc:

2013 – Special dividend, share consolidation and consequential redenomination of shares as $10\frac{53}{66}$ pence.

2012 – Special dividend, share consolidation and consequential redenomination of shares as $10\frac{5}{11}$ pence.

2010 – Scheme of arrangement and redomiciliation.

2009 – Share capitalisation and rights issue.

Further details can be found on the Ferguson plc website **www.fergusonplc.com**.

Ordinary shares and ADRs

Ferguson shares are listed on the London Stock Exchange using code "FERG".

Ferguson also has an ADR programme which trades under the symbol "FERGY". The ADRs are listed on the premier tier of the over-the-counter market "OTCQX". For further information please contact the ADR Depositary:

Deutsche Bank Trust Company Americas
Transfer agent: American Stock Transfer & Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
Email enquiries: DB@astfinancial.com

Telephone: Within the USA toll free: 866 249 2593
International: +1 718 921 8124
Website: www.adr.db.com

Dividend

Proposed final dividend

73.33 pence per share

The Directors have recommended a final dividend of 73.33 pence per share. Payment of this dividend is subject to approval at the 2017 AGM.

On 1 August 2017, the Company changed its reporting currency from sterling to US dollars. For the financial year ending 31 July 2018 onwards dividends will be declared in US dollars and shareholders will be able to choose between payment in US dollars or sterling.

Key dates for this dividend

Ex-dividend date	26 October 2017
Record date	27 October 2017
DRIP election date	10 November 2017
AGM (to approve final dividend)	28 November 2017
Payment date	1 December 2017
DRIP certificates posted/CREST accounts credited	6 December 2017

Dividend history

Details of dividends paid in the financial years 2015/16 and 2016/17 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 (pence per share)	Record date	Payment date	DRIP share price
2016/17	Interim 2017	36.67	7 April 2017	28 April 2017	£49.3796
2015/16	Final 2016	66.72	28 October 2016	1 December 2016	£46.5923
2015/16	Interim 2016	33.28	1 April 2016	29 April 2016	£38.7674

Dividend payment methods

1. Direct payment to your bank: You are encouraged to receive your dividends directly to your bank or building society account. This is more convenient and helps reduce the risk of cheques becoming lost or delayed in the post. The associated dividend confirmation will still be sent direct to your registered address. To switch to this method of payment you can download a dividend mandate form from the Shareview website (www.shareview.co.uk). Alternatively, you can contact Equiniti by telephone who will also be able to assist with any questions you may have.

2. Overseas payment service: If you live overseas, 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*. Further information can be found on the Ferguson plc website, Shareview website or you can contact Equiniti by telephone.

3. 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 2017 final dividend, our Registrars, Equiniti, must have received the instruction by 10 November 2017. Instructions received by Equiniti after this date will be applied to the next dividend.

* Please note that a payment charge would be deducted from each individual payment before conversion into your local currency.

Shareholder information continued

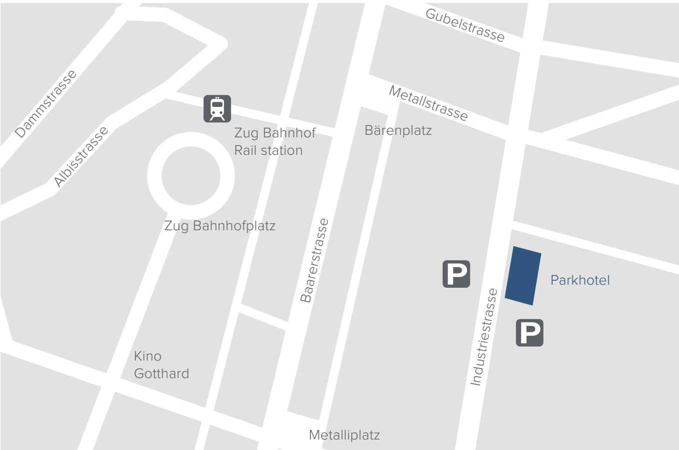
Shareholder communications

Annual General Meeting ("AGM")

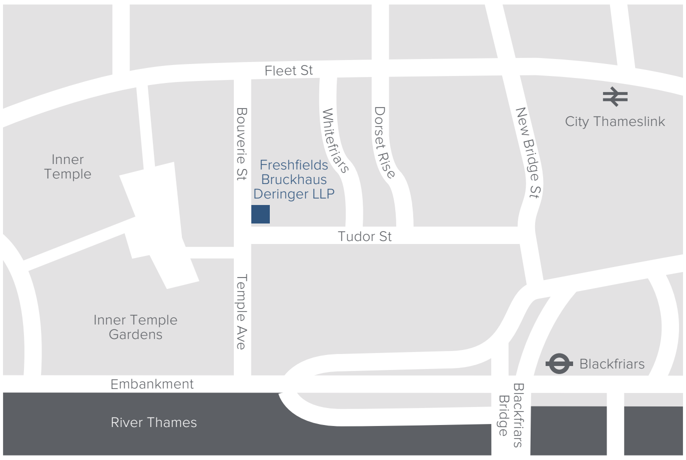
The 2017 AGM will be held on Tuesday, 28 November 2017 at Parkhotel, Industriestrasse 14, CH-6300, Zug, Switzerland and will commence at 2.00pm, Swiss time. An audio visual link to the meeting is proposed to be available at the offices of Freshfields Bruckhaus Deringer LLP, 26-28 Tudor Street, London EC4Y 0BQ, United Kingdom, commencing at 1.00pm (UK time).

