# 2018 Remuneration Policy

## 1. Introduction

This section of the Directors' Remuneration Report has been prepared in accordance with the Remuneration Reporting Regulations. During the year, the Committee completed a review of executive remuneration which sought to ensure continued alignment with the Company's strategy and that, going forward, it remains simple and closely aligned to the requirements of all stakeholders. Following the review, the Committee proposes that the 2015 Policy be resubmitted with a number of small revisions to the policy which was approved by the shareholders at the 2015 AGM.

This section sets out the 2018 Policy. It contains details of the Company's policy to govern future payments that will be made to Directors, subject to shareholder approval at the AGM on 29 November 2018 ("2018 AGM"). If approved, the 2018 Policy will take effect immediately following the 2018 AGM. All remuneration and loss of office payments will only be made if they are consistent with the approved Policy in force at the time of payment or otherwise approved by ordinary resolution.

Details of how the Company implemented the 2015 Policy for the year ended 31 July 2018, and will implement the 2018 Policy for the year ending 31 July 2019 are provided in the Annual report on remuneration section starting on page 86.

The Annual report on remuneration provides, in the section entitled "Report for the year ended 31 July 2018", details of the remuneration paid to Directors in accordance with the 2015 Policy approved at the 2015 AGM. The 2015 Policy can be found on the Ferguson plc website at **www.fergusonplc.com**.

## 2. Remuneration Policy tables

**Future policy table: Executive Directors**

**Base salary**

**Purpose and link to strategy**

**To pay Executive Directors at a level commensurate with their contribution to the Company and appropriately based on skill, experience and performance achieved.**

**The level of salary paid should be set at a level that is considered appropriate to aid the recruitment, retention and motivation of high calibre Executive Directors required to ensure the successful formation and delivery of the Group's strategy and management of its business in the international environment in which it operates.**

**Operation and opportunity**

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

**Framework to assess performance measures and for recovery of sums paid**

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

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

## Future policy table: Executive Directors

### Taxable benefits

**Purpose and link to strategy**

**To provide a range of market competitive benefits to encourage retention and which enable an Executive Director to perform his or her duties effectively.**

**Operation and opportunity**

- A range of benefits are provided that, depending on the location of the individual, may include:
  - life assurance cover;
  - critical illness cover;
  - private medical cover for Executive Directors and their dependants;
  - car, driver, car allowance;
  - professional tax and financial advice (including assistance in relation to tax filings);
  - relocation assistance (where necessary);
  - tax equalisation arrangements in relation to additional international tax and social security contributions, so that the Executive Director is no better or worse off from an individual tax perspective; and
  - other reasonable ancillary benefits, where necessary.
- The travel and other business expenses incurred in relation to their duties as Executive Directors may be reimbursed or paid for by the Company directly, as appropriate (including any relevant tax payable).
- In addition, the Executive Directors have the benefit of Directors' and Officers' Liability Insurance and an indemnity from the Company.
- It is expected that an Executive Director would receive reasonable levels of benefits consistent with those typically offered in his or her country of residence.
- Benefits are typically paid monthly and their value assessed at the end of each financial year for tax purposes.
- Benefits are monitored, controlled and reviewed on a periodic basis.
- The Committee retains the flexibility to offer additional benefits where appropriate. This would be reviewed on a case-by-case basis due to the position and circumstances of the relevant Executive Director (e.g. if asked to relocate, or is recruited, from overseas).
- The benefits for the Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration.

**Framework to assess performance measures and for recovery of sums paid**

*Assessment of performance measures:* not applicable.

*Recovery of sums paid or the withholding of any payment to be made relating to benefits:* consistent with our policy for all employees there are no provisions for the recovery of sums paid or the withholding of any payment relating to benefits.

