

## 1. Introduction

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

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

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

**Risk:** The Committee has ensured that remuneration arrangements do not encourage and reward excessive risk taking by setting targets to be stretching and achievable, with discretion to adjust formulaic annual bonus and LTIP outcomes, if required.

**Predictability and proportionality:** The alignment of performance measures to strategy, and the approach to setting targets, balances predictability and proportionality by ensuring outcomes do not reward poor performance.

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

For reference this Report sets out Ferguson's policy on remuneration that was approved by shareholders at the 2019 AGM on November 21, 2019 and can be found on our website at [www.fergusonplc.com](http://www.fergusonplc.com). The Policy took effect from this date and remains unchanged. Page references contained in the Policy relate to the Ferguson plc 2019 Annual Report and Accounts.

## 2. Remuneration Policy tables

Policy table: **Executive Directors**

### Base salary

#### Purpose and link to strategy

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

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

#### Operation and opportunity

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

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

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

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

Policy table: **Executive Directors**

## Taxable benefits

### Purpose and link to strategy

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

### Operation and opportunity

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

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

Assessment of performance measures: not applicable.

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

Policy table: **Executive Directors**

## Pension

### Purpose and link to strategy

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

### Operation and opportunity

- The maximum opportunity, either by way of a Company contribution to a Group pension arrangement or payment of a cash salary supplement, for current Executive Directors will not be increased from the percentage levels set out in the Annual report on remuneration.
- Any new Executive Director who is first appointed as a Director on or after the date of the 2019 AGM will be eligible to participate on consistent terms in the pension arrangements available for the workforce in the relevant market, or to receive a payment of a cash salary supplement in lieu of pension entitlement. The actual percentage levels will be set out in the Annual report on remuneration following their appointment.
- Pension contribution or cash salary supplement is paid monthly.
- The entitlement is fixed as a percentage of base salary.

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

Assessment of performance measures: not applicable.

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

## 2. Remuneration Policy tables continued

Policy table: Executive Directors

### Annual bonus

#### Purpose and link to strategy

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

#### Operation and opportunity

- Executive Directors are eligible (subject to invitation at the discretion of the Committee in consultation with the Group Chief Executive, other than in relation to his or her own arrangements) to receive an annual bonus which is based on an assessment of financial and personal performance in the relevant financial year.
- The annual bonus earned up to the target level of payout by an Executive Director shall be paid in cash and, if shareholding guidelines have been met at the time the bonus is awarded, any amounts of annual bonus earned in excess of target will also be paid in cash. If shareholding guidelines have not been met, the Deferred Bonus Plan policy on page 86 will apply.
- The annual bonus is not pensionable.
- The annual bonus is normally reviewed annually and the opportunity available may be adjusted each year.
- The maximum annual bonus opportunity for an Executive Director who is recruited from or based in the USA is up to 200 per cent of base salary; and for an Executive Director who is recruited from and based in any other geography is up to 150 per cent of base salary. The annual bonus opportunities for each of the Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration. Threshold, on-target and maximum performance levels are also set as a percentage of base salary.
- All bonus payments are determined by the Committee.
- Details of the actual vesting, as well as the threshold, on-target and maximum performance percentages for each Executive Director for the current year, as well as details of performance criteria set for the year under review and performance against them, are set out in the Annual report on remuneration.

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

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

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

Policy table: **Executive Directors**

## Deferred Bonus Plan

### Purpose and link to strategy

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

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

### Operation and opportunity

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

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

Assessment of performance measures: not applicable.

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

Other information

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## 2. Remuneration Policy tables continued

### Policy table: Executive Directors

#### LTIP

##### Purpose and link to strategy

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

To facilitate share ownership to provide further alignment with shareholders.

##### Operation and opportunity

- Executive Directors are eligible to participate (subject to invitation by the Committee) in the LTIP approved by shareholders.
- Awards are typically made annually in each financial year in accordance with the plan rules and are structured as nil cost options, restricted shares, conditional shares or phantom shares. They are not pensionable.
- Vesting of awards is subject to the Group meeting performance targets measured over at least three financial years, typically starting with the financial year in which the grant takes place.
- The Committee retains the discretion to award up to the maximum award that may be granted under the LTIP rules.
- The maximum opportunity (in shares valued on or around the date of grant) for an Executive Director who is recruited from or based in the USA is up to 500 per cent of base salary and for an Executive Director who is recruited from and based in any other geography is up to 350 per cent of base salary. The Committee will not increase awards for each Executive Director role above any prior year award levels under the LTIP without prior consultation with the Company's major shareholders.
- For each performance element, up to 25 per cent of the award vests for threshold performance (0 per cent below threshold) increasing pro rata on a straight-line basis to 100 per cent vesting for maximum performance.
- Executive Directors are required to retain vested shares (after taking into account any shares sold to pay tax, social security or similar liabilities) received from awards made under the LTIP for two years from the vesting date (except in exceptional circumstances and with the approval of the Committee). For awards granted as options, it will be sufficient to hold the vested but unexercised nil cost options for this period.
- For awards from the date of this Policy, dividend equivalent payments will normally be satisfied in shares in accordance with the LTIP rules on the shares which are the subject of the award (to the extent they vest) with a value equal to the value of dividends that would have been payable during the period between grant and vesting of an award.
- The LTIP awards granted in the year under review, and those proposed to be granted to the Executive Directors are set out in the Annual report on remuneration.

