Financials

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Group income statement

Year ended July 31, 2021

	Notes	2021 Before exceptional items $m	2021 Exceptional items (note 5) $m	2021 Total $m	Restated 2020 Before exceptional items $m	Restated 2020 Exceptional items (note 5) $m	Restated 2020 Total $m
Revenue	3	**22,792**	**–**	**22,792**	19,940	–	19,940
Cost of sales		**(15,812)**	**–**	**(15,812)**	(13,957)	–	(13,957)
Gross profit		**6,980**	**–**	**6,980**	5,983	–	5,983
Operating costs		**(4,935)**	**(11)**	**(4,946)**	(4,437)	(97)	(4,534)
Operating profit	3, 4	**2,045**	**(11)**	**2,034**	1,546	(97)	1,449
Finance costs	6	**(144)**	**(1)**	**(145)**	(147)	–	(147)
Finance income	6	**1**	**–**	**1**	7	–	7
Share of profit/(loss) after tax of associates		**1**	**–**	**1**	(2)	–	(2)
Gain on disposal of interests in associates and other investments		**–**	**–**	**–**	–	7	7
Impairment of interests in associates		**–**	**–**	**–**	(22)	–	(22)
Profit before tax		**1,903**	**(12)**	**1,891**	1,382	(90)	1,292
Tax	7	**(243)**	**2**	**(241)**	(336)	19	(317)
Profit from continuing operations		**1,660**	**(10)**	**1,650**	1,046	(71)	975
Loss from discontinued operations	8	**43**	**(185)**	**(142)**	3	(17)	(14)
Profit for the year attributable to shareholders of the Company		**1,703**	**(195)**	**1,508**	1,049	(88)	961
Earnings per share	10						
Continuing operations and discontinued operations							
Basic earnings per share				**674.7c**			427.5c
Diluted earnings per share				**670.5c**			423.5c
Continuing operations only							
Basic earnings per share				**738.3c**			433.7c
Diluted earnings per share				**733.7c**			429.7c

Alternative performance measures		2021	Restated 2020
Underlying trading profit from continuing operations	2, 3	**2,099**	1,592
Adjusted EBITDA from continuing operations	2	**2,266**	1,760
Headline earnings per share	2, 10		
Basic earnings per share		**688.1c**	508.0c
Diluted earnings per share		**683.9c**	503.3c

The Group disposed of its shares in Wolseley UK Limited ("UK business") on January 29, 2021. The UK results have been reclassified to discontinued operations and the prior year comparative results have been restated throughout the consolidated financial statements. See note 8 for further details.

Group statement of comprehensive income

Year ended July 31, 2021

	Notes	2021 $m	Restated 2020 $m
Profit for the year		**1,508**	961
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of overseas operations[1]		**75**	57
Exchange loss on translation of borrowings and derivatives designated as hedges of overseas operations[1]		**(31)**	(31)
Cumulative currency translation differences recycled on disposals[1]		**135**	9
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of retirement benefit plans[2]	24	**107**	(235)
Tax (charge)/credit on items that will not be reclassified to profit or loss[2]	7, 24	**(19)**	44
Other comprehensive income/(expense) for the year		**267**	(156)
Total comprehensive income for the year		**1,775**	805
Total comprehensive income attributable to:			
Continuing operations		**1,770**	789
Discontinued operations		**5**	16
Total comprehensive income for the year attributable to shareholders of the Company		**1,775**	805

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

Group statement of changes in equity

Year ended July 31, 2021

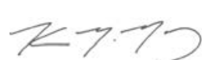
						Reserves		
	Notes	Share capital $m	Share premium $m	Translation reserve $m	Treasury shares $m	Own shares $m	Retained earnings $m	Total equity $m
At July 31, 2019		30	9	(598)	(305)	(102)	5,316	4,350
Adjustment on adoption of IFRS 16		–	–	–	–	–	(187)	(187)
At August 1, 2019		30	9	(598)	(305)	(102)	5,129	4,163
Profit for the year		–	–	–	–	–	961	961
Other comprehensive expense		–	–	35	–	–	(191)	(156)
Total comprehensive income		–	–	35	–	–	770	805
Purchase of own shares by Employee Benefit Trusts	25	–	–	–	–	(26)	–	(26)
Issue of own shares by Employee Benefit Trusts	25	–	–	–	–	40	(40)	–
Credit to equity for share-based payments		–	–	–	–	–	26	26
Tax relating to share-based payments	7	–	–	–	–	–	11	11
Purchase of Treasury shares	25	–	–	–	(292)	–	–	(292)
Disposal of Treasury shares	25	–	–	–	27	–	(16)	11
Dividends paid	9	–	–	–	–	–	(327)	(327)
At July 31, 2020		**30**	**9**	**(563)**	**(570)**	**(88)**	**5,553**	**4,371**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,508**	**1,508**
Other comprehensive income		**–**	**–**	**179**	**–**	**–**	**88**	**267**
Total comprehensive income		**–**	**–**	**179**	**–**	**–**	**1,596**	**1,775**
Reclassification of exchange on translation of overseas operations		**–**	**–**	**(14)**	**–**	**–**	**14**	**–**
Issue of own shares by Employee Benefit Trusts	25	**–**	**–**	**–**	**–**	**30**	**(30)**	**–**
Credit to equity for share-based payments		**–**	**–**	**–**	**–**	**–**	**71**	**71**
Tax relating to share-based payments	7	**–**	**–**	**–**	**–**	**–**	**9**	**9**
Purchase of Treasury shares	25	**–**	**–**	**–**	**(400)**	**–**	**–**	**(400)**
Disposal of Treasury shares	25	**–**	**–**	**–**	**39**	**–**	**(21)**	**18**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**(1,034)**	**(1,034)**
At July 31, 2021		**30**	**9**	**(398)**	**(931)**	**(58)**	**6,158**	**4,810**

Group balance sheet

Year ended July 31, 2021

	Notes	2021 $m	2020 $m
Assets			
Non-current assets			
Intangible assets: goodwill	12	**1,757**	1,721
Intangible assets: other	13	**546**	521
Right of use assets	14	**895**	1,111
Property, plant and equipment	15	**1,305**	1,389
Interests in associates		**5**	4
Other financial assets		**18**	12
Retirement benefit assets	24	**108**	–
Deferred tax assets	16	**303**	216
Trade and other receivables	18	**428**	377
Derivative financial assets	22	**16**	28
		5,381	5,379
Current assets			
Inventories	17	**3,426**	2,880
Trade and other receivables	18	**3,331**	3,042
Current tax receivable		**4**	–
Other financial assets		**–**	9
Derivative financial assets	22	**5**	11
Cash and cash equivalents	19	**1,335**	2,115
Assets held for sale		**3**	20
		8,104	8,077
Total assets		**13,485**	13,456
Liabilities			
Current liabilities			
Trade and other payables	20	**4,022**	3,591
Current tax payable		**303**	293
Borrowings	21	**183**	531
Lease liabilities	14	**263**	281
Provisions	23	**72**	53
		4,843	4,749
Non-current liabilities			
Trade and other payables	20	**342**	338
Borrowings	21	**2,528**	2,635
Lease liabilities	14	**827**	1,074
Deferred tax liabilities	16	**–**	26
Provisions	23	**123**	202
Retirement benefit obligations	24	**12**	61
		3,832	4,336
Total liabilities		**8,675**	9,085
Net assets		**4,810**	4,371
Equity			
Share capital	25	**30**	30
Share premium		**9**	9
Reserves		**4,771**	4,332
Equity attributable to shareholders of the Company		**4,810**	4,371

The accompanying notes are an integral part of these consolidated financial statements. The consolidated financial statements on pages 118 to 164 were approved and authorized for issue by the Board of Directors on September 28, 2021 and were signed on its behalf by:



Kevin Murphy
Group Chief Executive
September 28, 2021

Bill Brundage
Group Chief Financial Officer
September 28, 2021

Group cash flow statement

Year ended July 31, 2021

	Notes	2021 $m	2020 $m
Cash flows from operating activities			
Cash generated from operations	26	**2,093**	2,252
Net interest paid		**(148)**	(159)
Tax paid		**(404)**	(225)
Net cash generated from operating activities		**1,541**	1,868
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	27	**(335)**	(351)
Disposals of businesses (net of cash disposed of)	28	**380**	7
Purchases of property, plant and equipment		**(174)**	(215)
Proceeds from sale of property, plant and equipment and assets held for sale		**35**	13
Purchases of intangible assets		**(72)**	(87)
Acquisition of associates and other investments		**(6)**	(5)
Disposal of interests in associates and other investments		**–**	32
Net cash used in investing activities		**(172)**	(606)
Cash flows from financing activities			
Purchase of own shares by Employee Benefit Trusts	25	**–**	(26)
Purchase of Treasury shares	25	**(400)**	(451)
Proceeds from the sale of Treasury shares	25	**18**	11
Proceeds from loans and derivatives	29	**4**	1,169
Repayments of loans	29	**(375)**	(566)
Lease liability capital payments	29	**(296)**	(295)
Dividends paid to shareholders		**(1,036)**	(327)
Net cash used in financing activities		**(2,085)**	(485)
Net cash (used)/generated		**(716)**	777
Effects of exchange rate changes		**1**	4
Cash, cash equivalents and bank overdrafts at the beginning of the year	29	**1,867**	1,086
Cash, cash equivalents and bank overdrafts at the end of the year	29	**1,152**	1,867

Notes to the consolidated financial statements

Year ended July 31, 2021

1 – Accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, including interpretations issued by the International Accounting Standards Board ("IASB") and its committees.

The Group's subsidiary undertakings are set out on pages 178 and 179.

Ferguson plc is a public company limited by shares incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in the UK. It operates as the ultimate parent company of the Ferguson Group. Its registered office is 13 Castle Street, St Helier, Jersey, JE1 1ES, Channel Islands.

The consolidated financial statements have been prepared on a going concern basis (see page 114) and under the historical cost convention as modified by the revaluation of financial assets and liabilities measured at fair value.

The Group disposed of its UK business on January 29, 2021. The results of the UK business have been reclassified to discontinued operations and the prior year comparative results have been restated throughout the consolidated financial statements. See note 8 for further details.

Choices permitted by IFRS

The Group has elected to apply hedge accounting to some of its financial instruments.

Accounting developments and changes

The following amendments to existing standards became effective for the year ended July 31, 2021 and have not had a material impact on the Group's consolidated financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IAS 1 and IAS 8 – Definition of Material;
- Amendments to IFRS 3 – Definition of a Business;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (Phase 1); and
- Amendments to IFRS 16 – COVID-19-Related Rent Concessions.

Critical accounting judgments

Impact of COVID-19

Management has exercised judgment in evaluating the impact of the COVID-19 pandemic on the financial statements. In light of the Group's strong performance during the year, management concluded there was no material negative impact of the COVID-19 pandemic on the financial statements and no new sources of estimation uncertainty.

Exceptional items

Note 2 provides the Group's definition of exceptional items. The classification of exceptional items requires significant management judgment to determine the nature and intentions of a transaction. Note 5 provides further details on exceptional items.

Leases

Property leases entered into by the Group typically include extension and termination options to provide operational flexibility to the Group. Management applied significant judgment in determining whether these options were reasonably certain to be exercised when determining the lease term on adoption of IFRS 16. In making this judgment management considered the remaining lease term, future business plans and other relevant economic factors. Specifically in respect to property leases, which represent the majority of the lease liability, a renewal option was determined to be reasonably certain to be exercised when a lease expired within the Group's three-year strategic planning horizon.

Pensions and other post-retirement benefits

The Group operates defined benefit pension plans in the UK and Canada that are accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the consolidated financial statements.

The discount rate used is set with reference to the yield at the valuation date on high-quality corporate bonds that have a maturity approximating to the terms of the pension obligations. Significant judgment is required when selecting the bonds to include. The most significant criteria considered for selection of the bonds include the issue size of the corporate bonds, the quality of the bonds and the identification of outliers which are excluded.

Sources of estimation uncertainty

In applying the Group's accounting policies, various transactions and balances are valued using estimates or assumptions. Should these estimates or assumptions prove incorrect there may be an impact on the following year's financial statements. Management believes that the estimates and assumptions that have been applied would not give rise to a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Accounting policies

A summary of the principal accounting policies applied by the Group in the preparation of the consolidated financial statements is set out below. The accounting policies have been applied consistently throughout the current and preceding year.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

1 – Accounting policies continued

Accounting policies continued

Basis of consolidation

The consolidated financial information includes the results of the parent company and entities controlled by the Company (its subsidiary undertakings and controlling interests) and its share of profit/(loss) after tax of its associates using the equity method of accounting.

The financial performance of business operations is included in profit from continuing operations from the date of acquisition and up to the date of classification as a discontinued operation or sale.

Intra-group transactions and balances and any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

Discontinued operations

When the Group has disposed of, or classified as held for sale, a business component that represents a separate major line of business or geographical area of operations, it classifies such operations as discontinued in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. The post-tax profit or loss of the discontinued operations are shown as a single line on the face of the income statement separate from the other results of the Group.

Foreign currencies

Items included in the financial statements of the parent and of each of the Group’s subsidiary undertakings are measured using the currency of the primary economic environment in which the subsidiary undertaking operates (the “functional currency”). The consolidated financial statements are presented in US dollars, which is the presentational currency of the Group.

The trading results of overseas subsidiary undertakings are translated into US dollars using the average rates of exchange ruling during the relevant financial period. The balance sheets of overseas subsidiary undertakings are translated into US dollars at the rates of exchange ruling at the year-end. Exchange differences arising on the translation into US dollars of the net assets of these subsidiary undertakings are recognized in other comprehensive income and accumulated in the translation reserve. At July 31, 2021, the translation reserve comprised $213 million in relation to pound sterling entities, $181 million in relation to US dollar entities and $4 million in relation to entities denominated in other currencies.

In the event that a subsidiary undertaking which has a non-US dollar functional currency is disposed of, the gain or loss on disposal recognized in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the subsidiary undertaking concerned.

Foreign currency transactions entered into during the year are translated into the functional currency of the entity at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All currency translation differences are taken to the income statement. Except as noted above, changes in the fair value of derivative financial instruments, entered into to hedge foreign currency net assets and that satisfy the hedging conditions of IFRS 9 “Financial Instruments”, are recognized in other comprehensive income and the translation reserve (see the separate accounting policy on derivative financial instruments).

Business combinations

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Costs related to acquisitions are expensed as incurred.

The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group’s share of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Interests in associates

Investments in companies where significant influence is exercised are accounted for as interests in associates using the equity method of accounting from the date the investee becomes an associate. The investment is initially recognized at cost and adjusted thereafter for changes in the Group’s share in the net assets of the investee. The Group’s share of profit or loss after tax is recognized in the Group income statement and share of other comprehensive income or expense is recognized in the Group statement of other comprehensive income.

On acquisition of the investment in an associate, any excess of the cost of the investment over the Group’s share of the fair value of net assets of the investee is recognized as goodwill, which is included within the carrying amount of the investment. The requirements of IAS 36 “Impairment of Assets”, are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group’s investment in an associate. Impairment losses recognized are charged to the income statement.

Revenue

The Group’s revenues are derived primarily from the sale of a broad range of plumbing and heating products and solutions. The Group’s customers predominantly operate within the repair maintenance and improvement sector and are served through a network of branches and distribution centers.

Revenue is the consideration expected to be received in exchange for the provision of goods falling within the Group’s ordinary activities, excluding intra-group sales, estimated and actual sales returns, trade and early settlement discounts, Value Added Tax and similar sales taxes.

Revenue from the sale of goods is recognized when the customer obtains control of the goods, which is the point they are delivered to, or collected by, the customer. Revenue from the provision of goods is only recognized when the transaction price is determinable and it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods to be transferred to the customer. Payment terms between the Group and its customers vary by the type of customer, country of sale and the products sold. The Group does not have significant financing components in its contracts and the payment due date is typically shortly after sale.

In some instances, goods are delivered directly to the customer by the supplier. The Group has concluded it is the principal in these transactions as it is primarily responsible to the customer for fulfilling the obligation and has the responsibility for identifying and directing the supplier to deliver the goods to the customer.

1 – Accounting policies continued

Accounting policies continued

Revenue continued

The Group offers a right of return to its customers for most of its goods sold. Revenue is reduced by the amount of expected returns, estimated based on historical data, in the period in which the related revenue is recorded. Returns can be reliably estimated as historic returns as a percentage of revenue have remained stable over time and the terms and conditions of sale have remained broadly unchanged for several years. Early settlement discounts are known shortly after the sale and can therefore be reliably estimated. The Group also provides customers with assurance-type warranties for some own brand goods that provide assurance the goods comply with agreed-upon specifications and will operate as specified for a set period from the date of sale. Obligations under these warranties are accounted for as provisions.