### Pension

**Purpose and link to strategy**

**To provide a market-competitive benefit for retirement which rewards sustained contribution and to encourage the recruitment and retention of high performing Executive Directors.**

**Operation and opportunity**

- Executive Directors are eligible to participate in the relevant pension arrangements offered by the Group or to receive a cash salary supplement in lieu of pension entitlement.
- Pension contribution or cash salary supplement is paid monthly.
- The entitlement is fixed as a percentage of base salary.
- The maximum opportunity, either by way of a Company contribution to a Group pension arrangement or payment of a cash salary supplement, for current Executive Directors will not be increased from the percentage levels set out in the Annual report on remuneration. The maximum opportunity for any new Executive Director who is first appointed as a Director on or after the date of the 2018 AGM is 25% of base salary.

**Framework to assess performance measures and for recovery of sums paid**

*Assessment of performance measures:* not applicable.

*Recovery of sums paid or the withholding of any payment to be made relating to pension:* consistent with our policy for all employees there are no provisions for the recovery of sums paid or the withholding of any payment relating to pension.

## Future policy table: Executive Directors

### Annual bonus

**Purpose and link to strategy**

**To reward achievement of annual financial and operational goals consistent with the strategic direction of the business.**

**Operation and opportunity**

– Executive Directors are eligible (subject to invitation at the discretion of the Committee in consultation with the Group Chief Executive, other than in relation to his or her own arrangements) to receive an annual bonus which is based on an assessment of financial and personal performance in the relevant financial year.
– The annual bonus earned up to the target level of payout by an Executive Director shall be paid in cash and, if shareholding guidelines have been met at the time the bonus is awarded, any amounts of annual bonus earned in excess of target will also be paid in cash. If shareholding guidelines have not been met, the Deferred Bonus Plan policy on page 77 will apply.
– The annual bonus is not pensionable.
– The annual bonus is normally reviewed annually and the opportunity available may be adjusted each year up to a maximum opportunity of 150 per cent of base salary. The annual bonus opportunities for each of the Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration. Threshold, on-target and maximum performance levels are also set as a percentage of base salary.
– All bonus payments are determined by the Committee.
– Details of the actual vesting, as well as the threshold, on-target and maximum performance percentages for each Executive Director for the current year, as well as details of performance criteria set for the year under review and performance against them, are set out in the Annual report on remuneration.

**Framework to assess performance measures and for recovery of sums paid**

*Assessment of performance measures:* financial key performance indicators are used. Performance measures, targets and weightings are reviewed annually. They will be set each year by the Committee with reference to the Group's annual budget, business priorities at the time and also the long-term strategic business plan, as well as market expectations of the Company's future performance. They are intended to align the performance of Executive Directors with the Group's near-term objectives of delivering against its strategy. At least 80 per cent of maximum bonus is weighted to financial performance and not more than 20 per cent of maximum bonus is weighted to personal objectives aimed at driving the strategic objectives of the business.

*Recovery of sums paid or the withholding of any payment to be made relating to annual bonus:* for bonuses paid for the 2015/16 financial year, and subsequently, recovery and withholding provisions will apply. The Committee has the right to recover from Executive Directors any amount of the bonus paid at any time before the second anniversary of the announcement of the results for the financial year to which the annual bonus relates in the following circumstances: (a) the Committee forms the view that there has been a material financial misstatement of the Company's audited financial accounts (other than as a result of a change in accounting practice) and that such misstatement resulted either directly or indirectly in a higher cash bonus payment being made than would have been the case had that misstatement not been made; and/or (b) it is discovered that, during the financial year in respect of which the bonus is paid, the Executive Director: (i) conducted him/herself in a way which resulted in significant reputational damage to the Company; or (ii) was guilty of negligence or gross misconduct. The Committee also has the right to recover from an Executive Director any amount of the bonus paid in the event a fraud was effected by or with the knowledge of the Executive Director during the financial year in respect of which the bonus was paid. There is no time limit on the application of recovery or withholding provisions in the event of fraud during a year to which a bonus payment relates.