The AGM provides an opportunity each year for shareholders to ask questions about the business in the Notice of AGM and to raise matters about the business of Ferguson. Full details of the AGM can be found in the Notice of AGM. Venue location maps are provided below.

Zug: AGM venue



London: audio visual link venue



Website
See the inside front cover for further details about the Ferguson plc website.

Annual report
Ferguson publishes an annual report every year. It is sent to shareholders through the post as a printed document unless the shareholder has chosen to receive e-communications (see below).

E-communications
The Company offers shareholders the opportunity to access shareholder documents, such as annual reports and notices of AGM, via e-communications rather than receiving printed documents in the post. You will be notified by email as soon as shareholder documents are available on the website.

Managing your shares

Share registration enquiries

To manage your shareholding, please contact Equiniti. They will be able to assist you in various matters including:

– changing your registered name and address;
– consolidating share certificates;
– managing your dividend payments;
– notifying the death of a shareholder;
– registering a lost share certificate and obtaining a replacement;
– registering for electronic communications; and
– transferring your shares.

You can contact Equiniti in writing, by telephone or online. Further contact details are set out below. Please use your shareholder reference number when contacting Equiniti. This can be found on your share certificate or dividend confirmation.

If you are not already registered to view your shareholding online, you will need to register via Equiniti's Shareview website.

Equiniti

Address: Equiniti (Jersey) Limited, c/o Equiniti (8063)
PO Box 75
26 New Street
St Helier
Jersey JE4 8PP
Channel Islands

Telephone: 0371 384 2934 and from outside the UK
+44 (0)121 415 7011

Website: www.equiniti.com
Shareview website: www.shareview.co.uk/myportfolio

Share dealing

If you wish to buy or sell Ferguson shares and hold a share certificate, you can do this:

– by using the services of a stockbroker or high street bank; or
– through telephone or online services.

Equiniti also offer a share dealing service to UK-based shareholders. Further details of their telephone, internet and postal dealing services can be obtained from their Shareview website (www.shareview.co.uk) or by calling 03456 037 037.

Group information

Company details

Registered Office

Ferguson plc
26 New Street
St Helier
Jersey
JE2 3RA
Channel Islands

Registration No. 106605 Jersey

Ferguson Corporate Head Office

Ferguson plc
Grafenauweg 10
CH-6301
Zug
Switzerland

Telephone: +41 (0) 41 723 2230
Fax: +41 (0) 41 723 2231

Ferguson Group Services Office

Parkview 1220
Arlington Business Park
Theale
Reading RG7 4GA

Telephone: +44 (0) 118 929 8700
Fax: +44 (0) 118 929 8701

Website

www.fergusonplc.com

Company contacts

Investor relations (investor@fergusonplc.com)

Group Director of Communications and Investor Relations
Mark Fearon

Company secretariat

Group Company Secretary
Graham Middlemiss

Company advisers

Auditor

Deloitte LLP

Public relations

Brunswick

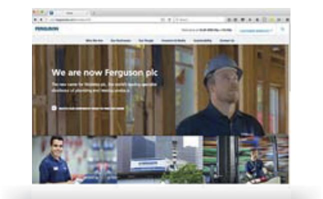
Corporate brokers

Bank of America Merrill Lynch
Barclays

Solicitor

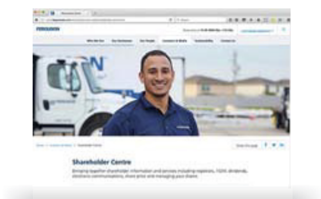
Freshfields Bruckhaus Deringer LLP

Stay informed



Main corporate site
www.fergusonplc.com

Key sections include Our businesses, Investors and media and Sustainability. There is also information on our strategy and links to our business unit websites. Site tools include information pack download, alert services and an option to receive content feeds.



Shareholder information section

Visit our Investor and media centre on our corporate website to stay up to date on Ferguson's results, financial calendar and latest press releases. Within the Investor and media centre you will find the Shareholder centre where you will find information on the AGM, dividends, electronic communications, share price and managing your shares.

Forward-looking statements

Certain information included in this Annual Report and Accounts is forward-looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward-looking statements. Forward-looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of expected future revenues, financing plans, expected expenditures and divestments, risks associated with changes in market conditions and pressures on margins, changes in the level of litigation, employee motivation, the performance and resilience of the Company's systems and infrastructure, the level of government regulation and financial risks (such as fluctuations in exchange and interest rates).

Forward-looking statements can be identified by the use of forward-looking terminology, including terms such as "believes", "estimates", "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. All forward-looking statements in this Annual Report and Accounts are based upon information known to the Company on the date of this Annual Report and Accounts. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward-looking statements, which speak only at their respective dates.

Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules, the Prospectus Rules, the Disclosure Rules 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
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www.ry.com

Photography: Andy Wilson

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The greenhouse gas emissions from the production and distribution of this Annual Report and Accounts have been neutralised through The Gold Standard Basa Magogo offsetting project in South Africa.

The first Gold Standard project of its kind in the world, this innovative behaviour-change programme teaches local communities in South Africa to burn coal differently in order to be more fuel efficient, thereby reducing carbon emissions. The technique, called Basa Magogo, means “Light it up! Grandmother” in Zulu. In addition to the emission reductions, the Basa Magogo technique also improves visibility and reduces health risks by producing less smoke.

FERGUSON

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