The Group has no contracts with an expected duration of more than one year.

Cost of sales

Cost of sales includes purchased goods and the cost of bringing inventory to its present location and condition.

Supplier rebates

In line with industry practice, the Group has agreements ("supplier rebates") with a number of its suppliers whereby volume-based rebates, marketing support and other discounts are received in connection with the purchase of goods for resale from those suppliers. Rebates relating to the purchase of goods for resale are accrued as earned and are recorded initially as a deduction in inventory with a subsequent reduction in cost of sales when the related product is sold.

Volume-based supplier rebates

The majority of volume-based supplier rebates are determined by reference to guaranteed rates of rebate. These are calculated through a mechanical process with minimal judgment required to determine the amount recorded in the income statement.

A small proportion of volume-based supplier rebates are subject to tiered targets where the rebate percentage increases as volumes purchased reach agreed targets within a set period of time. The majority of rebate agreements apply to purchases in a calendar year and therefore, for tiered rebates, judgment is required to estimate the rebate amount recorded in the income statement at the end of the period. The Group assesses the probability that targeted volumes will be achieved in the year based on forecasts which are informed by historical trading patterns, current performance and trends. This judgment is exercised consistently with historically insignificant true ups at the end of the period.

An amount due in respect of supplier rebates is not recognized within the income statement until all the relevant performance criteria, where applicable, have been met and the goods have been sold to a third party.

Other rebates

The Group has also entered into other rebate agreements which represent a smaller element of the Group's overall supplier rebates, which are recognized in the income statement when all performance conditions have been fulfilled.

Supplier rebates receivable

Supplier rebates are offset with amounts owing to each supplier at the balance sheet date and are included within trade payables where the Group has the legal right to offset and net settles balances. Where the supplier rebates are not offset against amounts owing to a supplier, the outstanding amount is included within prepayments.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on acquisitions of subsidiary undertakings is included within intangible assets. Goodwill is allocated to cash generating units or aggregations of cash generating units (together "CGUs") where synergy benefits are expected. CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group's CGUs are based on the markets where the business operates and are grouped in line with the management structure.

Goodwill is not amortized but is tested annually for impairment and carried at cost less accumulated impairment losses. For goodwill impairment testing purposes, no CGU is larger than the operating segments determined in accordance with IFRS 8 "Operating Segments". The recoverable amount of goodwill and acquired intangible assets are assessed on the basis of the higher of fair value less costs to sell and the value in use estimate for CGUs to which they are attributed. Where carrying value exceeds the recoverable amount, a provision for the impairment is established with a charge included in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognized to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Intangible assets, primarily brands, trade names and customer relationships, acquired as part of a business combination, are capitalized separately from goodwill and are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the reducing balance method for customer relationships and the straight-line method for other intangible assets.

The cost of the intangible assets is amortized and charged to operating costs in the income statement over their estimated useful lives as follows:

Customer relationships	4–25 years
Trade names and brands	1–15 years
Other	1–4 years

Computer software that is not integral to an item of property, plant and equipment is recognized separately as an intangible asset and is carried at cost less accumulated amortization and accumulated impairment losses. Costs may include software licenses and external and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training and data conversion are expensed as incurred. Amortization is calculated using the straight-line method so as to charge the cost of the computer software to operating costs in the income statement over its estimated useful life of between three and five years.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

1 – Accounting policies continued

Accounting policies continued

Leases

The Group enters into leases in the normal course of its business; these principally relate to property for the Group's branches, distribution centers and offices which have varying terms including extension and termination options and periodic rent reviews.

The Group recognizes a right of use asset and a lease liability at the lease commencement date. Non-lease components of a contract are not separated from lease components and instead are accounted for as a single lease component.

Lease liabilities are initially measured at the present value of lease payments using the interest rate implicit in the lease, or if this is not readily available, at the Group's incremental borrowing rate. Lease payments comprise fixed payments, variable payments that depend on an index or rate, payments expected under residual value guarantees and payments under purchase and termination options which are reasonably certain to be exercised. Lease terms are initially determined as the non-cancelable period of a lease adjusted for options to extend or terminate a lease that are reasonably certain to be exercised and management judgment is required in making this determination.

Lease liabilities are subsequently measured at amortized cost using the effective interest method. Lease liabilities are remeasured when there is a change in future lease payments as a result of a rent review or a change in an index or rate, or if there is a significant event which changes the assessment of whether it is reasonably certain that extension or termination options will be exercised.

Right of use assets are carried at cost less accumulated depreciation and impairment losses and any subsequent remeasurement of the lease liability. Initial cost comprises the lease liability adjusted for lease payments at or before the commencement date, lease incentives received, initial direct costs and an estimate of restoration costs. Right of use assets are depreciated on a straight-line basis to the earlier of the end of the useful life of the asset or the end of the lease term and tested for impairment if an indicator exists.

Leases that have a term of 12 months or less and leases for which the underlying asset is of low value are recognized as an expense on a straight-line basis over the lease term.

Property, plant and equipment ("PPE")

PPE is carried at cost less accumulated depreciation and accumulated impairment losses, except for land and assets in the course of construction, which are not depreciated and are carried at cost less accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. In addition, subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Assets are depreciated to their estimated residual value using the straight-line method over their estimated useful lives as follows:

Freehold buildings	20–50 years
Leasehold improvements	over the period of the lease
Plant and machinery	7–10 years
Computer hardware	3–5 years
Fixtures and fittings	5–7 years
Motor vehicles	4 years

The residual values and estimated useful lives of PPE are reviewed and adjusted if appropriate at each balance sheet date. The Group reviews at the balance sheet date whether events or circumstances indicate that the carrying value of its PPE may be impaired. If such circumstances are determined to exist, an estimate of the recoverable amount of the asset, or the appropriate grouping of assets, is compared to its carrying value to determine whether an impairment exists.

Inventories

Inventories, which comprise goods purchased for resale, are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out ("FIFO") method or the average cost method as appropriate to the nature of the transactions in those items of inventory. The cost of goods purchased for resale includes import and custom duties, transport and handling costs, freight and packing costs and other attributable costs less trade discounts, rebates and other subsidies. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provisions are made against slow-moving, obsolete and damaged inventories for which the net realizable value is estimated to be less than the cost. The risk of obsolescence of slow-moving inventory is assessed by comparing the level of inventory held to estimated future sales on the basis of historical experience.

Trade receivables

Trade receivables are recognized initially at their transaction price and measured subsequently at amortized cost using the effective interest method, less the loss allowance. The loss allowance for trade receivables is measured at an amount equal to lifetime expected credit losses, estimated based on historical write-offs adjusted for forward-looking information where appropriate. A loss allowance of 100% is recognized against trade receivables more than 180 days past due because historical experience indicates that these are generally not recoverable. The loss is recognized in the income statement. Trade receivables are written off when recoverability is assessed as being remote. Subsequent recoveries of amounts previously written off are credited to the income statement.

1 – Accounting policies continued

Accounting policies continued

Provisions

Provisions for self-insured risks, legal claims and environmental restoration are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Such provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money. Provisions are not recognized for future operating losses.

Retirement benefit obligations

Contributions to defined contribution pension plans and other post-retirement benefits are recorded within operating profit.

For defined benefit pension plans and other post-retirement benefits, the cost of providing benefits is determined annually using the Projected Unit Credit Method by independent qualified actuaries. The current and past service cost of defined benefit pension plans is recorded within operating profit.

The net interest amount is calculated by applying the discount rate to the defined benefit net asset or liability at the beginning of the period. The pension plan net interest is presented as finance income or expense.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and the return from pension plan assets, excluding amounts recorded in net interest on the net pension plan liability/asset are charged or credited to equity in other comprehensive income in the period in which they arise.

The liability or asset recognized in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. Where a plan is in a net asset position the asset is recognized where trustees do not have unilateral power to augment benefits prior to a wind-up.

Tax

Current tax represents the expected tax payable (or recoverable) on the taxable income (or losses) for the year using tax rates enacted or substantively enacted at the balance sheet date and taking into account any adjustments arising from prior years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax provisions

The Group is subject to income taxes in numerous jurisdictions. Judgment is sometimes required in determining the worldwide provision for income taxes. There may be transactions for which the ultimate tax determination is uncertain and may be challenged by the tax authorities. The Group recognizes liabilities for anticipated or actual tax audit issues based on estimates of whether additional taxes will be due. Where an outflow of funds to a tax authority is considered probable and material and the Group can make a reliable estimate of the outcome of the dispute, management calculates the provision using the most likely amount or the expected value approach, depending on which is most appropriate for the uncertain tax provision. In assessing its uncertain tax provisions, management takes into account the specific facts of each dispute, the likelihood of settlement and professional advice where required. Where the ultimate liability in a dispute varies from the amounts provided, such differences could impact the current and deferred income tax assets and liabilities in the period in which the dispute is concluded.

Share capital

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to shareholders of the Company until the shares are canceled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to shareholders of the Company.

Share-based payments

Share-based incentives are provided to employees under the Group's long term incentive plans and all-employee sharesave plans. The Group recognizes a compensation cost in respect of these plans that is based on the fair value of the awards, measured using Binomial and Monte Carlo valuation methodologies. For equity-settled plans, the fair value is determined at the date of grant (including the impact of any non-vesting conditions such as a requirement for employees to save) and is not subsequently remeasured unless the conditions on which the award was granted are modified. For cash-settled plans, the fair value is determined at the date of grant and is remeasured at each balance sheet date until the liability is settled. Generally, the compensation cost is recognized on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or non-market performance conditions.

Dividends payable

Dividends on ordinary shares are recognized in the Group's consolidated financial statements in the period in which the dividends are approved by the shareholders of the Company or paid.

Cash and cash equivalents

Cash and cash equivalents includes cash in-hand, deposits held at call with banks with original maturities of three months or less and bank overdrafts to the extent there is a legal right of offset and practice of net settlement with cash balances. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no legal right of offset and no practice of net settlement with cash balances.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

1 – Accounting policies continued

Accounting policies continued

Derivative financial instruments

Derivative financial instruments, in particular interest rate swaps and foreign exchange swaps, are used to manage the financial risks arising from the business activities of the Group and the financing of those activities. There is no trading activity in derivative financial instruments.

At the inception of a hedging transaction involving the use of derivative financial instruments, the Group documents the relationship between the hedged item and the hedging instrument together with its risk management objective and the strategy underlying the proposed transaction. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items. Derivative financial instruments are recognized as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfill the criteria for hedge accounting contained in IFRS 9, changes in their fair values are recognized in the income statement. When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognized in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the period to maturity. Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognized directly in other comprehensive income.

When the hedged item is recognized in the financial statements, the accumulated gains and losses recognized in equity are either recycled to the income statement or, if the hedged item results in a non-financial asset, are recognized as adjustments to its initial carrying amount. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Borrowings

Borrowings are recognized initially at the fair value of the consideration received net of transaction costs incurred. Borrowings are subsequently measured at amortized cost with any difference between the initial amount and the maturity amount being recognized in the income statement using the effective interest method.

2 – Alternative performance measures

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

Organic revenue growth

Management uses organic revenue growth as it provides a consistent measure of the percentage increase/decrease in revenue year-on-year, excluding the effect of currency exchange rate fluctuations, trading days, acquisitions and disposals. Organic revenue growth is determined as the growth in total reported revenue excluding the growth/decline attributable to currency exchange rate fluctuations, trading days, acquisitions and disposals, divided by the preceding financial year's revenue at the current year's exchange rates.

A calculation of organic revenue growth is provided below:

Revenue	$m	% growth
Restated 2020	19,940	
Impact of exchange rate movements	60	0.3
Restated 2020 at 2021 exchange rates	20,000	
Organic growth	2,594	13.0
Trading days	(92)	(0.5)
Acquisitions	290	1.5
Reported 2021	22,792	14.3

Exceptional items

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

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

- restructuring costs within a segment which are both material and incurred as part of a significant change in strategy or due to the closure of a large part of a business and are not expected to be repeated on a regular basis;
- significant costs incurred as part of the integration of an acquired business and which are considered to be material;
- gains or losses on disposals of businesses which are considered to be exceptional in nature as they do not reflect the performance of the trading business;
- material costs or credits arising as a result of regulatory and litigation matters;
- gains or losses arising on significant changes to, or closures of, defined benefit pension plans, and the impact of fluctuations in foreign currency exchange rates in relation to pension assets or liabilities held in currencies which are different to that of the functional currency of the entity. These are considered exceptional by nature; and
- other items which are material and considered to be non-recurring in nature and/or are not as a result of the underlying trading activities of the business.

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

Exceptional items for the current and prior year are disclosed in note 5.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

2 – Alternative performance measures continued

Gross margin

The ratio of gross profit to revenue. Gross margin is used by management for assessing segment performance and is a key performance indicator for the Group (see page 24). A calculation of gross margin is provided below:

	2021			Restated 2020		
	Gross profit $m	**Revenue $m**	**Gross margin %**	Gross profit $m	Revenue $m	Gross margin %
Continuing	**6,980**	**22,792**	**30.6**	5,983	19,940	30.0

Trading profit/underlying trading profit and trading margin/underlying trading margin

Trading profit is defined as operating profit before exceptional items and amortization of acquired intangible assets. Trading profit is used as a performance measure because it excludes costs and other items that do not form part of the trading business. Underlying trading profit is defined as trading profit excluding the impact of IFRS 16 and is used as the measure of segment performance.

Trading margin is the ratio of trading profit to revenue and is used to assess profitability. Underlying trading margin is the ratio of underlying trading profit to revenue and is used to assess segment profitability and is a key performance indicator for the Group.

A reconciliation of underlying trading profit and trading profit to statutory operating profit for continuing operations is provided below:

	2021 $m	Restated 2020 $m
Operating profit	**2,034**	1,449
Exceptional items	**11**	97
Amortization of acquired intangible assets	**131**	114
Trading profit	**2,176**	1,660
Impact of IFRS 16	**(77)**	(68)
Underlying trading profit	**2,099**	1,592

2 – Alternative performance measures continued

Trading profit/underlying trading profit and trading margin/underlying trading margin continued

A calculation of trading margin/underlying trading margin is provided below. For information on our reportable segments see note 3.

						2021
	Revenue $m	**Trading profit/(loss) $m**	**Impact of IFRS 16 $m**	**Underlying trading profit/(loss) $m**	**Trading margin %**	**Underlying trading margin %**
USA	**21,478**	**2,147**	**(74)**	**2,073**	**10.0**	**9.7**
Canada	**1,314**	**79**	**(3)**	**76**	**6.0**	**5.8**
Central and other costs	**–**	**(50)**	**–**	**(50)**	**–**	**–**
Continuing operations	**22,792**	**2,176**	**(77)**	**2,099**	**9.5**	**9.2**

						Restated 2020
	Revenue $m	Trading profit/(loss) $m	Impact of IFRS 16 $m	Underlying trading profit/(loss) $m	Trading margin %	Underlying trading margin %
USA	18,857	1,654	(67)	1,587	8.8	8.4
Canada	1,083	44	(1)	43	4.1	4.0
Central and other costs	–	(38)	–	(38)	–	–
Continuing operations	19,940	1,660	(68)	1,592	8.3	8.0

Adjusted EBITDA

Adjusted EBITDA is operating profit before charges/credits relating to depreciation, amortization, impairment, exceptional items and the impact of IFRS 16. Adjusted EBITDA is used in the net debt to adjusted EBITDA ratio to assess the appropriateness of the Group's financial gearing and excludes IFRS 16 in line with the requirements of the Group's debt covenants. For this reason, adjusted EBITDA refers to Group adjusted EBITDA unless otherwise stated. A reconciliation of statutory operating profit to adjusted EBITDA is provided below:

			2021			Restated 2020
	Continuing $m	**Discontinued $m**	**Group $m**	Continuing $m	Discontinued $m	Group $m
Operating profit	**2,034**	**(128)**	**1,906**	1,449	(20)	1,429
Exceptional items	**11**	**182**	**193**	97	21	118
Amortization of acquired intangible assets	**131**	**3**	**134**	114	16	130
Trading profit	**2,176**	**57**	**2,233**	1,660	17	1,677
Impact of IFRS 16	**(77)**	**(8)**	**(85)**	(68)	(1)	(69)
Underlying trading profit	**2,099**	**49**	**2,148**	1,592	16	1,608
Depreciation and impairment of property, plant and equipment	**130**	**6**	**136**	139	20	159
Amortization of non-acquired intangible assets	**37**	**2**	**39**	29	6	35
Adjusted EBITDA	**2,266**	**57**	**2,323**	1,760	42	1,802

Effective tax rate

The effective tax rate is the ratio of the adjusted tax charge to adjusted profit before tax and is used as a measure of the tax rate of the underlying business. See reconciliation in note 7.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

2 – Alternative performance measures continued

Headline profit after tax and headline earnings per share

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

Headline earnings per share is the ratio of headline profit after tax to the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Benefit Trusts and those held by the Company as Treasury shares. Headline earnings per share is used for the purpose of setting remuneration targets for the Executive Directors and other senior executives. See reconciliation in note 10.