## Future policy table: Executive Directors

### Deferred Bonus Plan ("DBP")

**Purpose and link to strategy**

**To encourage Executive Directors to build up a shareholding in value equivalent to a set multiple of base salary and to facilitate share ownership to provide further alignment with shareholders.**

**To align interests of Directors and shareholders in developing the long-term growth of the business and the execution and delivery of the Group's strategy.**

**Operation and opportunity**

– Executive Directors who have not met their shareholding guidelines requirement in any financial year in which an annual bonus is paid will be granted an award under the DBP as set out below.
– In any given year, the annual bonus earned up to the target level of payout by an Executive Director shall be paid in cash. If shareholding guidelines have not been met at the time the bonus is awarded, amounts earned in excess of target by an Executive Director will be deferred into shares and held subject to the terms of the DBP ("DBP shares") and subject to forfeiture for three years (or such other period as the Committee considers appropriate) from the date the bonus is awarded.
– Awards of DBP shares will normally be made in the form of nil-cost options but may be awarded in other forms allowed under the DBP rules (if appropriate).
– Dividend equivalent payments may be made in relation to the DBP shares in cash or shares equal in value to the value of dividends that would have been payable on the DBP shares during the period between grant and vesting of an award.

**Framework to assess performance measures and for recovery of sums paid**

*Assessment of performance measures:* not applicable.

*Recovery of sums paid or the withholding of any payment to be made relating to DBP:* for DBP shares awarded in respect of bonus awards made for the 2015/16 financial year, and subsequently, recovery and withholding provisions will apply. The Committee has the right to recover or withhold from Executive Directors any award of DBP shares at any time before the second anniversary of the date on which they vested in the following circumstances: (a) there has been a material financial misstatement of the Company's audited financial accounts (other than as a result of a change in accounting practice); and/or (b) (i) the Executive Director conducted him/herself in a way which resulted in or was reasonably likely to result in significant reputational damage to the Company; or (ii) was guilty of negligence or gross misconduct. The Committee also has the right to recover from an Executive Director any award of DBP shares in the event a fraud was effected by or with the knowledge of the Executive Director. There is no time limit on the application of recovery or withholding provisions in the event of fraud during a year to which a bonus payment relates.

## Future policy table: Executive Directors

### LTIP

**Purpose and link to strategy**

**To align the interests of Executive Directors and those of shareholders in developing the long-term sustainable growth of the business and execution and delivery of the Group's strategy.**

**To facilitate share ownership to provide further alignment with shareholders.**

**Operation and opportunity**

– Executive Directors are eligible to participate (subject to invitation by the Committee) in the LTIP approved by shareholders.
– Awards are typically made annually in each financial year in accordance with the plan rules and are structured as nil cost options, restricted shares, conditional shares or phantom shares. They are not pensionable.
– Vesting of awards is subject to the Company meeting performance targets measured over at least three financial years, typically starting with the financial year in which the grant takes place.
– The Committee retains the discretion to award up to the maximum award that may be granted under the LTIP rules which is 350 per cent of base salary (in shares valued on or around the date of grant), although the Committee will not increase awards for each Executive Director role above any prior year award levels under the LTIP without prior consultation with the Company's major shareholders.
– For each performance element, 25 per cent of the award vests for threshold performance (0 per cent below threshold) increasing pro rata on a straight-line basis to 100 per cent vesting for maximum performance.
– The shareholding guidelines require Executive Directors to retain vested shares (after taking into account any shares sold to pay tax, social security or similar liabilities) received from awards made under the LTIP on or after 1 December 2015 for two years from the vesting date (except in exceptional circumstances and with the approval of the Committee). For awards granted as options, it will be sufficient to hold the vested but unexercised nil cost options for this period.
– Dividend equivalent payments may be made in accordance with the LTIP rules on the shares which are the subject of the award (to the extent they vest) in cash or shares with a value equal to the value of dividends that would have been payable during the period between grant and vesting of an award.
– The LTIP awards granted in the year under review, and those proposed to be granted to the Executive Directors are set out in the Annual report on remuneration.