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

Assessment of performance measures: metrics will be assessed each year and will be set by the Committee prior to grant to ensure they remain appropriate. The Committee may adjust in limited circumstances the targets or introduce alternative or additional measures to those set out on pages 95 and 96 of the Annual report on remuneration but would consult with major shareholders before doing so. The Committee may also vary: (i) weightings between measures provided that no single measure will have a weighting of more than 40 per cent; and (ii) the targets after the start of the cycle, although the targets will not be materially less challenging than those originally set.

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

Policy table: **Executive Directors**

## All-employee share plans

### Purpose and link to strategy

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

### Operation and opportunity

- Executive Directors are entitled to participate in any Company all-employee share plan applicable to the jurisdiction in which they are based on the same terms as other eligible employees.
- The Company currently operates all-employee share purchase arrangements taking advantage of certain tax favourable regimes that are available in the USA and the UK. For the USA, grants are currently made under the ESPP and in the UK, under a tax favoured schedule to the ISP.

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

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

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

Policy table: **Executive Directors**

## Shareholding guidelines

### Purpose and link to strategy

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

### Operation and opportunity

- Executive Directors are expected to hold over time and maintain an individual shareholding in the Company.
- During the life of this Policy, the guideline level of shareholding will be set in line with the Executive Director's annual LTIP award opportunity.
- The shareholding guideline may be achieved by (i) beneficially owning shares, and (ii) retaining shares received as a result of participating in a Company share plan (including any vested awards that remain subject to a post-vesting holding period) after taking into account any shares sold to finance option exercises and/or to pay tax, social security and similar liabilities.
- Further details of the shareholding guideline levels set for each Executive Director in the year under review will be disclosed in the relevant Annual Report on remuneration.

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

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

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

## 2. Remuneration Policy tables continued

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

### Policy table: Non Executive Directors

#### Fees

##### Purpose and link to strategy

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

##### Operation and opportunity

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

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

Assessment of performance measures: not applicable.

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

### Policy table: Non Executive Directors

#### Benefits

##### Purpose and link to strategy

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

##### Operation and opportunity

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

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

Assessment of performance measures: not applicable.

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

Policy table: **Non Executive Directors**

## Shareholding guidelines

### Purpose and link to strategy

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

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

### Operation and opportunity

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

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

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

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

### 3. Legacy arrangements

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

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

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

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

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

### 5. Recruitment policy

#### Executive Directors

As noted earlier, the Committee will consider the need to attract the best talent while aiming to pay no more than is appropriate and/or necessary in the circumstances. In determining each element of pay and the package as a whole upon recruitment, the Committee will take into account all relevant factors including, but not limited to, the skills and experience of the individual, the market rate for an individual of that experience, as well as the importance of securing the best person for the role.

#### Fixed pay (base salary, benefits, pension)

A newly appointed Executive Director will be offered a base salary, benefits and pension package in line with the Policy in force at that time. The Committee retains the flexibility to review and decide on a case-by-case basis whether it is appropriate to award increases above the average level for the relevant workforce to allow a newly-appointed Executive Director whose base salary has been set below the mid-market level to progress quickly to or around that mid-market level once expertise and performance has been proven. This decision would take into account all relevant factors noted above.

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

A newly-appointed Executive Director will be offered an annual bonus and long term incentives in line with the Policy in force at that time. The maximum level of variable remuneration (annual bonus and LTIP awards) which may be awarded to new Executive Directors is limited to 700 per cent (US) and 500 per cent (UK/RoW) of base salary excluding any buy out awards, the policy for which is set out below. The Committee retains the flexibility to vary the weighting between annual bonus and LTIP up to the approved Policy maxima.

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

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

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

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

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

#### Non Executive Directors

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

### 6. Policy on loss of office

#### All Directors

In the event of termination of a service contract or letter of appointment of a Director, contractual obligations will be honoured in accordance with the service contract and terms of incentive plans or letter of appointment. The Committee will take into consideration the circumstances and reasons for departure, health, length of service, performance and the duty (where applicable) for Directors to mitigate their own loss. Under this 2019 Policy the Committee may make any statutory payments it is required to make and/or settle claims brought against the Company in relation to a termination. In addition, the Committee may agree to payment of any other benefit in connection with stepping down from the Board (for example, outplacement counselling costs and disbursements

(such as legal costs)) if considered to be appropriate and/or necessary and dependent on the circumstances of departure.