Net debt

Net debt excluding lease liabilities comprises cash and cash equivalents, bank overdrafts, bank and other loans and derivative financial instruments. The Group uses net debt excluding lease liabilities, which excludes lease liabilities under IFRS 16, to be consistent with adjusted EBITDA in line with the requirements of the Group's debt covenants. For this reason the Group uses the term net debt to refer to net debt excluding lease liabilities unless otherwise stated. Net debt is a good indicator of the strength of the Group's balance sheet position and is used by the Group's debt providers. See note 29 for a reconciliation.

Return on gross capital employed

Return on gross capital employed is the ratio of the Group's trading profit to the average year-end shareholders' equity, net debt, total lease liabilities and accumulated amortization and impairment of goodwill and acquired intangible assets. Return on gross capital employed is a key performance indicator for the Group (see page 25). The calculation of return on gross capital employed is shown below:

	2021 $m	2020 $m
Net debt (note 29)	**1,355**	1,012
Lease liabilities (note 29)	**1,090**	1,355
Accumulated impairment losses of goodwill (note 12)	**37**	140
Accumulated amortization and impairment losses of acquired intangible assets (note 13)[1]	**877**	811
Shareholders' equity	**4,810**	4,371
Gross capital employed	**8,169**	7,689
Average gross capital employed[2]	**7,929**	7,022
Group trading profit[3]	**2,233**	1,677
Return on gross capital employed %	**28.2**	23.9

1. Excludes software.
2. Gross capital employed in 2019 was $6,355 million.
3. Reconciliation provided under adjusted EBITDA.

3 – Segmental analysis

The Group's operating segments are established on the basis of the operating businesses overseen by distinct divisional management teams responsible for their performance. These operating businesses are managed on a geographical basis and are regularly reviewed by the chief operating decision-maker, which is determined to be the Group Chief Executive and the Group Chief Financial Officer, in deciding how to allocate resources and assess the performance of the businesses. All operating segments derive their revenue from a single business activity, the distribution of plumbing and heating products. Revenue is attributed to a country based on the location of the Group company reporting the revenue.

The Group disposed of its UK business Wolseley UK Limited on January 29, 2021. The UK results have been reclassified to discontinued operations and the prior year comparative results have been restated.

Canada does not meet the quantitative thresholds set out in IFRS 8 "Operating Segments" to be separately disclosed, however, is reported as a separate segment as it is the only operation outside of the USA.

The Group's business is not highly seasonal and the Group's customer base is highly diversified, with no individually significant customer.

The changes in revenue and trading profit for continuing operations between the years ended July 31, 2021 and July 31, 2020 include changes in exchange rates, acquisitions, trading days and organic change.

Where businesses are disposed in the year, the difference between the revenue and trading profit in the current year up to the date of disposal and the revenue and trading profit in the equivalent portion of the prior year is included in organic change.

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

	Restated 2020 $m	Exchange $m	Acquisitions $m	Trading days $m	Organic change $m	**2021 $m**
USA	18,857	–	290	(81)	2,412	**21,478**
Canada	1,083	60	–	(11)	182	**1,314**
Continuing operations	19,940	60	290	(92)	2,594	**22,792**

An additional disaggregation of revenue by end market for continuing operations is as follows:

	2021 $m	Restated 2020 $m
Residential	**11,990**	10,087
Commercial	**6,661**	6,116
Civil/Infrastructure	**1,506**	1,315
Industrial	**1,321**	1,339
USA	**21,478**	18,857
Canada	**1,314**	1,083
Continuing operations	**22,792**	19,940

An analysis of the change in underlying trading profit/(loss) (note 2) by reportable segment for continuing operations is as follows:

	Restated 2020 $m	Exchange $m	Acquisitions $m	Trading days $m	Organic change $m	**2021 $m**
USA	1,587	–	19	(18)	485	**2,073**
Canada	43	2	–	(2)	33	**76**
Total reportable segments	1,630	2	19	(20)	518	**2,149**
Central and other costs	(38)	(2)	–	–	(10)	**(50)**
Continuing operations	1,592	–	19	(20)	508	**2,099**

Notes to the consolidated financial statements continued

Year ended July 31, 2021

3 – Segmental analysis continued

Underlying trading profit/(loss) (note 2) is the Group's measure of segment performance. The reconciliation between underlying trading profit/(loss), trading profit/(loss) and operating profit/(loss) by reportable segment for continuing operations is as follows:

	2021						Restated 2020					
	Underlying trading profit/(loss) $m	Impact of IFRS 16 $m	Trading profit/(loss) $m	Exceptional items $m	Amortization of acquired intangible assets $m	Operating profit/(loss) $m	Underlying trading profit/(loss) $m	Impact of IFRS 16 $m	Trading profit/(loss) $m	Exceptional items $m	Amortization of acquired intangible assets $m	Operating profit/(loss) $m
USA	2,073	74	2,147	9	(131)	2,025	1,587	67	1,654	(65)	(113)	1,476
Canada	76	3	79	2	–	81	43	1	44	(7)	(1)	36
Total reportable segments	2,149	77	2,226	11	(131)	2,106	1,630	68	1,698	(72)	(114)	1,512
Central and other costs	(50)	–	(50)	(22)	–	(72)	(38)	–	(38)	(25)	–	(63)
Group	2,099	77	2,176	(11)	(131)	2,034	1,592	68	1,660	(97)	(114)	1,449
Net finance costs						(144)						(140)
Share of profit/(loss) after tax of associates						1						(2)
Gain on disposal of interests in associates and other investments						–						7
Impairment of interests in associates						–						(22)
Profit before tax[1]						1,891						1,292

1. From continuing operations

Other information on assets and liabilities by segment is set out in the following tables:

	2021			Restated 2020		
	Segment assets $m	Segment liabilities $m	Segment net assets/(liabilities) $m	Segment assets $m	Segment liabilities $m	Segment net assets/(liabilities) $m
USA	10,959	(5,205)	5,754	9,338	(4,402)	4,936
Canada	722	(328)	394	603	(315)	288
Total reportable segments	11,681	(5,533)	6,148	9,941	(4,717)	5,224
Central and other costs	140	(119)	21	49	(159)	(110)
Discontinued operations	1	(9)	(8)	1,096	(724)	372
Tax assets/(liabilities)	307	(303)	4	216	(319)	(103)
Net cash/(debt)	1,356	(2,711)	(1,355)	2,154	(3,166)	(1,012)
Group assets/(liabilities)	13,485	(8,675)	4,810	13,456	(9,085)	4,371

3 – Segmental analysis continued

Geographical information on non-current assets is set out in the table below. Non-current assets includes goodwill, other intangible assets, right of use assets, property, plant and equipment and interests in associates.

	2021 $m	2020 $m
USA	**4,242**	4,134
Canada	**263**	255
UK	**3**	357
Group	**4,508**	4,746

	2021					Restated 2020				
	Additions to goodwill $m	**Additions to other acquired intangible assets and interests in associates $m**	**Additions to non-acquired intangible assets $m**	**Additions to right of use assets $m**	**Additions to property, plant and equipment $m**	Additions to goodwill $m	Additions to other acquired intangible assets and interests in associates $m	Additions to non-acquired intangible assets $m	Additions to right of use assets $m	Additions to property, plant and equipment $m
USA	**80**	**164**	**66**	**84**	**165**	66	107	79	86	199
Canada	**–**	**–**	**4**	**8**	**5**	–	–	3	10	2
Total reportable segments	**80**	**164**	**70**	**92**	**170**	66	107	82	96	201
Discontinued operations	**–**	**–**	**2**	**2**	**4**	12	31	5	19	13
Group	**80**	**164**	**72**	**94**	**174**	78	138	87	115	214

	2021					Restated 2020				
	Impairment of goodwill, other acquired intangible assets and interests in associates $m	**Amortization of other acquired intangible assets $m**	**Amortization and impairment of non-acquired intangible assets $m**	**Depreciation and impairment of right of use assets $m**	**Depreciation and impairment of property, plant and equipment $m**	Impairment of goodwill, other acquired intangible assets and interests in associates $m	Amortization of other acquired intangible assets $m	Amortization and impairment of non-acquired intangible assets $m	Depreciation and impairment of right of use assets $m	Depreciation and impairment of property, plant and equipment $m
USA	**–**	**131**	**34**	**224**	**123**	–	113	26	226	131
Canada	**–**	**–**	**2**	**16**	**7**	–	1	2	14	7
Total reportable segments	**–**	**131**	**36**	**240**	**130**	–	114	28	240	138
Central and other costs	**–**	**–**	**1**	**1**	**–**	22	–	1	1	1
Discontinued operations	**–**	**3**	**2**	**13**	**6**	–	16	6	37	20
Group	**–**	**134**	**39**	**254**	**136**	22	130	35	278	159

Notes to the consolidated financial statements continued

Year ended July 31, 2021

4 – Operating profit

Amounts charged/(credited) in arriving at operating profit from continuing operations include:

	Notes	2021 $m	Restated 2020 $m
Amortization of acquired intangible assets	13	**131**	114
Amortization of non-acquired intangible assets	13	**37**	29
Depreciation of right of use assets	14	**241**	233
Impairment of right of use assets	14	**–**	8
Depreciation of property, plant and equipment	15	**130**	135
Impairment of property, plant and equipment	15	**–**	4
Amounts included in cost of sales with respect to inventory		**15,637**	13,804
Staff costs	11	**3,143**	2,891
Trade receivables impairment		**(3)**	10

During the year, the Group obtained the following services from the Company's auditor and its associates:

	2021 $m	2020 $m
Fees for the audit of the Company and consolidated financial statements	**3.2**	1.7
Fees for the audit of the Company's subsidiaries pursuant to legislation	**4.2**	2.5
Total audit fees	**7.4**	4.2
Audit related assurance services	**3.2**	2.6
Other assurance services	**–**	0.9
Total non-audit fees	**3.2**	3.5
Total fees payable to the auditor	**10.6**	7.7

Details of the Company's policy on the use of the auditor for non-audit services, the reasons why the auditor was used and how the auditor's independence and objectivity were safeguarded are set out in the Audit Committee report on pages 75 to 81. No services were provided pursuant to contingent fee arrangements.

5 – Exceptional items

Exceptional items credited/(charged) to profit before tax from continuing operations are analyzed by purpose as follows:

	2021 $m	Restated 2020 $m
Business restructuring	**11**	(71)
Other exceptional items	**(22)**	(26)
Total included in operating profit	**(11)**	(97)
Finance costs	**(1)**	–
Gain on disposal of interests in associates and other investments	**–**	7
Total included in profit before tax	**(12)**	(90)

For the year ended July 31, 2021, other exceptional items predominantly relate to the Group's listing in the USA.

During the year, the cash flows relating to exceptional items were $50 million (2020 restated: $97 million) used in respect of operating activities and $nil (2020 restated: $32 million) generated in respect of investing activities.

Discontinued exceptional items and related cash flows are explained in note 8.

6 – Net finance costs

	2021 $m	Restated 2020 $m
Finance income	**1**	7
Interest cost on borrowings	**(101)**	(108)
Unwind of fair value adjustment to senior unsecured loan notes	**2**	5
Lease liability expense	**(44)**	(49)
Net interest (expense)/income on defined benefit obligation (note 24)	**(2)**	3
Valuation gains on financial instruments	**–**	2
Finance costs	**(145)**	(147)
Total net finance costs	**(144)**	(140)

7 – Tax

The tax charge for the year comprises:

	2021 $m	Restated 2020 $m
Current year tax charge	**394**	294
Adjustments to tax charge in respect of prior years	**19**	(16)
Total current tax charge	**413**	278
Deferred tax (credit)/charge: origination and reversal of temporary differences	**(172)**	39
Total tax charge	**241**	317

An exceptional tax credit of $2 million (2020 restated: $19 million) was recorded against exceptional items. The deferred tax credit of $172 million (2020 restated: charge of $39 million) includes a credit of $29 million (2020 restated: $5 million) resulting from changes in tax rates. The deferred tax credit is materially impacted by an accounting method change with respect to accounting for inventory in the USA. This has resulted in a recharacterization of deferred tax liabilities and increased current year tax charge, for a net nil impact. A tax charge of $12 million (2020: credit of $10 million) arises on the profit from discontinued operations. Of this charge, $3 million (2020: credit of $4 million) relates to exceptional items.

Tax on items (charged)/credited to the Group statement of comprehensive income:

	2021 $m	2020 $m
Deferred tax (charge)/credit on remeasurement of retirement benefit plans	**(19)**	44
Total tax on items (charged)/credited to the Group statement of comprehensive income	**(19)**	44

Within the statement of other comprehensive income, there is a tax credit of $8 million (2020: $nil) relating to changes in tax rates.

Tax on items credited to equity:

	2021 $m	2020 $m
Current tax credit on share-based payments	**5**	6
Deferred tax credit on share-based payments	**4**	5
Total tax on items credited to equity	**9**	11

There is no tax charge in the statement of changes in equity which relates to changes in tax rates in the current or prior year.

The Group has made provisions for the liabilities likely to arise from open audits and assessments. At July 31, 2021, the Group has recognized provisions of $138 million (2020: $294 million) in respect of its uncertain tax positions. The total provision has decreased by $156 million in the year primarily due to decreases related to closure of tax authority audits and the expiry of the statute of limitations for a number of open tax years. With respect to the remaining uncertain tax positions, although there is uncertainty regarding the timing of the resolution of these matters, management do not believe that the Group's uncertain tax provisions constitute a major source of estimation uncertainty as they consider that there is no significant risk of a material change to its estimate of these provisions within the next 12 months.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

7 – Tax continued

						2021
	Adjusted profit/tax[6]		Other profit/tax[7]		Total profit/tax from continuing operations	
Tax reconciliation:	$m	%	$m	%	$m	%
Profit before tax	**2,034**		**(143)**		**1,891**	
Expected tax at weighted average tax rate[1]	**(466)**	**22.9**	**35**	**(24.5)**	**(431)**	**22.8**
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods[2]	**(1)**	**–**	**12**	**(8.4)**	**11**	**(0.6)**
current year (charge)/credit in relation to uncertain tax provisions[3]	**(33)**	**1.7**	**171**	**(119.5)**	**138**	**(7.4)**
tax credits and incentives	**12**	**(0.6)**	**–**	**–**	**12**	**(0.6)**
non-taxable income	**1**	**–**	**17**	**(11.9)**	**18**	**(1.0)**
other[4]	**(9)**	**0.4**	**(9)**	**6.3**	**(18)**	**1.0**
effect of tax rate changes[5]	**–**	**–**	**29**	**(20.3)**	**29**	**(1.5)**
Tax (charge)/credit / effective tax rate	**(496)**	**24.4**	**255**	**(178.3)**	**(241)**	**12.7**

						Restated 2020
	Adjusted profit/tax[6]		Other profit/tax[7]		Total profit/tax from continuing operations	
Tax reconciliation:	$m	%	$m	%	$m	%
Profit before tax	1,512		(220)		1,292	
Expected tax at weighted average tax rate[1]	(327)	21.6	55	(24.9)	(272)	21.0
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods[2]	(9)	0.6	7	(3.2)	(2)	0.2
current year charge in relation to uncertain tax provisions[3]	(33)	2.2	–	–	(33)	2.6
tax credits and incentives	6	(0.4)	–	–	6	(0.5)
non-taxable income	8	(0.5)	–	–	8	(0.6)
other[4]	(21)	1.4	(8)	3.6	(29)	2.2
effect of tax rate changes[5]	–	–	5	(2.3)	5	(0.4)
Tax (charge)/credit / effective tax rate	(376)	24.9	59	(26.8)	(317)	24.5

1. This expected weighted average tax rate reflects the applicable statutory corporate tax rates on the accounting profits/losses in the countries in which the Group operates after intra-group financing. This results in interest deductions and lower taxable profits in many of the countries and therefore reduces the tax rate. The pre intra-group financing adjusted expected weighted average tax rate is 25.8% (2020: 25.6%) and this is reduced to a post intra-group financing adjusted expected weighted average tax rate of 22.9% (2020: 21.6%) following intra-group financing. The 1.3% increase in the post intra-group financing adjusted expected weighted average tax rate is primarily due to the change in the mix of income generated by jurisdiction.
2. This includes adjustments arising out of movements in uncertain tax provisions regarding prior periods and differences between the final tax liabilities in the tax computations and the tax liabilities provided in the consolidated financial statements.
3. This reflects management's assessment of the potential tax liability for the current year in relation to open tax issues and audits.
4. This primarily relates to non-taxable disposal of businesses and to certain expenditure for which no tax relief is available such as disallowable business entertaining costs and legal/professional fees.
5. In 2021, this relates to the change of the corporation tax rate to 25% from the previously enacted 19% in the UK.
6. Adjusted profit means profit before tax, exceptional items, the amortization and impairment of acquired intangible assets and impairment of interests in associates as defined in note 2. Adjusted tax is the tax expense arising on adjusted profit.
7. Other profit or loss is profit or loss from the amortization and impairment of acquired intangible assets, impairment of interests in associates and exceptional items. Other tax is the tax expense or credit arising on the other profit or loss and includes other non-recurring tax items. In 2021, the other credit of $255 million relates primarily to the release of uncertain tax position provisions, exceptional restructuring costs, tax deductible amortization in relation to intangible assets and amortization of loan premium.