**Framework to assess performance measures and for recovery of sums paid**

*Assessment of performance measures:* metrics will be assessed each year and will be set by the Committee prior to grant to ensure they remain appropriate. The Committee may adjust in limited circumstances the targets or introduce alternative or additional measures to those set out on page 87 of the Annual report on remuneration but would consult with major shareholders before doing so. The Committee may also vary: (i) weightings between measures provided that no single measure will have a weighting of more than 40 per cent; and (ii) the targets after the start of the cycle, although the targets will not be materially less challenging than those originally set.

*Recovery of sums paid or the withholding of any payment to be made relating to LTIP:* the Committee may, in its discretion, at any time before the fifth anniversary of the date of grant, recover from Executive Directors any vested LTIP shares and/or cash paid and withhold any unvested awards or reduce future grants in any of the following circumstances: (i) a material financial misstatement of the Company's audited financial accounts (other than as a result of a change in accounting practice); (ii) any conduct of the Executive Director which results in or is reasonably likely to result in significant reputational damage to the Company; and (iii) the negligence or gross misconduct of the Executive Director. The Committee may, in its discretion, recover from an Executive Director any vested LTIP shares and/or cash paid and withhold any unvested awards or reduce future grants in the event of a fraud effected by or with the knowledge of the Executive Director. There is no time limit on the application of recovery or withholding provisions in the event of a fraud.

## Future policy table: Executive Directors

### All-employee share plans

**Purpose and link to strategy**

**To foster wider employee share ownership and to allow Directors to voluntarily invest in the Company.**

**Operation and opportunity**

– Executive Directors are entitled to participate in the Company's all-employee share plan applicable to the jurisdiction in which they are based on the same terms as other eligible employees.
– A North America-based Executive Director may make monthly savings over a period of one year linked to the grant of an option over Ferguson plc shares with an option price at a discount of up to 15 per cent of the market value of the shares at grant. Grants are currently made under the ESPP. A UK or Europe-based Executive Director may make monthly savings over a period of three or five years or other period set by any relevant tax authority linked to the grant of an option over Ferguson plc shares with an option price at a discount of up to 20 per cent of the market value of the shares at grant. Grants are currently made under the ISP.
– The maximum opportunity under the rules of both plans is £500 (or local currency equivalent) per month (being the current maximum permitted by the UK tax authority for UK all-employee share plans) or such other maximum monthly payment mandated by the UK tax authority in respect of UK all-employee share plans. At the time of this Policy, the Board has currently set the savings limit at £250 per month for both ISP and ESPP plans. The savings limit used each year will be reviewed by the Board and set annually at an amount up to, but not exceeding, the maximum opportunity.

**Framework to assess performance measures and for recovery of sums paid**

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

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

### Shareholding guidelines

**Purpose and link to strategy**

**To encourage Executive Directors to build up a shareholding, to align interests with those of shareholders in developing the sustainable long-term growth of the business and the execution and delivery of the Group's strategy.**

**Operation and opportunity**

– Executive Directors are required to hold shares equivalent in value to a prescribed percentage of their base salary.
– Executive Directors are advised of the required target percentage, a timeline to achieve the target and requirements for maintaining the shareholding in line with salary increases.
– Share ownership may be achieved by retaining shares received as a result of participating in a Company share plan (after taking into account any shares sold to finance option exercises and/or to pay tax, social security and similar liabilities).
– Executive Directors are also required to retain vested shares (after taking into account any shares sold to pay tax, social security and similar liabilities) received from awards made under the LTIP for two years from the vesting date (except in exceptional circumstances and with the approval of the Committee) and while employed by the Group. For awards granted as options, it will be sufficient to hold the vested but unexercised options for this period.
– Details of the actual guidelines that apply to each Executive Director and their current shareholdings are set out in the Annual report on remuneration.