There are no pre-determined contractual provisions for Directors regarding compensation in the event of loss of office except those listed in the table below:

Details of provision	Executive Directors	Chairman and Non Executive Directors
<b>Notice period</b>	<ul style="list-style-type: none"> <li>– 12 months' notice from the Company.</li> <li>– For any new Executive Directors and the new Group Chief Executive, up to 12 months' notice from the Executive.</li> <li>– For the current Group Chief Financial Officer, six months' notice from the Executive.<sup>1</sup></li> </ul>	Up to six months' notice by either party.
<b>Termination payment</b>	<ul style="list-style-type: none"> <li>– If an Executive Director's services are not required during the notice period, the Company may terminate an Executive Director's service contract by making a payment in lieu of notice equal to base salary and the value of benefits (excluding bonus) in respect of the period covered by the payment in lieu of notice.</li> <li>– Any such payment in lieu of notice will be made in monthly instalments subject to mitigation.</li> <li>– No payment will be made to Executive Directors in the event of gross misconduct.</li> </ul>	Fees and expenses accrued up to the termination date only.
<b>Post-termination covenants</b>	<ul style="list-style-type: none"> <li>– Non-compete and non-solicitation covenants apply after the termination date.</li> </ul>	Not applicable.

1. This reflects the Company's policy at the time the Group CFO was appointed.

The policy on loss of office and contractual provisions above would be applied to any new Director's service contract or letter of appointment.

### Executive Directors

On loss of office, there is no automatic entitlement to a bonus. Executive Directors may receive a bonus in respect of the year of cessation of employment based on, and subject to, performance conditions and pro rated to reflect the actual period of service in the year of cessation (except pro ration may not be applied in exceptional circumstances such as death in service or ill-health). The Committee will take into account the reason for the Executive Director's departure and any other relevant factors when considering a bonus payment of a departing Executive Director. The Committee retains the discretion whether or not to require an Executive Director to defer any part of a bonus that is awarded on termination.

The treatment of leavers under the LTIP or any other awards under LTI plans, together with awards under all-employee plans and the DBP (if applicable), would be determined by the relevant leaver provisions in accordance with the plan rules.

Under the LTIP or any other awards under LTI plans, any unvested awards will lapse at cessation unless the individual has "good leaver" status (namely for reasons of death, redundancy, injury, disability, ill-health, employing business or company sold out of the Group and any other reason at the discretion of the Committee).

The Committee retains the discretion to determine when the awards should vest and performance conditions be tested; although this would normally be at the usual vesting date, the Committee may determine in certain circumstances to bring forward the performance test and date of vesting to the date of cessation, e.g. in circumstances such as death in service. In the event of a change of control or takeover, all long term incentive awards will vest subject to performance conditions being met. In relation to the LTIP, awards would generally be pro rated to reflect the period of service of the Executive Director; although, if the Committee considers it appropriate, the Committee has the discretion set out in the plan rules not to pro rate.

Under the all-employee plans, any unvested awards will lapse at cessation unless the individual has a "good leaver" status – for UK Executive Directors this will be specifically as prescribed by HMRC in the relevant section of the applicable plan rules and for Executive Directors in other jurisdictions as set out in the relevant section of the applicable plan rules.

Under the DBP, any unvested awards will be forfeited if an Executive Director ceases to be an employee of the Group by reason of misconduct or if the Company becomes aware, after termination, of facts or circumstances which would have entitled it to dismiss the Executive Director for misconduct. If an Executive Director ceases to be an employee for any other reason, an award shall vest in full at the end of the deferral period unless the reason for cessation is death or other circumstances which the Committee considers sufficiently exceptional, in which case the award shall vest in full at the date of death or cessation of employment.

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

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

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

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

## 8. Matters considered when determining the Policy

### Shareholder views

The Committee's aim is to have an ongoing and open dialogue with major shareholders. The Chair of the Committee will usually consult with major institutional shareholders and shareholder representative bodies, when required and as appropriate, to discuss the business and executive remuneration more widely. The Committee recognizes the importance of understanding shareholders' views and ensuring that they are considered when making decisions regarding the Remuneration Policy for Directors. Therefore, when any material changes are proposed to a policy, the Chair of the Committee will inform major shareholders in advance and offer a meeting to discuss the proposed changes. The Committee also considers shareholder feedback received in relation to the AGM each year and at other times, as appropriate.

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

Our policy for all Directors and employees across the Group is to provide remuneration at mid-market levels. On promotion or appointment, senior executives may be initially remunerated below market levels and then increased to mid-market levels over time, once performance has been established. The emphasis on the various elements of pay within the 2019 Policy varies depending on the role of the individual within the Group. Where possible, employees are encouraged to hold shares in Ferguson, thereby providing alignment with shareholders and benefiting from any growth in value of the Group but through different delivery mechanisms. For the Executive Directors, a greater emphasis is placed on performance-related pay.

The Committee considers the basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining the Policy for the Executive Directors. It also takes account of market developments, the wider economic environment, good corporate governance practices, remuneration data and its responsibilities to its shareholders. This information is taken into account by providing context and informing the Committee of the market in which they are making decisions.

As noted on page 18, a forum with associates called "Beyond the Boardroom" is in place. The forum allows Alan Murray, as the Group's appointed Employee Engagement Director, to ask questions and hear the views of associates on various matters. Where appropriate, this includes questions and discussions on remuneration arrangements across the Group.