8 – Discontinued operations

The Group disposed of the shares in its UK business Wolseley UK Limited on January 29, 2021. In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the disposal group has been presented as a discontinued operation. The assets and liabilities of the UK business were transferred to assets held for sale during the year before being disposed of.

The results from discontinued operations, which have been included in the Group income statement, are set out below:

	2021			Restated 2020		
	Before exceptional items $m	Exceptional items $m	Total $m	Before exceptional items $m	Exceptional items $m	Total $m
Revenue	**1,138**	**–**	**1,138**	1,879	–	1,879
Cost of sales	**(879)**	**–**	**(879)**	(1,437)	(3)	(1,440)
Gross profit	**259**	**–**	**259**	442	(3)	439
Operating costs:						
loss on disposal of businesses	**–**	**(356)**	**(356)**	–	–	–
other	**(205)**	**174**	**(31)**	(441)	(18)	(459)
Operating costs	**(205)**	**(182)**	**(387)**	(441)	(18)	(459)
Operating loss	**54**	**(182)**	**(128)**	1	(21)	(20)
Finance costs	**(2)**	**–**	**(2)**	(4)	–	(4)
Loss before tax	**52**	**(182)**	**(130)**	(3)	(21)	(24)
Tax	**(9)**	**(3)**	**(12)**	6	4	10
Loss from discontinued operations	**43**	**(185)**	**(142)**	3	(17)	(14)
Basic loss per share			**(63.6)c**			(6.2)c
Diluted loss per share			**(63.2)c**			(6.2)c

The discontinued exceptional loss on disposal of businesses in 2021 comprises a loss on disposal of the UK business of $370 million generated from the recycling of cumulative translation adjustments and a gain on prior year disposals of $14 million.

The discontinued exceptional other operating cost items in 2021 comprises a $63 million impairment of assets held for sale relating to the sale of the UK business, a $235 million gain from the recycling of cumulative translation adjustments following the abandonment of former Group financing companies and a $2 million release relating to UK business restructuring in prior years.

The discontinued exceptional items in 2020 relate predominantly to business restructuring costs incurred in the UK and includes $3 million charged to cost of sales for inventory writedowns.

During the year, discontinued operations generated cash of $32 million (2020: $113 million) in respect of operating activities, generated $390 million (2020: used $54 million) in respect of investing activities, which included $380 million (2020: $7 million) of net cash inflow from the disposals of businesses, and used $19 million (2020: $35 million) in respect of financing activities. Discontinued operations cash flows relating to exceptional items were $7 million (2020: $16 million) used in respect of operating activities and $380 million (2020: $8 million) generated in respect of investing activities.

9 – Dividends

Amounts recognized as distributions to equity shareholders:

	2021 $m	2020 $m
Final dividend for the year ended July 31, 2019: 145.1 cents per share	**–**	327
Final dividend for the year ended July 31, 2020: 208.2 cents per share	**467**	–
Interim dividend for the year ended July 31, 2021: 72.9 cents per share	**163**	–
Special dividend: 180.0 cents per share	**404**	–
Dividends paid	**1,034**	327

Since the end of the financial year, the Directors have proposed a final ordinary dividend of approximately $369 million (166.5 cents per share). The dividend is subject to approval by shareholders at the Annual General Meeting and is therefore not included in the balance sheet as a liability at July 31, 2021.

Dividends are declared in US dollars and paid in both pounds sterling and US dollars. For those shareholders paid in pounds sterling, the exchange rate used to translate the declared value was set in advance of the payment date. As a result of foreign exchange rate movements between these dates, the total amount paid (shown in the Group cash flow statement) may be different to that stated above.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

10 – Earnings per share

	2021			Restated 2020		
	Earnings $m	**Basic earnings per share cents**	**Diluted earnings per share cents**	Earnings $m	Basic earnings per share cents	Diluted earnings per share cents
Profit from continuing and discontinued operations attributable to shareholders of the Company	**1,508**	**674.7**	**670.5**	961	427.5	423.5
Loss from discontinued operations	**142**	**63.6**	**63.2**	14	6.2	6.2
Profit from continuing operations	**1,650**	**738.3**	**733.7**	975	433.7	429.7
Non-recurring tax credit relating to the release of uncertain tax positions	**(174)**	**(77.9)**		–	–	
Non-recurring tax credit relating to changes in tax rates and other adjustments	**(46)**	**(20.6)**		(9)	(4.0)	
Amortization and impairment of acquired intangible assets and impairment of interests in associates (net of tax)	**98**	**43.8**		105	46.7	
Exceptional items (net of tax)	**10**	**4.5**		71	31.6	
Headline profit after tax from continuing operations	**1,538**	**688.1**	**683.9**	1,142	508.0	503.3

The weighted average number of ordinary shares in issue during the year, excluding those held by Employee Benefit Trusts and those held by the Company as Treasury shares, was 223.5 million (2020: 224.8 million). The impact of all potentially dilutive share options on earnings per share would be to increase the weighted average number of shares in issue to 224.9 million (2020: 226.9 million).

11 – Employee and key management information

	2021 $m	Restated 2020 $m
Wages and salaries	**2,807**	2,627
Social security costs	**182**	169
Pension costs – defined contribution plans	**74**	68
Pension costs – defined benefit plans (note 24)	**3**	3
Share-based payments	**77**	24
Total staff costs	**3,143**	2,891

The total staff costs, including discontinued operations, was $3,267 million (2020: $3,137 million).

Average number of employees	**2021**	Restated 2020
USA	**27,032**	27,085
Canada	**2,443**	2,473
Central and other	**63**	74
Continuing operations	**29,538**	29,632

The average number of employees, including discontinued operations, was 31,924 (2020: 34,637).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director of the Company.

The aggregate emoluments for all key management are set out in the following table:

Key management personnel compensation (including Directors)	**2021 $m**	2020 $m
Salaries, bonuses and other short-term employee benefits	**16**	16
Post-employment benefits	**2**	1
Share-based payments	**18**	8
Total compensation	**36**	25

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 82 to 112.

12 – Intangible assets – goodwill

	2021 $m	2020 $m
Cost		
At August 1	**1,861**	1,789
Exchange rate adjustment	**15**	8
Acquisitions	**80**	78
Adjustment to fair value on prior year acquisitions	**–**	(14)
Reclassification as held for sale	**(162)**	–
At July 31	**1,794**	1,861
Accumulated impairment losses		
At August 1	**140**	133
Exchange rate adjustment	**3**	7
Reclassification as held for sale	**(106)**	–
At July 31	**37**	140
Net book value at July 31	**1,757**	1,721

Goodwill and intangible assets acquired during the year have been allocated to the individual cash generating units or aggregated cash generating units (together "CGUs") which are deemed to be the smallest identifiable group of assets generating independent cash inflows. CGUs have been aggregated in the disclosure below at a segmental level except for certain CGUs in the USA which are considered to be significant (more than 10% of the current year goodwill balance). Impairment reviews were performed for each individual CGU during the year ended July 31, 2021.

	2021				2020			
	Long-term growth rate %	**Post-tax discount rate %**	**Pre-tax discount rate %**	**Goodwill $m**	Long-term growth rate %	Post-tax discount rate %	Pre-tax discount rate %	Goodwill $m
Blended Branches[1]				**1,096**				1,038
Waterworks				**192**				183
Rest of USA[1]				**319**				306
USA	**2.2**	**7.5**	**10.3**	**1,607**	2.2	8.1	10.8	1,527
UK	**n/a**	**n/a**	**n/a**	**–**	1.5	7.7	9.4	55
Canada	**2.0**	**8.0**	**10.9**	**150**	1.3	7.8	10.8	139
Total				**1,757**				1,721

1. Due to a reorganization of the reporting structure, the Facilities Supply CGU, previously included within the Rest of USA CGU, has been reallocated to the Blended Branches CGU. The comparative has been reclassified for comparability.

The relevant inputs, including key assumptions, to the value in use calculations of each CGU are set out below.

Cash flow forecasts for years one to three are derived from the most recent Board approved strategic plan. The forecast for year five represents an estimate of "mid-cycle" trading performance for the CGU based on historic analysis. Year four is calculated as the average of the final year of the strategic plan and year five's mid-cycle estimate. The other inputs include: a risk-adjusted pre-tax discount rate, calculated by reference to the weighted average cost of capital ("WACC") of each country and reflecting the latest equity market risk factors; and the 30-year long-term growth rate by country, as published by the IMF in April 2021.

The strategic plan is developed based on analyses of sales, markets and costs at a regional level. Consideration is given to past events, knowledge of future contracts and the wider economy. It takes into account both current business and future initiatives.

Management has performed a sensitivity analysis across all CGUs which have goodwill and acquired intangible assets using reasonably possible changes in the following key impairment review assumptions: compound average revenue growth rate, post-tax discount rate and long-term growth rate, keeping all other assumptions constant. The sensitivity analysis included an assessment of the break-even point for each of the key assumptions. The sensitivity testing identified no reasonably possible changes in key assumptions that would cause the carrying amount of any CGU to exceed its recoverable amount. As a result, management do not believe that the key impairment review assumptions constitute a major source of estimation uncertainty as they consider that there is no significant risk of a material change to its estimate of these assumptions within the next 12 months.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

13 – Intangible assets – other

		Acquired intangible assets			
	Software $m	Trade names and brands $m	Customer relationships $m	Other $m	Total $m
Cost					
At August 1, 2019	203	192	673	168	1,236
Exchange rate adjustment	5	1	4	–	10
Acquisitions	13	34	101	3	151
Adjustment to fair value on prior year acquisitions	–	4	9	2	15
Additions	87	–	–	–	87
Disposals and transfers	(2)	–	–	–	(2)
At July 31, 2020	**306**	**231**	**787**	**173**	**1,497**
Exchange rate adjustment	**3**	**–**	**3**	**–**	**6**
Acquisitions	**–**	**17**	**132**	**15**	**164**
Additions	**72**	**–**	**–**	**–**	**72**
Disposals and transfers	**(10)**	**–**	**–**	**–**	**(10)**
Reclassification as held for sale	**(66)**	**(18)**	**(65)**	**(1)**	**(150)**
At July 31, 2021	**305**	**230**	**857**	**187**	**1,579**
Accumulated amortization and impairment losses					
At August 1, 2019	136	95	469	113	813
Exchange rate adjustment	2	1	3	–	6
Amortization charge for the year	35	28	85	17	165
Disposals	(8)	–	–	–	(8)
At July 31, 2020	**165**	**124**	**557**	**130**	**976**
Exchange rate adjustment	**2**	**–**	**2**	**–**	**4**
Amortization charge for the year	**39**	**28**	**91**	**15**	**173**
Disposals and transfers	**(12)**	**–**	**–**	**–**	**(12)**
Reclassification as held for sale	**(38)**	**(11)**	**(58)**	**(1)**	**(108)**
At July 31, 2021	**156**	**141**	**592**	**144**	**1,033**
Net book value at July 31, 2021	**149**	**89**	**265**	**43**	**546**
Net book value at July 31, 2020	141	107	230	43	521

At July 31, 2021, customer relationships net book value includes $69 million (2020: $80 million) in relation to the acquisition of Jones Stephens which had a remaining amortization period of seven years (2020: eight years).

The amortization charge for the year includes $5 million (2020: $22 million) in respect of discontinued operations of which $2 million relates to software (2020: $6 million).

14 – Right of use assets and leases

Movements in right of use assets for the year were as follows:

	Land and buildings $m	Plant and machinery $m	Total right of use assets $m
Net book value			
At July 31, 2019	–	–	–
Adjustment on adoption of IFRS 16	940	280	1,220
At August 1, 2019	940	280	1,220
Exchange rate adjustment	8	–	8
Acquisitions	28	2	30
Additions	54	61	115
Disposals and remeasurements	19	(3)	16
Depreciation charge for the year	(191)	(77)	(268)
Impairment charge for the year	(9)	(1)	(10)
At July 31, 2020	**849**	**262**	**1,111**
Exchange rate adjustment	**7**	**1**	**8**
Acquisitions	**12**	**–**	**12**
Additions	**45**	**49**	**94**
Disposals and remeasurements	**66**	**(16)**	**50**
Depreciation charge for the year	**(181)**	**(73)**	**(254)**
Reclassification as held for sale	**(108)**	**(18)**	**(126)**
At July 31, 2021	**690**	**205**	**895**

The depreciation charge for the year includes $13 million (2020: $35 million) and the impairment charge for the year ended July 31, 2020 includes $2 million in respect of discontinued operations.

The Group's land and building leases include leases for branches, distribution centers and offices. Leases in the USA and Canada often include one or more options to extend the lease term and some of the Group's leases include options to terminate early. Certain leases include variable lease payments that are linked to a consumer price index or market rate. The Group's land and building leases have a weighted average remaining lease term at July 31, 2021 of 5.3 years (2020: 5.9 years).

The Group's plant and machinery leases include leases for fleet vehicles, trucks and company cars. These leases have a weighted average remaining lease term at July 31, 2021 of 4.3 years (2020: 4.5 years).

The maturity of lease liabilities at July 31 was as follows:

	2021 $m	2020 $m
Due in less than one year	**298**	325
Due in one to two years	**283**	326
Due in two to three years	**219**	282
Due in three to four years	**156**	211
Due in four to five years	**99**	146
Due in over five years	**148**	218
Total undiscounted lease payments	**1,203**	1,508
Effect of discounting	**(113)**	(153)
Lease liabilities	**1,090**	1,355
Current lease liabilities	**263**	281
Non-current lease liabilities	**827**	1,074
Lease liabilities	**1,090**	1,355

Notes to the consolidated financial statements continued

Year ended July 31, 2021

14 – Right of use assets and leases continued

At July 31, 2021 the Group was committed to future undiscounted lease payments of $nil (2020: $nil) relating to short-term leases.