**Framework to assess performance measures and for recovery of sums paid**

*Assessment of performance measures:* not applicable as these are guidelines for holding shares and not a form of remuneration.

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

## Future policy table: Non Executive Directors

### Fees

**Purpose and link to strategy**

**To remunerate Non Executive Directors to reflect their level of responsibility and time commitments.**

**Operation and opportunity**

– The Chairman is paid a basic fee determined by the Remuneration Committee.
– Non Executive Directors are paid a basic fee. Additional fees are paid for the roles of Senior Independent Director, Chairman of the Audit Committee and Chairman of the Remuneration Committee.
– Fees for Non Executive Directors, other than the Chairman, are determined by the Chairman and the Executive Directors at a Board meeting. Additional fees for Non Executive Directors for duties beyond those stated above may be payable, at the discretion of the Board, from time to time to reflect the additional time commitment and responsibility involved.
– The maximum aggregate fees for all Non Executive Directors, including the Chairman, are set out in the Company's Articles of Association (or such higher amount as the Company may from time to time by ordinary resolution determine).
– The Committee, in relation to the Chairman, and the Board, in relation to the other Non Executive Directors, retain the flexibility to increase fee levels to ensure that they continue to appropriately recognise the experience of the individual, time commitment of the role, and fee levels at comparable companies. Fee increases, if applicable, are normally effective from 1 August each year.
– The fees payable to the Chairman and Non Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration.

**Framework to assess performance measures and for recovery of sums paid**

*Assessment of performance measures:* not applicable.

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

### Benefits

**Purpose and link to strategy**

**To enable a Non Executive Director to perform his or her duties effectively.**

**Operation and opportunity**

– Non Executive Directors (including the Chairman) do not participate in any incentive plan, nor is any pension payable in respect of their services, and they are not entitled to any benefits, except:
  - they receive assistance with their tax affairs arising from the Company's tax residence in Switzerland;
  - the travel and other business expenses incurred relating to their duties as Non Executive Directors may be reimbursed or paid for by the Company directly, as appropriate (including any relevant tax payable); and
  - a travel allowance of £2,500 (each way), where there would be a need for intercontinental flight in excess of five hours (one way) based on the home location of the Non Executive Director or Chairman and the location of the Board (or Committee) meeting, up to a maximum of £30,000 per annum.

**Framework to assess performance measures and for recovery of sums paid**

*Assessment of performance measures:* not applicable.

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

| Future policy table: Non Executive Directors |
|---|
| **Shareholding guidelines** |

**Purpose and link to strategy**

**To encourage Non Executive Directors to build up a shareholding in value equivalent to a set multiple of their basic fee.**

**To align interests of Non Executive Directors and shareholders in developing the sustainable long-term growth of the business and overseeing the execution and delivery of the Group's strategy.**

**Operation and opportunity**

– All Non Executive Directors are required to hold shares equivalent in value to a prescribed percentage of their fees.
– All Non Executive Directors are advised of the required target percentage, a timeline to achieve the target and requirements for maintaining the shareholding in line with salary or fees increases.
– Details of the actual guidelines that apply to each Non Executive Director and their current shareholdings are set out in the Annual report on remuneration.

**Framework to assess performance measures and for recovery of sums paid**

*Assessment of performance measures:* not applicable as these are guidelines for holding shares and not a form of remuneration.