Amounts charged/(credited) to Group profit from continuing operations during the year were as follows:

	2021 $m	Restated 2020 $m
Depreciation of right of use assets	**241**	233
Impairment of right of use assets	**–**	8
Short-term lease expense	**1**	10
Low value lease expense	**15**	16
Sublease income	**(2)**	(1)
Charged to operating costs	**255**	266
Charged to finance costs	**44**	49
Total amount charged to Group profit from continuing operations	**299**	315

15 – Property, plant and equipment

	Land and buildings					
	Freehold $m	Finance leases $m	Leasehold improvements $m	Plant and machinery $m	Other equipment $m	Total $m
Cost						
At July 31, 2019	1,184	1	498	679	219	2,581
Adjustment on adoption of IFRS 16	–	(1)	–	(2)	(13)	(16)
At August 1, 2019	1,184	–	498	677	206	2,565
Exchange rate adjustment	5	–	5	8	4	22
Acquisitions	15	–	–	4	–	19
Additions	127	–	11	70	6	214
Disposals and transfers	2	–	(17)	(40)	(26)	(81)
Reclassification as held for sale	(30)	–	–	(1)	–	(31)
At July 31, 2020	**1,303**	**–**	**497**	**718**	**190**	**2,708**
Exchange rate adjustment	**3**	**–**	**3**	**4**	**2**	**12**
Acquisitions	**8**	**–**	**1**	**1**	**1**	**11**
Additions	**79**	**–**	**23**	**63**	**9**	**174**
Disposals and transfers	**(4)**	**–**	**(27)**	**(26)**	**(19)**	**(76)**
Reclassification as held for sale	**(70)**	**–**	**(74)**	**(119)**	**(40)**	**(303)**
At July 31, 2021	**1,319**	**–**	**423**	**641**	**143**	**2,526**
Accumulated depreciation and impairment losses						
At July 31, 2019	278	–	338	475	141	1,232
Adjustment on adoption of IFRS 16	–	–	–	(1)	(9)	(10)
At August 1, 2019	278	–	338	474	132	1,222
Exchange rate adjustment	1	–	3	6	3	13
Depreciation charge for the year	36	–	34	62	22	154
Impairment charge for the year	1	–	2	2	–	5
Disposals	–	–	(13)	(36)	(19)	(68)
Reclassification as held for sale	(7)	–	–	–	–	(7)
At July 31, 2020	**309**	**–**	**364**	**508**	**138**	**1,319**
Exchange rate adjustment	**1**	**–**	**2**	**2**	**1**	**6**
Depreciation charge for the year	**36**	**–**	**30**	**56**	**14**	**136**
Disposals and transfers	**(1)**	**–**	**(21)**	**(31)**	**(6)**	**(59)**
Reclassification as held for sale	**(18)**	**–**	**(45)**	**(88)**	**(30)**	**(181)**
At July 31, 2021	**327**	**–**	**330**	**447**	**117**	**1,221**
Net book value at July 31, 2021	**992**	**–**	**93**	**194**	**26**	**1,305**
Net book value at July 31, 2020	994	–	133	210	52	1,389

The depreciation charge for the year includes $6 million (2020: $19 million) and the impairment charge for the year ended July 31, 2020 includes $1 million in respect of discontinued operations.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

16 – Deferred tax assets and liabilities

Deferred tax assets and liabilities, which are offset where the Group has a legally enforceable right to do so, are shown in the balance sheet after offset as follows:

	2021 $m	2020 $m
Deferred tax assets	**303**	216
Deferred tax liabilities	**–**	(26)
	303	190

The following are the major deferred tax assets and liabilities recognized by the Group and movements thereon during the current and prior reporting year:

	Goodwill and intangible assets $m	Share-based payments $m	Property, plant and equipment $m	Right of use assets $m	Lease liabilities $m	Retirement benefit obligations $m	Inventories $m	Tax method changes $m	Tax losses $m	Trade and other payables $m	Other $m	Total $m
At July 31, 2019	(74)	25	31	–	–	40	(114)	–	88	40	72	108
Adjustment on adoption of IFRS 16	–	–	–	(298)	372	–	–	–	–	(5)	–	69
At August 1, 2019	(74)	25	31	(298)	372	40	(114)	–	88	35	72	177
Credit/(charge) to income	3	(2)	(14)	27	(34)	1	5	–	11	(13)	(13)	(29)
Credit to other comprehensive income	–	–	–	–	–	44	–	–	–	–	–	44
Credit to equity	–	5	–	–	–	–	–	–	–	–	–	5
Acquisitions	(12)	–	1	(4)	4	–	–	–	–	–	–	(11)
Exchange rate adjustment	–	–	4	–	–	(1)	–	–	1	–	–	4
At July 31, 2020	**(83)**	**28**	**22**	**(275)**	**342**	**84**	**(109)**	**–**	**100**	**22**	**59**	**190**
Credit/(charge) to income	**3**	**4**	**(5)**	**26**	**(42)**	**(4)**	**(19)**	**98**	**20**	**60**	**20**	**161**
Charge to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(19)**	**–**	**–**	**–**	**–**	**–**	**(19)**
Credit to equity	**–**	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**
Acquisitions	**(16)**	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**5**	**–**	**–**	**(10)**
Transferred to held for sale	**6**	**(1)**	**(17)**	**24**	**(25)**	**–**	**–**	**–**	**(17)**	**–**	**1**	**(29)**
Transfers between categories	**–**	**–**	**–**	**–**	**–**	**–**	**195**	**(195)**	**–**	**–**	**–**	**–**
Exchange rate adjustment	**–**	**–**	**5**	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**6**
At July 31, 2021	**(90)**	**35**	**5**	**(225)**	**275**	**62**	**68**	**(97)**	**108**	**82**	**80**	**303**

Legislation has been enacted in the UK to increase the standard rate of UK corporation tax from 19% to 25% with effect from April 2023. Accordingly, the UK deferred tax assets and liabilities have been calculated based on a tax rate which materially reflects the rate for the period in which the deferred tax assets and liabilities are expected to reverse.

Net deferred tax assets have been recognized on the basis that sufficient taxable profits are forecast to be available in the future to enable them to be utilized.

In addition, the Group has unrecognized gross tax losses totaling $404 million (2020: $369 million) that have not been recognized on the basis that their future economic benefit is uncertain. These losses have no expiry date and relate predominantly to capital losses.

No deferred tax liability has been recognized in respect of taxable temporary differences associated with unremitted earnings from the Group's subsidiary undertakings. However, tax may arise on $551 million (2020: $442 million) of temporary differences but the Group is in a position to control the timing of their reversal and it is probable that such differences will not reverse in the foreseeable future.

17 – Inventories

	2021 $m	2020 $m
Goods purchased for resale	**3,607**	3,089
Inventory provisions	**(181)**	(209)
Net inventories	**3,426**	2,880

18 – Trade and other receivables

Current	2021 $m	2020 $m
Trade receivables	**2,803**	2,604
Less: provision for expected credit losses	**(17)**	(36)
Net trade receivables	**2,786**	2,568
Other receivables	**146**	139
Prepayments	**399**	335
	3,331	3,042
Non-current		
Other receivables	**428**	377

Included in prepayments is $344 million (2020: $289 million) due in relation to supplier rebates where there is no right of offset against trade payable balances.

Trade receivables have been aged with respect to the payment terms specified in the terms and conditions established with customers.

The loss allowance for trade receivables by aging category is as follows:

At July 31, 2021	**Amounts not yet due $m**	**Less than six months past due $m**	**More than six months past due $m**	**Total $m**
Expected credit loss rate	**0.3%**	**0.5%**	**100%**	
Gross trade receivables	**1,820**	**977**	**6**	**2,803**
Lifetime expected credit losses	**(6)**	**(5)**	**(6)**	**(17)**
Net trade receivables	**1,814**	**972**	**–**	**2,786**

At July 31, 2020	Amounts not yet due $m	Less than six months past due $m	More than six months past due $m	Total $m
Expected credit loss rate	0.6%	1.1%	100%	
Gross trade receivables	1,836	751	17	2,604
Lifetime expected credit losses	(11)	(8)	(17)	(36)
Net trade receivables	1,825	743	–	2,568

No contracts contain a significant financing component and payment from customers is typically due within 30 to 60 days.

The contractual amount outstanding on trade receivables that were written off during the year and that are subject to enforcement activity was $9 million (2020: $12 million).

19 – Cash and cash equivalents

	2021 $m	2020 $m
Cash and cash equivalents	**1,335**	2,115

Included in the balance at July 31, 2021 is an amount of $36 million (2020: $248 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within bank overdrafts (note 21). These amounts are subject to a master netting arrangement.

At July 31, 2021, cash and cash equivalents included $95 million (2020: $93 million) which is used to collateralize letters of credit on behalf of Ferguson Insurance Limited.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

20 – Trade and other payables

Current	2021 $m	2020 $m
Trade payables	**3,234**	2,855
Tax and social security	**92**	114
Other payables	**104**	115
Accruals and deferred income	**592**	507
	4,022	3,591
Non-current		
Other payables	**342**	338

Trade payables are stated net of $55 million (2020: $50 million) due from suppliers with respect to supplier rebates where an agreement exists that allows these to be net settled.

21 – Borrowings

	2021			2020		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Bank overdrafts	**183**	**–**	**183**	248	–	248
Senior unsecured loan notes	**–**	**2,528**	**2,528**	283	2,635	2,918
Total borrowings	**183**	**2,528**	**2,711**	531	2,635	3,166

At July 31, 2021 total bond debt in the USA was $1,350 million (2020: $1,350 million) which is held at par value.

The carrying value of the USPP senior unsecured loan notes of $1,178 million comprises a par value of $1,155 million and a fair value adjustment of $23 million from the application of hedge accounting (2020: $1,568 million, $1,530 million and $38 million respectively).

The Group applies fair value hedge accounting to debt of $355 million (2020: $355 million), swapping fixed interest rates into floating interest rates using a series of interest rate swaps.

Included in bank overdrafts at July 31, 2021 is an amount of $36 million (2020: $248 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within cash and cash equivalents (note 19). These amounts are subject to a master netting arrangement.

In April 2020, Ferguson Finance plc was approved as an eligible issuer under the Covid Corporate Financing Facility ("CCFF"); all commercial paper issued under the CCFF was fully repaid in June 2020 and as a result there are no balances recognized in the current or prior year. The Group did not utilize the funds that were previously drawn down under the facility and Ferguson Finance plc's CCFF eligibility expired in October 2020. There are no unfulfilled conditions or contingencies associated with the facility.

No bank loans were secured against trade receivables and the trade receivables facility of $600 million was undrawn at July 31, 2021 and July 31, 2020.

There have been no significant changes during the year to the Group's policies on accounting for, valuing and managing the risk of financial instruments. These policies are summarized in note 1.

Non-current loans are repayable as follows:

	2021 $m	2020 $m
Due in one to two years	**250**	–
Due in two to three years	**55**	250
Due in three to four years	**150**	150
Due in four to five years	**400**	150
Due in over five years	**1,673**	2,085
Total	**2,528**	2,635

22 – Financial instruments and financial risk management

Financial instruments by measurement basis

The carrying value of financial instruments by category as defined by IFRS 9 "Financial Instruments" is as follows:

	2021 $m	2020 $m
Financial assets		
Financial assets at fair value through profit and loss	**353**	307
Financial assets at fair value through other comprehensive income	**18**	12
Financial assets at amortized cost	**3,372**	3,114
Financial liabilities		
Financial liabilities at fair value through profit and loss	**328**	265
Financial liabilities at amortized cost	**7,026**	7,474

Financial instruments in the category "fair value through profit and loss" and "fair value through other comprehensive income" are measured in the balance sheet at fair value. Fair value measurements can be classified in the following hierarchy:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's derivatives principally relate to interest rate swaps to manage its exposure to interest rate movements on its borrowings. They are measured at fair value through profit and loss using forward interest curves which are level 2 inputs. The current element of derivative financial assets is $5 million (2020: $11 million) and the non-current element is $16 million (2020: $28 million). Total net derivative financial instruments is an asset of $21 million (2020: $39 million). No transfers between levels occurred during the current or prior year.

The Group's deferred compensation plan comprises a financial asset of $332 million (2020: $268 million) which is measured at fair value through profit and loss using level 1 inputs and a financial liability of $328 million (2020: $265 million) which is measured at fair value through profit and loss using level 2 inputs. The fair value of the liability is calculated with reference to the fair value of the associated asset. The financial asset is all classified as non-current. The current element of the financial liability is $31 million (2020: $13 million) and the non-current element is $297 million (2020: $252 million). No transfers between levels occurred during the current or prior year.

The Group has made the irrevocable election to designate its investments in equity instruments as financial assets at fair value through other comprehensive income as this presentation is more representative of the nature of the Group's investments. The fair value of the investments in the current year are measured using market derived valuation methods which utilize level 3 unobservable inputs compared to the prior year which utilized level 2 inputs. The investments are classified as non-current financial assets in the balance sheet. No dividends were received from these investments in the current and prior year.

The Group's other financial instruments are measured at amortized cost. Other receivables include an amount of $64 million (2020: $71 million) which has been discounted at a rate of 1.8% (2020: 1.0%) due to the long-term nature of the receivable. Other current assets and liabilities are either of short maturity or bear floating rate interest and their fair values approximate to book values. The only non-current financial assets or liabilities for which fair value does not approximate to book value are the USPP senior unsecured loan notes, which had a book value of $1,178 million (2020: $1,568 million) and a fair value (level 2) of $1,273 million (2020: $1,671 million), and the bond debt in the USA which had a book value of $1,350 million (2020: $1,350 million) and a fair value (level 1) of $1,538 million (2020: $1,488 million).

Notes to the consolidated financial statements continued

Year ended July 31, 2021

22 – Financial instruments and financial risk management continued

Disclosure of offsetting arrangements

The financial instruments which have been offset in the financial statements are disclosed below:

At July 31, 2021	Notes	Gross balances[1] $m	Offset amounts[2] $m	Financial statements[3] $m	Cash pooling amounts[4] $m	Net total[5] $m
Financial assets						
Non-current assets						
Derivative financial assets		**16**	**–**	**16**	**–**	**16**
Current assets						
Derivative financial assets		**5**	**–**	**5**	**–**	**5**
Cash and cash equivalents	19	**1,335**	**–**	**1,335**	**(36)**	**1,299**
		1,356	**–**	**1,356**	**(36)**	**1,320**
Financial liabilities						
Current liabilities						
Borrowings	21	**183**	**–**	**183**	**(36)**	**147**
Non-current liabilities						
Borrowings	21	**2,528**	**–**	**2,528**	**–**	**2,528**
		2,711	**–**	**2,711**	**(36)**	**2,675**
Closing net debt excluding lease liabilities	29	**(1,355)**	**–**	**(1,355)**	**–**	**(1,355)**

At July 31, 2020	Notes	Gross balances[1] $m	Offset amounts[2] $m	Financial statements[3] $m	Cash pooling amounts[4] $m	Net total[5] $m
Financial assets						
Non-current assets						
Derivative financial assets		28	–	28	–	28
Current assets						
Derivative financial assets		19	(8)	11	–	11
Cash and cash equivalents	19	2,115	–	2,115	(248)	1,867
		2,162	(8)	2,154	(248)	1,906
Financial liabilities						
Current liabilities						
Derivative financial liabilities		8	(8)	–	–	–
Borrowings	21	531	–	531	(248)	283
Non-current liabilities						
Borrowings	21	2,635	–	2,635	–	2,635
		3,174	(8)	3,166	(248)	2,918
Closing net debt excluding lease liabilities	29	(1,012)	–	(1,012)	–	(1,012)

1. The gross amounts of the recognized financial assets and liabilities under a master netting agreement, or similar arrangement.
2. The amounts offset in accordance with the criteria in IAS 32.
3. The net amounts presented in the Group balance sheet.
4. The amounts subject to a master netting agreement, or similar arrangement, not included in (3).
5. The net amount after deducting the amounts in (4) from the amounts in (3).

22 – Financial instruments and financial risk management continued

Risk management policies

The Group is exposed to market risks arising from its international operations and the financial instruments which fund them. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and liquidity risk. The Group has well-defined policies for the management of these risks which have been consistently applied during the financial years ended July 31, 2021 and July 31, 2020. By the nature of its business, the Group also has trade credit and commodity price exposures, the management of which is delegated to the operating businesses. There has been no change since the previous year in the major financial risks faced by the Group.

Policies for managing each of these risks are regularly reviewed and are summarized below. When the Group enters into derivative transactions (principally interest rate swaps and foreign exchange contracts), the purpose of such transactions is to hedge certain interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments or speculative transactions be undertaken.

Capital structure and risk management

The capital structure of the Group consists of net debt excluding lease liabilities (disclosed in note 29) and equity of the Group (comprising share capital, share premium and reserves). To assess the appropriateness of its capital structure based on current and forecast trading, the Group's principal measure of financial gearing is the ratio of net debt to adjusted EBITDA. The Group aims to operate with investment grade credit metrics and keep this ratio within one to two times. Of the Group's borrowing facilities, only the US Private Placement debt contains a financial covenant limiting the ratio of net debt to adjusted EBITDA to 3.5:1. All other borrowing facilities and the bond debt in the USA are covenant free. The reconciliation of opening to closing net debt is detailed in note 29.

The Group's sources of funding currently comprise cash flows generated from operations, equity contributed by shareholders and borrowings from banks and other financial institutions. In order to maintain or adjust the capital structure, the Group may pay a special dividend, return capital to shareholders, repurchase its own shares, issue new shares or sell assets to reduce debt.

Credit risk

The Group provides sales on credit terms to most of its customers. There is an associated risk that customers may not be able to pay outstanding balances. At July 31, 2021, the maximum exposure to credit risk was $2,786 million (2020: $2,568 million).

Each of the Group's businesses have established procedures in place to review and collect outstanding receivables. Significant outstanding and overdue balances are regularly reviewed and resulting actions are put in place on a timely basis. All of the major businesses use professional and dedicated credit teams, in some cases field-based. Appropriate provisions are made for debts that may be impaired on a timely basis. Concentration of credit risk in trade receivables is limited as the Group's customer base is large and unrelated. Accordingly, the Group considers that there is no further credit risk provision required above the current provision for expected credit losses. The aging of trade receivables is detailed in note 18.