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

## Notes to the policy table

### Summary of changes made

Following the review of the 2015 Policy, some minor changes have been proposed to base salary, fees, benefits and pension. The aim and basis of the rationale for those changes is to provide greater transparency on how the Company sets pay and on the benefits offered. If the 2018 Policy is approved at the 2018 AGM, the components of remuneration that will change are as follows:

### Base Salary

– The market context for Executive Director pay decisions will be defined by reference to the relevant market for talent, taking into account the residence and location of the role holder;

### Fees

– Subject to the approval of a separate ordinary resolution at the 2018 AGM, an increase in the maximum aggregate fees under the Company's Articles of Association for all Non Executive Directors from £1.0 million to £1.5 million per annum to ensure that any future annual increases, in the ordinary course, can be made and to allow for the appointment of additional Non Executive Directors;

### Benefits

– Clarity that, in relation to tax equalisation arrangements, an Executive Director should not be better off from an individual tax perspective;

– Introduction of an intercontinental allowance for all Non Executive Directors (including the Chairman) where there would be a need for intercontinental flight in excess of five hours (one way) based on the home location of the Non Executive Director or Chairman and the location of the Board (or Committee) meeting; and

### Pensions

– Maintain current levels of pension contributions for current Executive Directors, but set a maximum pension contribution of 25 per cent of base salary for Executive Directors appointed on or after the date of the 2018 AGM.

## 1. Legacy arrangements

In approving this 2018 Policy, authority is given to the Company for the duration of the 2018 Policy to honour commitments paid, promised to be paid or awarded to: (i) current or former Directors prior to the date of this 2018 Policy being approved (provided that such payments or promises were consistent with any Remuneration Policy of the Company which was approved by shareholders and was in effect at the time they were made); or (ii) an individual (who subsequently is appointed as a Director of the Company) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, was not paid, promised to be paid or awarded as financial consideration of that individual becoming a Director of the Company, even where such commitments are inconsistent with the provisions of the 2018 Policy.

For the avoidance of doubt, this includes: (1) all awards granted under the Ordinary Share Plan 2011 and Performance Ordinary Share Plan 2016 to employees of the Company who were not Directors at the date of grant; and (2) all awards granted to Mike Powell upon joining Ferguson of either the Restricted Share Buy Out Awards or Performance Based Buy Out Award, as well as a Deferred Bonus Plan Award granted to him in November 2017. The 2015 Policy approved by shareholders at the 2015 AGM will continue to apply until this proposed 2018 Policy is approved at the 2018 AGM. If this proposed 2018 Policy is not approved at the 2018 AGM, the 2015 Policy will continue to apply in accordance with its terms.

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

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

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

## 3. 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 in force at that time. The Committee retains the flexibility to review and decide on a case-by-case basis whether it is appropriate to award increases to allow a newly appointed Executive Director whose base salary has been set below the mid-market level to progress quickly to or around that mid-market level once expertise and performance has been proven. This decision would take into account all relevant factors noted above.

#### Variable pay (annual bonus and long-term incentive awards)

A newly appointed Executive Director will be offered an annual bonus and long-term incentives in line with the Policy in force at that time. The maximum level of variable remuneration (annual bonus and LTIP awards) which may be awarded to new Executive Directors is limited to 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 LTIP up to the approved Policy maxima.

Depending on the timing of the appointment, the Committee may set different annual bonus performance criteria for the first year of appointment. Where an appointment is an internal promotion, any variable pay element awarded in respect of the individual's previous role would continue on the original grant terms. In addition, any other ongoing remuneration (including pension) obligations existing prior to the appointment would be able to continue.

#### One-off "buy out" cash or share award

Where an Executive Director is appointed from outside the Group, the Committee may make a one-off award to the new Executive Director to "buy out" incentives and other remuneration opportunities forfeited on leaving his or her previous employer. The Committee retains the flexibility to make such additional payments in the form of cash and/or shares.

When making such an award, the Committee will, as far as practicable, replicate the structure of the arrangements being forfeited and in doing so will take into account relevant factors including the delivery mechanism, time horizons, attributed expected value and performance conditions of the forfeited award. The Committee will endeavour not to pay more than the expected value of the forfeited award.

The Committee will, where possible, facilitate such awards through the Company's current incentive plans, but it may be necessary to use the exemption permitted within the Listing Rules.

### Non Executive Directors

For the appointment of the Chairman or Non Executive Director, fee arrangements will be made in line with the Policy in force at that time.

## 4. 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 2018 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.<br>– 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 the value of benefits (excluding bonus in respect of the period covered by the payment in lieu of notice).<br>– Any such payment in lieu of notice will be made in monthly instalments subject to mitigation.<br>– No payment will be made to Executive Directors in the event of gross misconduct. | Fees and expenses accrued up to the termination date only. |
| Post-termination covenants | – Non-compete and non-solicitation covenants apply for a period of six 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 LTIP or any other awards under 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 LTIP or any other awards under LTI plans, any unvested awards will lapse at cessation unless the individual has "good leaver" status (namely for reasons of death, redundancy, injury, disability, ill-health, employing business or company sold out of the Group and any other reason at the discretion of the Committee). The Committee retains the discretion to determine when the awards should vest and performance conditions be tested; although this would normally be at the usual vesting date, the Committee may determine in certain circumstances to bring forward the performance test and date of vesting to the date of cessation, e.g. in circumstances such as death in service. In the event of a change of control or takeover, all long-term incentive awards will vest subject to performance conditions being met. In relation to the LTIP, awards would generally be pro-rated to reflect the period of service of the Executive Director; although, if the Committee considers it appropriate, the Committee has the discretion set out in the plan rules not to pro-rate.

Under the all-employee plans, any unvested awards will lapse at cessation unless the individual has a "good leaver" status – for UK Executive Directors this will be specifically as prescribed by HMRC in the 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.

## 5. Discretion, flexibility and judgement of the Committee

The Committee operates the annual bonus plan, DBP, LTIP and all-employee plans and other long-term incentive plans, according to their respective rules and in accordance with tax authorities' rules where relevant. To ensure the efficient administration of those plans, the Committee may apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payment;
- determining the quantum of awards and/or payments (within the limits set out in the Policy table above);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances (e.g. change of control, changes to accounting rules, rights issues, corporate restructuring events, and special dividends);
- determining "good leaver" status for the purposes of the LTI plans and applying the appropriate treatment; and
- undertaking the annual review of performance measures and weighting between them (within the limits set out in the Policy table), and setting targets for the annual bonus plan and LTIP from year to year.

If an event occurs which results in the performance conditions and/or targets of the annual bonus plan or LTIP being deemed no longer appropriate (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy. The use of the discretions referred to in the Remuneration Policy tables and above will be explained as appropriate in the Annual report on remuneration and may, as appropriate, be the subject of consultation with major shareholders.

## 6. Matters considered when determining the Policy

### Shareholder views

The Committee's aim is to have an ongoing and open dialogue with major shareholders. The Chair of the Committee will usually consult with major institutional shareholders and shareholder representative bodies, when required and as appropriate, to discuss the business and executive remuneration more widely. The Committee recognises the importance of understanding shareholders' views and ensuring that they are considered when making decisions regarding the remuneration policy for Directors. Therefore, when any material changes are proposed to a policy, the Chair of the Committee will inform major shareholders in advance, and offer a meeting to discuss the proposed changes. As part of this year's review of remuneration arrangements, a consultation was undertaken with shareholder views given due consideration when finalising the 2018 Policy. The Committee also considers shareholder feedback received in relation to the AGM each year.

### Consideration of conditions elsewhere in the Group and other matters determining policy

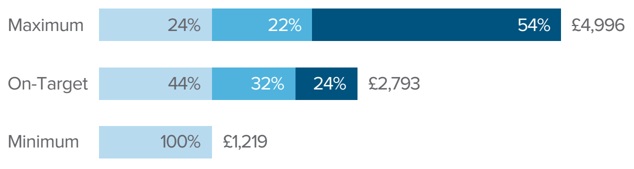
Our policy for all Directors and employees across the Group is to provide remuneration at mid-market levels. On promotion or appointment, senior executives may be initially remunerated below market levels and then increased to mid-market levels over time, once performance has been established. The emphasis on the various elements of pay within the 2018 Policy varies depending on the role of the individual within the Group. Where possible, employees are encouraged to hold shares in Ferguson, thereby providing alignment with shareholders and benefiting from any growth in value of the Group but through different delivery mechanisms. For the Executive Directors, a greater emphasis is placed on performance-related pay.