The Group has cash balances deposited for short periods with financial institutions and enters into certain contracts (such as interest rate swaps) which entitle the Group to receive future cash flows from financial institutions. These transactions give rise to credit risk on amounts due from counterparties with a maximum exposure of $1,163 million (2020: $1,873 million). This risk is managed by setting credit and settlement limits for a panel of approved counterparties. The limits are approved by the Treasury Committee and ratings are monitored regularly.

Liquidity risk

The Group maintains a policy of ensuring sufficient borrowing headroom to finance all investment and capital expenditure included in its strategic plan, with an additional contingent safety margin.

The Group has estimated its anticipated contractual cash outflows (excluding interest income and income from derivatives), including interest payable in respect of its borrowings (excluding bank overdrafts) and lease liabilities, on an undiscounted basis. The principal assumptions are that floating rate interest is calculated using the prevailing interest rate at the balance sheet date and cash flows in foreign currency are translated using spot rates at the balance sheet date. These cash flows can be analyzed by maturity as follows:

				2021				2020
	Trade and other payables $m	**Debt including lease liabilities $m**	**Interest on debt including lease liabilities $m**	**Total $m**	Trade and other payables $m	Debt including lease liabilities $m	Interest on debt including lease liabilities $m	Total $m
Due in less than one year	**3,188**	**263**	**130**	**3,581**	2,889	561	148	3,598
Due in one to two years	**31**	**507**	**116**	**654**	34	291	131	456
Due in two to three years	**25**	**257**	**103**	**385**	20	507	117	644
Due in three to four years	**18**	**295**	**93**	**406**	15	345	103	463
Due in four to five years	**19**	**491**	**79**	**589**	14	286	92	392
Due in over five years	**244**	**1,782**	**207**	**2,233**	211	2,245	285	2,741
Total	**3,525**	**3,595**	**728**	**7,848**	3,183	4,235	876	8,294

Notes to the consolidated financial statements continued

Year ended July 31, 2021

22 – Financial instruments and financial risk management continued

Liquidity risk continued

The Group relies on continued access to funding in order to meet its operating obligations, to support the growth of the business and to make acquisitions when opportunities arise. Its sources of funding include cash flows generated by operations and borrowings from banks and other financial institutions. The Group holds a $1,100 million (2020: $1,100 million) revolving credit facility that matures in March 2026, a $500 million bilateral facility that matures in March 2022 (2020: $500 million), and a $600 million (2020: $600 million) securitization facility that matures in May 2024. This facility is secured against the assets of Ferguson Receivables, LLC, a wholly owned subsidiary of Ferguson Enterprises, LLC. The assets of Ferguson Receivables, LLC can only be used to settle the obligations of Ferguson Receivables, LLC and creditors of Ferguson Receivables, LLC have no recourse to the general credit of Ferguson plc or that of other Group subsidiaries. All facilities were undrawn at July 31, 2021 and July 31, 2020.

The maturity profile of the Group's undrawn facilities is as follows:

	2021 $m	2020 $m
Less than one year	**500**	500
Between one and two years	**–**	600
Between two and three years	**600**	–
Between three and four years	**–**	–
Between four and five years	**1,100**	1,100
After five years	**–**	–
Total	**2,200**	2,200

At July 31, 2021 the Group has total available facilities, excluding bank overdrafts, of $4,728 million (2020: $5,118 million), of which $2,528 million is drawn (note 21) and $2,200 million is undrawn (2020: $2,918 million and $2,200 million respectively). The Group does not have any debt factoring or supply chain financing arrangements.

Foreign currency risk

The Group has significant overseas businesses whose revenues are mainly denominated in the currencies of the countries in which the operations are located. Approximately 94% (2020 restated: 95%) of the Group's revenue is in US dollars. Within each country it operates, the Group does not have significant transactional foreign currency cash flow exposures. However, those that do arise may be hedged with either forward contracts or currency options. The Group does not normally hedge profit translation exposure since such hedges have only a temporary effect.

The Group's policy is to adjust the currencies in which its net debt is denominated materially to match the currencies in which its trading profit is generated. Details of average exchange rates used in the translation of overseas earnings and of year-end exchange rates used in the translation of overseas balance sheets for the principal currencies used by the Group are shown in the five-year summary on page 177. The net effect of currency translation was to increase revenue by $60 million (2020 restated: decrease by $25 million) and the net effect on trading profit was $nil (2020 restated: $nil). These currency effects primarily reflect a movement of the average US dollar exchange rate against Canadian dollars.

Net debt excluding lease liabilities by currency was as follows:

	2021			2020		
	Derivatives $m	**Cash and borrowings $m**	**Total $m**	Derivatives $m	Cash and borrowings $m	Total $m
US dollars	**23**	**(1,640)**	**(1,617)**	39	(1,186)	(1,147)
Pounds sterling	**(1)**	**90**	**89**	–	(38)	(38)
Other currencies	**(1)**	**174**	**173**	–	173	173
Total	**21**	**(1,376)**	**(1,355)**	39	(1,051)	(1,012)

22 – Financial instruments and financial risk management continued

Net investment hedging

Exchange differences arising from the translation of the net investment in foreign operations are recognized in the statement of comprehensive income and accumulated in the translation reserve. Gains and losses on those hedging instruments designated as hedges of the net investments in foreign operations are recognized in equity in the statement of comprehensive income and accumulated in the translation reserve to the extent that the hedging relationship is effective.

The Group has net financial liabilities denominated in foreign currencies which have been designated as hedges of the net investment in its overseas subsidiaries. The principal value of those financial liabilities designated as hedges at the balance sheet date was $187 million (2020: $368 million). The loss on translation of those financial instruments into US dollars of $31 million (2020: $31 million) has been taken to the statement of comprehensive income. There was no hedge ineffectiveness in the year.

Interest rate risk

At July 31, 2021, 85% (2020: 83%) of borrowings (excluding bank overdrafts) were at fixed rates. The Group borrows in the desired currencies principally at rates determined by reference to short-term benchmark rates applicable to the relevant currency or market, such as LIBOR. Rates which reset at least every 12 months are regarded as floating rates and the Group then, if appropriate, considers interest rate swaps to generate the desired interest rate profile.

The Group reviews deposits and borrowings by currency at Treasury Committee and Board meetings. The Treasury Committee gives prior approval to any variations from floating rate arrangements.

The interest rate profile of the Group's net debt excluding lease liabilities, after the effect of interest rate swaps, is set out below:

			2021			2020
	Floating $m	**Fixed $m**	**Total $m**	Floating $m	Fixed $m	Total $m
US dollars	**533**	**(2,150)**	**(1,617)**	1,284	(2,431)	(1,147)
Pounds sterling	**89**	**–**	**89**	(38)	–	(38)
Other currencies	**173**	**–**	**173**	173	–	173
Total	**795**	**(2,150)**	**(1,355)**	1,419	(2,431)	(1,012)

The Group's weighted average cost of net debt is 4.5%. The Group holds issued fixed rate borrowings at July 31, 2021 of $2,505 million comprising bond debt in the USA of $1,350 million and USPP of $1,155 million (2020: $2,786 million, $1,350 million and $1,436 million respectively); these carried a weighted average interest rate of 3.8% fixed for a weighted average duration of 6.6 years (2020: 3.7% for 7.0 years). The Group holds interest rate swap contracts comprising fixed interest receivable on $355 million of notional principal. These are designated as a fair value hedge against $355 million of USPP debt swapping fixed interest for floating. These contracts expire between November 2023 and November 2026 and the fixed interest rates range between 3.3% and 3.5%. At July 31, 2021 there were $nil issued floating rate borrowings, excluding overdrafts. At July 31, 2020 floating borrowings, excluding overdrafts had a weighted average interest rate of 1.7%.

Monitoring interest rate and foreign currency risk

The Group monitors its interest rate and foreign currency risk by reviewing the effect on financial instruments over various periods of a range of possible changes in interest rates and exchange rates. The financial impact for reasonable approximation of possible changes in interest rates and exchange rates are as follows. The Group has estimated that an increase of 1% in the principal floating interest rates to which it is exposed would result in a credit to the income statement of $8 million (2020: $14 million). The Group has estimated that a weakening of the US dollar by 10% against financial instruments denominated in a foreign currency in which the Group does business would result in a charge to the translation reserve of $7 million (2020: $52 million). The Group does not consider that there is a useful way of quantifying the Group's exposure to any of the macroeconomic variables that might affect the collectability of receivables or the prices of commodities.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

23 – Provisions

	Environmental and legal $m	Ferguson Insurance $m	Restructuring $m	Property provisions $m	Other provisions $m	Total $m
At July 31, 2019	82	77	40	15	51	265
Adjustment on adoption of IFRS 16	–	–	(14)	14	(1)	(1)
At August 1, 2019	82	77	26	29	50	264
Utilized in the year	(4)	(20)	(27)	(1)	(4)	(56)
Changes in discount rate	6	–	–	1	–	7
(Credit)/charge for the year	(1)	18	22	1	(10)	30
Acquisition of businesses	2	–	–	–	–	2
Exchange rate adjustment	1	1	1	3	2	8
At July 31, 2020	**86**	**76**	**22**	**33**	**38**	**255**
Utilized in the year	**(4)**	**(19)**	**(8)**	**(1)**	**(3)**	**(35)**
Changes in discount rate	**(5)**	**–**	**–**	**–**	**–**	**(5)**
Charge/(credit) for the year	**15**	**13**	**(1)**	**–**	**3**	**30**
Reclassification as held for sale	**(8)**	**–**	**(10)**	**(33)**	**(2)**	**(53)**
Exchange rate adjustment	**–**	**–**	**1**	**1**	**1**	**3**
At July 31, 2021	**84**	**70**	**4**	**–**	**37**	**195**

Provisions have been analyzed between current and non-current as follows:

At July 31, 2021	Environmental and legal $m	Ferguson Insurance $m	Restructuring $m	Property provisions $m	Other provisions $m	Total $m
Current	**20**	**20**	**2**	**–**	**30**	**72**
Non-current	**64**	**50**	**2**	**–**	**7**	**123**
Total provisions	**84**	**70**	**4**	**–**	**37**	**195**

At July 31, 2020	Environmental and legal $m	Ferguson Insurance $m	Restructuring $m	Property provisions $m	Other provisions $m	Total $m
Current	10	5	10	8	20	53
Non-current	76	71	12	25	18	202
Total provisions	86	76	22	33	38	255

The environmental and legal provision includes $64 million (2020: $72 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 1.8% (2020: 1.0%). This amount has been actuarially determined as at July 31, 2021 based on advice from independent professional advisers. The Group has insurance that covers asbestos litigation payments and settlements and based on review of the insurance carriers and policies in place, the amount of performing insurance cover significantly exceeds the expected future claims. On that basis, it has been determined it is virtually certain the insurance will be recoverable and accordingly an insurance receivable of $64 million (2020: $71 million) has been recorded in other receivables. No material profit or cash flow impact is therefore expected to arise in the foreseeable future in respect of asbestos claims against the Group. Due to the nature of these provisions, the timing of any settlements is uncertain.

Ferguson Insurance provisions represent an estimate, based on historical experience, of the ultimate cost of settling outstanding claims and claims incurred but not reported on certain risks retained by the Group (principally USA casualty and global property damage). Due to the nature of these provisions, the timing of any settlements is uncertain.

Other provisions include warranty costs relating to businesses disposed of and product warranty provisions. The weighted average maturity of these obligations is approximately 1.5 years.

24 – Retirement benefit obligations

(i) Long-term benefit plans provided by the Group

The principal UK defined benefit plan is the Wolseley Group Retirement Benefits Plan which provides benefits based on final pensionable salaries. The assets are held in separate trustee administered funds. The Group contribution rate is calculated on the Projected Unit Credit Method and agreed with an independent consulting actuary. The plan was closed to new entrants in 2009, it was closed to future service accrual in December 2013, when it was replaced by a defined contribution plan, and during October 2016, it was closed for future non-inflationary salary accrual.

In 2017, the Group secured a buy-in insurance policy with Pension Insurance Corporation for the UK defined benefit plan. This policy covered all of the benefits provided by the plan to pensioner members at the time. The insurance asset is valued as exactly equal to the insured liabilities. The deferred members of the plan at the time were not covered by this policy.

In 2019, the Group offered some deferred members of the UK defined benefit plan an enhanced transfer value to settle their benefits accrued under the plan.

In 2021, prior to the disposal of Wolseley UK Limited, the UK defined benefit plan was transferred to Ferguson UK Holdings Limited.

The last triennial valuation for the UK defined benefit pension plan was done as at April 2019 and the deficit reduction funding payments agreed with the trustees as a result of this have been paid. The next triennial valuation is due in April 2022.

The principal plans operated for USA employees are defined contribution plans, which are established in accordance with USA 401k rules. Companies contribute to both employee compensation deferral and profit sharing plans.

In Canada, defined benefit plans and a defined contribution plan are operated. Most of the Canadian defined benefit plans are funded. The contribution rate is calculated on the Projected Unit Credit Method as agreed with independent consulting actuaries.

Investment policy

The Group's investment strategy for its funded post-employment plans is decided locally and, if relevant, by the trustees of the plan and takes account of the relevant statutory requirements. The Group's objective for the investment strategy is to achieve a target rate of return in excess of the increase in the liabilities, while taking an acceptable amount of investment risk relative to the liabilities. This objective is implemented by using specific allocations to a variety of asset classes that are expected over the long term to deliver the target rate of return.

For the UK plan, the buy-in insurance policy represents approximately 28% of the plan assets. For the remaining assets, the strategy is to invest in such a way that the expected cashflows broadly match a high proportion of the plan's expected liability cashflows by investing in predominately income-generating asset classes. The investment strategy is subject to regular review by the trustees of the plan in consultation with the Company. For the non-UK plans, the investment strategy is to invest predominantly in equities and bonds.

Investment risk

The present value of the UK defined benefit plan liability is calculated using a discount rate determined by reference to high-quality corporate bond yields; if the actual return on plan assets is below this rate, it will decrease a net surplus or increase a net pension liability. Currently, the plan is predominately invested in fixed income debt instruments such as corporate and government bonds. Due to the long-term nature of the plan liabilities and the maturity of the plan, the trustees of the pension plan consider the investment allocation appropriate to provide protection against the inflation and interest risk inherent in the plan's underlying liabilities.

Interest risk

A decrease in the bond interest rate will increase the UK plan liability and this will be partially offset by an increase in the value of the plan's debt investments.

Longevity risk

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the UK plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

24 – Retirement benefit obligations continued

(ii) Financial impact of plans

As disclosed in the Group balance sheet	**2021 $m**	2020 $m
Non-current asset	**108**	–
Non-current liability	**(12)**	(61)
Net asset/(liability)	**96**	(61)

			2021			2020
Analysis of Group balance sheet net asset/(liability)	**UK $m**	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
Fair value of plan assets	**2,175**	**129**	**2,304**	2,012	110	2,122
Present value of defined benefit obligations	**(2,067)**	**(141)**	**(2,208)**	(2,039)	(144)	(2,183)
Net asset/(liability)	**108**	**(12)**	**96**	(27)	(34)	(61)

Analysis of total expense recognized in the Group income statement	**2021 $m**	2020 $m
Administrative costs	**3**	3
Charged to operating costs (note 11)	**3**	3
Charged/(credited) to finance costs (note 6)	**1**	(3)
Exceptional charges to finance costs (note 5)	**1**	–
Total expense recognized in the Group income statement	**5**	–

Expected employer contributions to the defined benefit plans for the year ending July 31, 2022 are $2 million.

The remeasurement of the defined benefit net asset is included in the Group statement of comprehensive income.

Analysis of amount recognized in the Group statement of comprehensive income	**2021 $m**	2020 $m
The return on plan assets (excluding amounts included in net interest expense)	**34**	96
Actuarial gain/(loss) arising from changes in demographic assumptions	**22**	(62)
Actuarial gain/(loss) arising from changes in financial assumptions	**20**	(211)
Actuarial gain/(loss) arising from experience adjustments	**31**	(58)
Remeasurement of retirement benefit plans	**107**	(235)
Tax (charge)/credit	**(19)**	44
Total amount recognized in the Group statement of comprehensive income	**88**	(191)

The cumulative amount of actuarial losses recognized in the Group statement of comprehensive income is $652 million (2020: $759 million).

24 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

The fair value of plan assets is as follows:

	2021			2020		
	UK $m	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
At August 1	**2,012**	**110**	**2,122**	1,788	116	1,904
Interest income	**31**	**3**	**34**	39	3	42
Employers' contributions	**55**	**1**	**56**	15	–	15
Benefit payments	**(68)**	**(9)**	**(77)**	(64)	(9)	(73)
Remeasurement gain:						
Return on plan assets (excluding amounts included in net interest expense)	**18**	**16**	**34**	94	2	96
Exchange rate adjustment	**127**	**8**	**135**	140	(2)	138
At July 31	**2,175**	**129**	**2,304**	2,012	110	2,122
Actual return on plan assets	**49**	**19**	**68**	133	5	138

Employers' contributions included special funding contributions of $53 million (2020: $13 million).

The plan assets were invested in a diversified portfolio comprised of:

		2021			2020		
		UK $m	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
Equity type assets	quoted	**–**	**48**	**48**	165	65	230
Government bonds	quoted	**492**	**40**	**532**	566	23	589
Corporate bonds	quoted	**884**	**13**	**897**	385	12	397
Cash		**19**	**1**	**20**	44	–	44
Insurance policies		**602**	**–**	**602**	609	–	609
Securitized fixed income assets		**178**	**–**	**178**	167	–	167
Other		**–**	**27**	**27**	76	10	86
Total fair value of assets		**2,175**	**129**	**2,304**	2,012	110	2,122

The present value of defined benefit obligations is as follows:

	2021			2020		
	UK $m	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
At August 1	**2,039**	**144**	**2,183**	1,610	141	1,751
Current service costs (including administrative costs)	**3**	**–**	**3**	3	–	3
Interest cost	**31**	**4**	**35**	35	4	39
Benefit payments	**(68)**	**(9)**	**(77)**	(64)	(9)	(73)
Remeasurement (gain)/loss:						
Actuarial (gain)/loss arising from changes in demographic assumptions	**(22)**	**–**	**(22)**	62	–	62
Actuarial (gain)/loss arising from changes in financial assumptions	**(11)**	**(9)**	**(20)**	202	9	211
Actuarial (gain)/loss arising from experience adjustments	**(31)**	**–**	**(31)**	57	1	58
Exchange rate adjustment	**126**	**11**	**137**	134	(2)	132
At July 31	**2,067**	**141**	**2,208**	2,039	144	2,183

Notes to the consolidated financial statements continued

Year ended July 31, 2021

24 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

An analysis of the present value of defined benefit obligations by funding status is shown below:

	2021 $m	2020 $m
Amounts arising from wholly unfunded plans	**3**	3
Amounts arising from plans that are wholly or partly funded	**2,205**	2,180
Total present value of defined benefit obligations	**2,208**	2,183

(iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2021		2020	
	UK %	**Non-UK %**	UK %	Non-UK %
Discount rate	**1.7**	**2.9**	1.5	2.4
Inflation rate	**3.1**	**2.0**	2.9	2.0
Increase to deferred benefits during deferment	**2.4**	**n/a**	2.1	n/a
Increases to pensions in payment	**3.0**	**2.0**	2.6	2.0
Salary increases	**2.4**	**n/a**	2.1	2.5

The life expectancy assumptions used to estimate defined benefit obligations are:

	2021		2020	
	UK Years	**Non-UK Years**	UK Years	Non-UK Years
Current pensioners (at age 65) – male	**22**	**22**	22	22
Current pensioners (at age 65) – female	**25**	**25**	25	24
Future pensioners (at age 65) – male	**23**	**23**	23	23
Future pensioners (at age 65) – female	**25**	**26**	26	26

The weighted average duration of the defined benefit obligation is 20.0 years (2020: 21.1 years).

(iv) Sensitivity analysis

The Group considers that the most sensitive assumptions are the discount rate, inflation rate and life expectancy. The sensitivity analyses below shows the impact on the Group's defined benefit plan net asset of reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	2021			2020		
	Change	**UK $m**	**Non-UK $m**	Change	UK $m	Non-UK $m
Discount rate	**+0.25%**	**85**	**4**	+0.25%	88	5
	(0.25)%	**(89)**	**(5)**	(0.25)%	(96)	(5)
Inflation rate	**+0.25%**	**(77)**	**–**	+0.25%	(85)	–
	(0.25)%	**78**	**3**	(0.25)%	75	4
Life expectancy	**+1 year**	**(70)**	**(5)**	+1 year	(56)	(5)

The UK defined benefit plan holds a buy-in policy asset which exactly equals the insured liability. The above sensitivities are in respect of the Group's remaining defined benefit plan net liability.

25 – Share capital

(i) Ordinary shares in issue

Allotted and issued shares	2021 Number of shares	2021 Cost $m	2020 Number of shares	2020 Cost $m
Number/cost of ordinary 10 pence shares in the Company (million)	**232**	**30**	232	30

The authorized share capital of the Company is 500 million ordinary 10 pence shares (2020: 500 million ordinary 10 pence shares).

All the allotted and issued shares, including those held by Employee Benefit Trusts and in Treasury, are fully paid or credited as fully paid.

A summary of the movements in the year is detailed in the following table:

	2021	2020
Number of ordinary 10 pence shares in the Company in issue at August 1 and July 31	**232,171,182**	232,171,182

(ii) Treasury shares

The shares purchased under the Group's buy back programs have been retained in issue as Treasury shares and represent a deduction from equity attributable to shareholders of the Company.

A summary of the movements in Treasury shares in the year is detailed in the following table:

	2021 Number of shares	2021 Cost $m	2020 Number of shares	2020 Cost $m
Treasury shares held by the Company at August 1	**7,280,222**	**570**	2,036,945	146
Treasury shares purchased under irrevocable commitment from prior year	**–**	**–**	2,139,221	159
		570		305
Treasury shares purchased	**3,020,368**	**400**	3,452,349	292
Disposal of Treasury shares to settle share options	**(437,774)**	**(39)**	(348,293)	(27)
Treasury shares held by the Company at July 31	**9,862,816**	**931**	7,280,222	570

Consideration received in respect of shares transferred to participants in certain long term incentive plans and all-employee plans amounted to $18 million (2020: $11 million).

(iii) Own shares

Two Employee Benefit Trusts have been established in connection with the Company's discretionary share option plans and long term incentive plans.

A summary of the movements in own shares held in Employee Benefit Trusts is detailed in the following table:

	2021 Number of shares	2021 Cost $m	2020 Number of shares	2020 Cost $m
Own shares in the Company at August 1	**1,277,347**	**88**	1,563,778	102
New shares purchased	**–**	**–**	307,345	26
Exercise of share options	**(444,158)**	**(30)**	(593,776)	(40)
Own shares in the Company at July 31	**833,189**	**58**	1,277,347	88

Consideration received in respect of shares transferred to participants in the discretionary share option plans and long term incentive plans amounted to $nil (2020: $nil). At July 31, 2021, the shares held in the trusts had a market value of $117 million (2020: $114 million).

Dividends due on shares held by the Employee Benefit Trusts are waived in accordance with the provisions of the trust deeds.

Notes to the consolidated financial statements continued

Year ended July 31, 2021

26 – Reconciliation of profit to cash generated from operations

Profit for the year is reconciled to cash generated from continuing and discontinued operations as follows:

	2021 $m	2020 $m
Profit for the year attributable to shareholders	**1,508**	961
Net finance costs	**146**	144
Share of (profit)/loss after tax of associates	**(1)**	2
Gain on disposal of interests in associates and other investments	**–**	(7)
Impairment of interests in associates	**–**	22
Tax charge	**253**	307
Loss on disposal and closure of businesses and impairment of assets held for sale	**184**	3
Amortization of acquired intangible assets	**134**	130
Amortization of non-acquired intangible assets	**39**	35
Depreciation and impairment of right of use assets	**254**	278
Depreciation and impairment of property, plant and equipment	**136**	159
Gain on disposal of property, plant and equipment and assets held for sale	**(3)**	(3)
(Increase)/decrease in inventories	**(825)**	19
(Increase)/decrease in trade and other receivables	**(769)**	210
Increase/(decrease) in trade and other payables	**1,023**	(9)
Decrease in provisions and other liabilities	**(57)**	(25)
Share-based payments	**71**	26
Cash generated from operations	**2,093**	2,252

27 – Acquisitions

The Group acquired the following businesses during the year ended July 31, 2021, which are all engaged in the distribution of plumbing and heating products and were acquired to support growth in the USA. All transactions have been accounted for by the acquisition method of accounting.

Name	Date of acquisition	Country of incorporation	Shares/asset deal	Acquired %
Old Dominion Supply, Inc.	October 2020	USA	Shares	100
Atlantic Construction Fabrics, Inc.	November 2020	USA	Assets	100
Nova Wildcat Amerock Holdings, Inc.	January 2021	USA	Shares	100
Clarksville Lighting & Appliance, LLC	January 2021	USA	Assets	100
The Kitchen Showcase, Inc.	June 2021	USA	Assets	100
Moore Industrial Supply	July 2021	USA	Assets	100
Canyon Pipe & Supply, Inc.	July 2021	USA	Assets	100

27 – Acquisitions continued

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

	2021 $m	2020 $m
Intangible assets		
Software	–	13
Trade names and brands	17	34
Customer relationships	132	101
Other	15	3
Right of use assets	12	30
Property, plant and equipment	11	19
Inventories	51	58
Trade and other receivables	45	62
Cash, cash equivalents and bank overdrafts	13	6
Lease liabilities	(12)	(30)
Trade and other payables	(30)	(28)
Deferred tax	(10)	(11)
Provisions	–	(2)
Total	244	255
Goodwill arising	80	78
Consideration	324	333
Satisfied by:		
Cash	299	321
Deferred consideration	25	12
Total consideration	324	333

The fair values acquired are provisional figures, being the best estimates currently available. Further adjustments may be necessary when additional information is available for some of the judgmental areas.

The goodwill arising on these acquisitions is attributable to the anticipated profitability of the new markets and product ranges to which the Group has gained access and additional profitability and operating efficiencies available in respect of existing markets.

The acquisitions contributed $159 million to revenue, $9 million to trading profit, $10 million loss to the Group's operating profit, $15 million loss to the Group's profit before tax and $17 million loss to the Group's profit after tax for the period between the date of acquisition and the balance sheet date.

If each acquisition had been completed on the first day of the financial year, continuing revenue would have been $22,999 million, continuing trading profit would have been $2,195 million, continuing operating profit would have been $2,044 million, continuing profit before tax would have been $1,895 million and continuing profit after tax would have been $1,653 million.

The net outflow of cash in respect of the purchase of businesses is as follows:

	2021 $m	2020 $m
Purchase consideration	299	321
Deferred and contingent consideration in respect of acquisitions from prior years	49	36
Cash consideration	348	357
Cash, cash equivalents and bank overdrafts acquired	(13)	(6)
Net cash outflow in respect of the purchase of businesses	335	351

Notes to the consolidated financial statements continued

Year ended July 31, 2021

28 – Disposals

On January 29, 2021, the Group disposed of the shares in its UK business Wolseley UK Limited. There were no other disposals in the year ended July 31, 2021.

The Group recognized a total loss on disposals in the period of $356 million (2020: $nil), which is comprised of a loss on the current period disposal of the UK business of $370 million (2020: $nil) and a gain on prior year disposals of $14 million (2020: $nil). The total loss is reported within discontinued operations.

The loss on current period disposal is as follows:

	2021 $m	2020 $m
Consideration received	**422**	–
Net assets disposed of	**(390)**	–
Disposal costs and provisions	**(32)**	–
Recycling of deferred foreign exchange losses	**(370)**	–
Current period loss on disposal	**(370)**	–

Net assets disposed of were held in assets and liabilities held for sale.

The net inflow of cash in respect of disposals of businesses reported within discontinued operations is as follows:

	2021 $m	2020 $m
Cash consideration received for current period disposals (net of cash disposed of)	**395**	–
Cash consideration received in respect of prior year disposals	**19**	9
Cash paid in respect of prior year disposals	**(2)**	(2)
Disposal costs paid	**(32)**	–
Net cash inflow in respect of disposals of businesses	**380**	7

29 – Reconciliation of opening to closing net debt

	Cash and cash equivalents (note 19) $m	Bank overdrafts (note 21) $m	Total cash, cash equivalents and bank overdrafts $m	Derivative[1] financial instruments (note 22) $m	Loans[1] (note 21) $m	Obligations[1] under finance leases $m	Net debt excluding lease liabilities $m	Lease[1] liabilities (note 14) $m	Net debt including lease liabilities $m
At July 31, 2019	1,133	(47)	1,086	22	(2,297)	(6)	(1,195)	–	(1,195)
Adjustment on adoption of IFRS 16	–	–	–	–	–	6	6	(1,481)	(1,475)
At August 1, 2019	1,133	(47)	1,086	22	(2,297)	–	(1,189)	(1,481)	(2,670)
Cash movements									
Proceeds from loans and derivatives			–	(7)	(1,162)	–	(1,169)	–	(1,169)
Repayments of loans			–	–	566	–	566	–	566
Lease liability capital payments[2]			–	–	–	–	–	295	295
Interest paid on lease liabilities[2]			–	–	–	–	–	53	53
Changes in net debt due to acquisition of businesses			6	–	–	–	6	–	6
Other cash flows			771	–	–	–	771	–	771
Non-cash movements									
Lease liability additions			–	–	–	–	–	(115)	(115)
Changes in lease liabilities due to acquisition of businesses			–	–	–	–	–	(30)	(30)
Discount unwinding on lease liabilities			–	–	–	–	–	(53)	(53)
Fair value and other adjustments			–	28	(20)	–	8	(16)	(8)
Exchange movements			4	(4)	(5)	–	(5)	(8)	(13)
At July 31, 2020	**2,115**	**(248)**	**1,867**	**39**	**(2,918)**	**–**	**(1,012)**	**(1,355)**	**(2,367)**
Cash movements									
Proceeds from loans and derivatives			**–**	**(4)**	**–**	**–**	**(4)**	**–**	**(4)**
Repayments of loans			**–**	**–**	**375**	**–**	**375**	**–**	**375**
Lease liability capital payments[2]			**–**	**–**	**–**	**–**	**–**	**296**	**296**
Interest paid on lease liabilities[2]			**–**	**–**	**–**	**–**	**–**	**46**	**46**
Changes in net debt due to disposal of businesses			**(27)**	**–**	**–**	**–**	**(27)**	**133**	**106**
Changes in net debt due to acquisition of businesses			**13**	**–**	**–**	**–**	**13**	**–**	**13**
Other cash flows			**(702)**	**–**	**–**	**–**	**(702)**	**–**	**(702)**
Non-cash movements									
Lease liability additions			**–**	**–**	**–**	**–**	**–**	**(97)**	**(97)**
Discount unwinding on lease liabilities			**–**	**–**	**–**	**–**	**–**	**(46)**	**(46)**
Changes in lease liabilities due to acquisition of businesses			**–**	**–**	**–**	**–**	**–**	**(12)**	**(12)**
Fair value and other adjustments			**–**	**(13)**	**15**	**–**	**2**	**(44)**	**(42)**
Exchange movements			**1**	**(1)**	**–**	**–**	**–**	**(11)**	**(11)**
At July 31, 2021	**1,335**	**(183)**	**1,152**	**21**	**(2,528)**	**–**	**(1,355)**	**(1,090)**	**(2,445)**

1. Liabilities from financing activities.
2. Total cash outflow in relation to leases including short-term leases, leases of low value assets and sublease income in the year ended July 31, 2021, was $359 million (2020: $377 million).

Notes to the consolidated financial statements continued

Year ended July 31, 2021

30 – Related party transactions

The Group purchases goods and services from companies which are indirect wholly owned subsidiaries of companies which are controlled or significantly influenced by persons who are also Ferguson Non Executive Directors. In the year ended July 31, 2021, the Group purchased goods and services totaling $24 million (2020: $18 million) from and owed $nil (2020: $nil) to these companies. The goods and services are purchased on an arm's-length basis.

The Group made a donation of $2 million (2020: $nil) to a charity which has a Board member who is a related party of the Group. As at July 31, 2021, the Group has committed to donate a further $1 million (2020: $nil) to this charity.

There are no other related party transactions requiring disclosure under IAS 24 "Related Party Disclosures" in the years ended July 31, 2021 and July 31, 2020 other than the compensation of key management personnel which is set out in note 11.

31 – Contingent liabilities

Group companies are, from time to time, subject to certain claims and litigation arising in the normal course of business in relation to, among other things, the products that they supply, contractual and commercial disputes and disputes with employees. Provision is made if, on the basis of current information and professional advice, liabilities are considered likely to arise. In the case of unfavorable outcomes, the Group may benefit from applicable insurance protection.

Warranties and indemnities in relation to business disposals

Over the past few years, the Group has disposed of a number of non-core businesses and various Group companies have provided certain standard warranties and indemnities to acquirers and other third parties. Provision is made where the Group considers that a liability is likely to crystallize, though it is possible that claims in respect of which no provision has been made could crystallize in the future. Group companies have also made contractual commitments for certain property and other obligations which could be called upon in an event of default. As at the date of this report, appropriate provisions have been made in respect of claims relating to businesses disposed of.