The Committee does not currently consult with employees when determining the policy. The Committee considers the basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining the Policy for the Executive Directors. It also takes account of market developments, the wider economic environment, good corporate governance practices, remuneration data and its responsibilities to its shareholders. This information is taken into account by providing context and informing the Committee of the market in which they are making decisions.

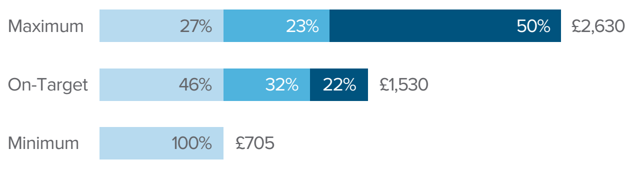
## 7. Illustrations of the Remuneration Policy (2018/19)

The charts give an indication of the level of remuneration that would be received by each Executive Director in accordance with the 2018 Policy in respect of minimum (fixed pay), on-target and maximum performance. These pay scenario charts are based on the assumptions set out on this page and are presented for illustrative purposes only. In this Report, the assumptions do not incorporate any share price appreciation nor do the illustrations include any all-employee share plan awards for which an Executive Director may be eligible.

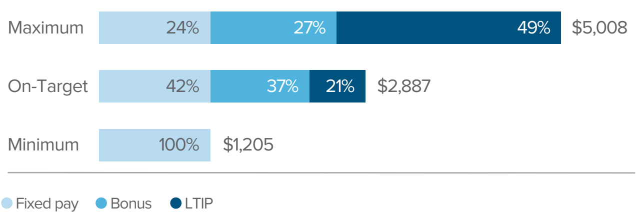
### Group CEO
(£000)




### Group CFO
(£000)




### CEO, USA
($000)




### Scenario assumptions

In arriving at the pay scenarios, the following assumptions have been made in relation to the fixed elements of remuneration:

– Base salary for 2018/19.
– Benefits received for 2017/18 (as set out in the Remuneration table on page 90).
– Pension using the 2018 Policy (as set out in the Remuneration Policy table on page 75) and applied to 2018/19 base salary.

For the non-fixed elements of remuneration:

– In relation to the annual bonus, the scenarios are based on bonus opportunity to be made in accordance with implementation of the Policy for 2018/19.
– In relation to long-term incentive awards, the scenarios are based on the awards to be made in accordance with implementation of the Policy for 2018/19.

In each case the assumptions for on-target and maximum performance are applied in the table below.

| Annual bonus | LTIP |
|---|---|
| **On-target** | |
| Paid at (as a percentage of base salary):<br>– 100 per cent for John Martin<br>– 90 per cent for Mike Powell<br>– 110 per cent for Kevin Murphy | Threshold vesting, at 25 per cent of an award expressed as a percentage of the base salary[1] used for calculating the award:<br>– 75.0 per cent for John Martin<br>– 60.0 per cent for Mike Powell<br>– 62.5 per cent for Kevin Murphy |
| **Maximum** | |
| Paid at (as a percentage of base salary):<br>– 120 per cent for John Martin<br>– 110 per cent for Mike Powell<br>– 140 per cent for Kevin Murphy | Full vesting at 100 per cent of the award expressed as a percentage of the base salary[1] used for calculating the award:<br>– 300 per cent for John Martin<br>– 240 per cent for Mike Powell<br>– 250 per cent for Kevin Murphy |

1. Awards will be granted by reference to a percentage of the Executive Directors' 2018/19 base salary and this table calculates the value of the awards on that basis. These values are used in the scenarios.