Environmental liabilities

The operations of certain Group companies are subject to specific environmental regulations. From time to time, the Group conducts preliminary investigations through third parties to assess potential risks including potential soil or groundwater contamination of sites. Where an obligation to remediate contamination arises, this is provided for, though future liabilities could arise from sites for which no provision is made.

Outcome of claims and litigation

The outcome of claims and litigation to which Group companies are party cannot readily be foreseen as, in some cases, the facts are unclear, further time is needed to assess properly the merits of the case, or they are part of continuing legal proceedings. However, based on information currently available, the Directors consider that the cost to the Group of an unfavorable outcome arising from such litigation is not expected to have a material adverse effect on the financial position of the Group.

32 – Events after the reporting period

There are no post-balance sheet events requiring disclosure under IAS 10 "Events after the Reporting Period".

Independent auditor's report to the members of Ferguson plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Ferguson plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at July 31, 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ("IASB");
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of Companies (Jersey) Law, 1991.

We have audited the financial statements which comprise:

- the Group and Company income statements;
- the Group statement of comprehensive income;
- the Group and Company statements of changes in equity;
- the Group and Company balance sheets;
- the Group cash flow statement;
- the notes to the consolidated financial statements 1 to 32; and
- the notes to the Company's financial statements 1 to 15.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union and as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note 4 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of Ferguson plc continued

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: – Inventory existence and valuation.
Materiality	The materiality that we used for the Group financial statements in the current year was $90 million which was determined on the basis of approximately 5% of profit before tax.
Scoping	We have performed a full scope audit at one component, being the USA, and on the consolidation process. We have performed audits of certain specified account balances at another component, Canada, and five head office entities. Our components within the scope of our audit represent 100% of the Group's revenue from continuing operations, 96% of the Group's profit before tax from continuing operations and 100% of the Group's net assets.
Significant changes in our approach	Our approach is consistent with previous year with the exception of: – a change in the scope of our audit work at the Wolseley UK component from an audit of certain specified account balances to analytical procedures due to the disposal of the UK business in the current year and its inclusion within discontinued operations; – the first year adoption and reporting of IFRS 16 is no longer a key audit matter as IFRS 16 has now been fully adopted by the Group; and – relative to the prior year, the level of effort required to audit revenue recognition is lower due to our increased materiality level, our evaluation of the design and implementation of controls and decreased levels of substantive testing, which means that this is no longer a key audit matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls over management's going concern models, including the review of the inputs and assumptions used in those models;
- testing the accuracy of management's models, including agreement to the most recent Board approved budgets and forecasts which included the impact of COVID-19;
- challenging the key assumptions of these forecasts by:
  - reading industry data and other external information and comparing these with management's estimates;
  - comparing forecast revenue with the Group's historical performance, including the impact of COVID-19 on operations in FY20
  - evaluating the historical accuracy of forecasts prepared by management;
- assessing the sensitivity of the headroom and management's forecasts; and
- assessing the sufficiency of the Group's disclosure concerning the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorized for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Inventory existence and valuation

Key audit matter description

The Group had inventories of $3,426 million at July 31, 2021 ($2,880 million as at July 31, 2020), held in numerous distribution centers and branches, and across multiple product lines. Details of its valuation are included in the Audit Committee report on page 78, in the accounting policies in note 1 and in note 15 of the consolidated financial statements.

Management employs a range of inventory counting procedures to record the existence and condition of inventory considering the highly disaggregated nature of the inventory balance across the Group's distribution centers and branch locations, including perpetual cycle counts. This count process is in turn reliant on two core warehouse management systems.

In addition, provisions are made against slow-moving, obsolete and damaged inventories by comparing the level of inventory held to estimated future sales on the basis of historical experience. At July 31, 2021, inventories were net of a provision of $181 million (July 31, 2020: $209 million) which includes provisions for inventory for which no sales have occurred during the past twelve months, special order inventory and excess inventory. The excess provision calculation requires judgement, which increases the risk of possible misstatement.

We identified excess inventory provisions valuation and the existence of perpetual cycle count inventory as a key audit matter. This is due to the inherent uncertainty in estimating the excess inventory provision and higher degree of auditor judgment and effort needed to determine the extent and timing of testing the perpetual cycle count inventory existence.

How the scope of our audit responded to the key audit matter

We have performed the following procedures in respect of this key audit matter:

Existence

- obtained an understanding of the general IT controls associated with the relevant IT systems for inventory, including the system responsible for managing the perpetual cycle count programmes;
- used senior team members to determine the extent and location of inventory counts;
- physically observed management's count procedures over inventory close to the year-end date and performed independent sample count procedures in relation to locations across the Group;
- performed roll-forward procedures from the date of our inventory counts to the year-end date; and
- investigated any variations from our independent counts and considered the impact in the context of the inventory balance as a whole.

Valuation

- obtained an understanding of relevant inventory controls operating across the Group;
- tested management's process in determining the excess inventory provision by recalculating the inventory provision, if any, for a sample of on hand inventory items and inventory provision amounts;
- formed an independent expectation of the excess inventory provision at year-end based on prior year ratios and compared the inventory provision against our expectation; and
- performed a historical look back analysis for a selection of inventory items and considered the impact in the context of the inventory balance as a whole.

Key observations

Our work on the existence of inventory was completed as planned and, after taking into account any count variances observed, we are satisfied that the Group's inventory is not materially misstated.

We identified that certain general IT controls required improvement. These were in the area of Access Security for the primary warehouse management system and in the area of Change Management in relation to information used in the performance of cycle count monitoring controls. These matters were anticipated in determining our initial risk assessment for existence of inventory associated with perpetual cycle count locations.

We consider the Group's provisioning methodology to be conservative when compared with historical levels of inventory write-offs. However, the methodology is consistently applied year-on-year and our estimate of the potential overstatement of the provision is not material to the financial position or the reported financial result as at July 31, 2021.

Independent auditor's report to the members of Ferguson plc continued

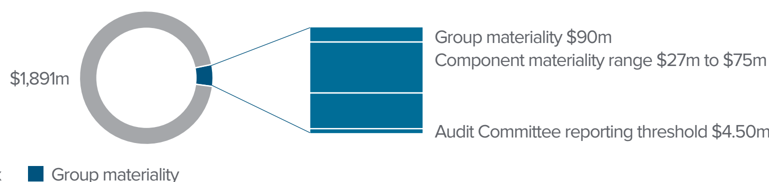
Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	$90 million (2020: $55 million)	$27 million (2020: $28 million)
Basis for determining materiality	Materiality was determined on the basis of approximately 5% of profit before tax, which is consistent with the prior year.	Materiality was determined on the basis of the Company's net assets. This was then capped at the lowest component materiality.
Rationale for the benchmark applied	Profit before tax is a key metric for users of the financial statements and reflects the manner in which business performance is reported and assessed by external users of the financial statements.	The entity is non-trading and contains investments in all of the Group's trading components and as a result, we have determined net assets for the current year to be the appropriate basis.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	65% (2020: 65%) of Group materiality	65% (2020: 65%) of Company materiality
Basis and rational for determining performance materiality	In determining performance materiality, we considered the following factors: – our cumulative experience from prior year audits; – the level of corrected and uncorrected misstatements identified; – our risk assessment, including our understanding of the entity and its control environment; and – our assessment of the Group's overall control environment in light of COVID-19 and the enhancements being made in preparedness for full SOX adoption in FY22.	

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $4.50 million (2020: $2.75 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment we focused our Group audit scope primarily on the audit work performed at components in the USA and Canada. A full scope audit was performed by local component auditors in the USA, while an audit of specified account balances was performed by local component auditors in Canada and in five head office entities by the Group audit team. In the prior year we also performed an audit of specified account balances on the Wolseley UK component, which was performed by local component auditors in the UK; as the disposal of Wolseley UK was completed during the year, we have changed the scope of our audit work on this component to analytical procedures performed by the Group audit team. The Company is located in the UK and is audited directly by the Group audit team. Our audit work on the components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from $27 million to $75 million (2020: $28 million to $50 million).

Our components within the scope of our audit represent 100% of the Group's revenue from continuing operations (2020: 100%), 96% of the Group's profit before tax from continuing operations (2020: 98%) and 100% of the Group's net assets (2020: 99%).

At the Group-level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Our consideration of the control environment

The Group operates a range of IT systems which underpin the financial reporting process. These can vary by business and/or by geography. For all of the components that were subject to either a full scope or audit of specified balances, we identified relevant IT systems for the purpose of our audit work. These were typically the principal Enterprise Resource Planning (ERP) systems for each business that govern the general ledger and transactional accounting balances, and in some cases also included ancillary/feeder systems into the main ERP. Our approach was principally designed to inform our risk assessment and, as such, we obtained an understanding of relevant general IT controls using IT specialists. We did not place reliance on certain of the general IT controls that we tested for the purpose of the substantive audit procedures due to the evolving IT control environment.

As the Group's preparations for the requirements under SOX continued through the year, management have focused on the identification and documentation of control procedures throughout the Group, which has led us to obtain an understanding of additional business process controls in the current year to inform our risk assessment. These controls include those addressing significant financial statement line items in the USA and Canada components, including revenue and inventory, as well as head office controls relating to central balances and processes such as pension accounting, consolidation and financial reporting, treasury and the Group's planning and budgeting process.

The Group continues to invest in its IT systems and overall control environment and this includes seeking to remediate control findings where they are identified through its own assurance framework, including Internal Audit, or through the external audit. As outlined in the Internal Control section on page 81 of the Annual Report, in preparedness for full adoption of SOX, the Group is taking opportunities to strengthen its control environment. As part of our controls work in the prior and current year, we identified a number of control deficiencies that management is in the process of remediating, including as noted in the inventory key audit matter above. Where deficiencies have been identified and the remediation activity remained ongoing during the current year we did not seek to place reliance on those relevant IT systems and business process controls for the purpose of our audit.

Working with other auditors

Our oversight of component auditors focused on the planning of their audit work and understanding of their risk assessment process to identify key areas of estimates and judgement, as well as the execution of their audit work. We sent our component teams detailed instructions, reviewed and challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing conference calls and held regular remote communication to interact on any related audit and accounting matters which arose.

As part of our oversight of the component teams, planning meetings were also held with key component audit teams. The purpose of these planning meetings was to determine whether the component teams had a good level of understanding of the Group's businesses, its core strategy and significant risks. We also provided direction on enquiries made by the component auditors through online and telephone conversations. All the findings noted were discussed with the component auditors in detail and further procedures to be performed were issued where relevant.

In response to the ongoing COVID-19 pandemic, which inhibited our ability to make component visits, more frequent video calls were held between the Group and component teams and remote access to relevant documents was provided. Given the pandemic, the majority of our audit was performed under a remote working environment. Throughout this time, we increased the frequency of our meetings with the audit team and with management to ensure progress. We were able to perform our procedures without needing to make substantial changes to our planned approach.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Ferguson plc continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Jersey Law, Listing Rules, pension legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with tax authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 as if that Act applied to the Company.

In our opinion, based on the work undertaken in the course of the audit:

– the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

– the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

– the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 114;

– the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 54;

– the Directors' statement on fair, balanced and understandable set out on page 79;

– the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 53 to 55;

– the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 80 and 81; and

– the section describing the work of the Audit Committee set out on pages 76 and 77.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion:

– we have not received all the information and explanations we require for our audit; or

– proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or

– the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the members of the Annual General Meeting on November 12, 2015 to audit the financial statements for the year ending July 31, 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending July 31, 2016 to July 31, 2021.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and those matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Bond
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Recognised Auditor
London, UK
September 28, 2021

Company income statement

Year ended July 31, 2021

	Notes	**2021 $m**	2020 $m
Administrative expenses		**(92)**	(38)
Operating loss		**(92)**	(38)
Income from shares in Group undertakings		**2,100**	14,028
Impairment of investments	3	**–**	(11,276)
Profit on ordinary activities before interest		**2,008**	2,714
Interest receivable and similar income		**19**	17
Interest payable and similar charges		**(1)**	(7)
Profit for the financial year		**2,026**	2,724

There were no recognized gains and losses for 2021 and 2020 other than those presented in the income statement therefore no statement of comprehensive income is presented.

Company statement of changes in equity

Year ended July 31, 2021

	Notes	**Called up share capital $m**	**Share premium $m**	**Treasury shares reserve $m**	**Own shares reserve $m**	**Retained earnings $m**	**Total shareholders' equity $m**
At August 1, 2019		30	9	(305)	–	16,146	15,880
Profit for the year		–	–	–	–	2,724	2,724
Own shares transfer	9	–	–	–	(113)	113	–
Issue of own shares by Employee Benefit Trusts	9	–	–	–	2	(2)	–
Credit to equity for share-based payments	10	–	–	–	–	26	26
Purchase of Treasury shares	8	–	–	(292)	–	–	(292)
Disposal of Treasury shares	8	–	–	27	–	(16)	11
Dividends paid	13	–	–	–	–	(327)	(327)
At July 31, 2020		**30**	**9**	**(570)**	**(111)**	**18,664**	**18,022**
Profit for the year		**–**	**–**	**–**	**–**	**2,026**	**2,026**
Issue of own shares by Employee Benefit Trusts	9	**–**	**–**	**–**	**38**	**(38)**	**–**
Credit to equity for share-based payments	10	**–**	**–**	**–**	**–**	**71**	**71**
Purchase of Treasury shares	8	**–**	**–**	**(400)**	**–**	**–**	**(400)**
Disposal of Treasury shares	8	**–**	**–**	**39**	**–**	**(21)**	**18**
Dividends paid	13	**–**	**–**	**–**	**–**	**(1,034)**	**(1,034)**
At July 31, 2021		**30**	**9**	**(931)**	**(73)**	**19,668**	**18,703**

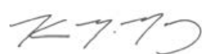
Company balance sheet

Year ended July 31, 2021

	Notes	2021 $m	2020 $m
Fixed assets			
Investments in subsidiaries	3	**18,037**	18,037
		18,037	18,037
Current assets			
Debtors: amounts falling due within one year	4	**657**	5
Cash at bank and in-hand		**9**	1
		666	6
Current liabilities			
Creditors: amounts falling due within one year	5	**–**	(21)
Net current assets/(liabilities)		**666**	(15)
Net assets		**18,703**	18,022
Capital and reserves			
Called up share capital	6	**30**	30
Share premium	7	**9**	9
Treasury shares reserve	8	**(931)**	(570)
Own shares reserve	9	**(73)**	(111)
Retained earnings		**19,668**	18,664
Total shareholders' equity		**18,703**	18,022

The accompanying notes are an integral part of these Company financial statements.

The Company financial statements on pages 172 to 175 were approved by the Board of Directors on September 28, 2021 and were signed on its behalf by:



Kevin Murphy
Group Chief Executive
September 28, 2021

Bill Brundage
Group Chief Financial Officer
September 28, 2021

Notes to the Company financial statements

Year ended July 31, 2021

1 – Corporate information

Ferguson plc (the "Company") was incorporated and registered in Jersey on March 8, 2019 under the Jersey Companies Law as a limited company under the name Alpha JCo Limited with company number 128484. On March 26, 2019 the Company was converted to a public company and changed its name to Ferguson NewCo plc (subsequently changed to Ferguson plc on May 10, 2019). The principal legislation under which the Company operates is the Companies (Jersey) Law 1991, as amended, and regulations made thereunder. The address of its registered office is 13 Castle Street, St Helier, Jersey, JE1 1ES, Channel Islands. The Company is headquartered in the UK.

The principal activity of the Company is to act as the ultimate holding company of the Ferguson Group of companies.

2 – Company accounting policies

Basis of accounting

The separate financial statements of the Company are presented in compliance with the requirements for companies whose shares are traded on the London Stock Exchange's main market. They have been prepared on a going concern basis and under the historical cost convention and in accordance with the Companies (Jersey) Law 1991 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP") including FRS 102 (Financial Reporting Standard 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as issued by the FRC.

As permitted by FRS 102, the Company has taken advantage of the disclosure exemptions available under that standard as a qualifying entity in relation to share-based payments, financial instruments, presentation of a cash flow statement, key management personnel and related party transactions.

Note 4 (Operating profit) on page 136, note 9 (Dividends) on page 139, note 25 (Share capital) on page 159 and note 32 (Events after the reporting period) on page 164 of the Ferguson plc consolidated financial statements form part of these financial statements.

Foreign currencies

The financial statements are presented in US dollars which is the functional currency of the Company.

Foreign currency transactions entered into during the year are translated into US dollars at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All currency translation differences are charged or credited to retained earnings.

Investments in subsidiaries

Fixed asset investments are recorded at cost less provision for impairment. The Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

Cash at bank and in-hand

Cash at bank and in-hand includes cash in-hand and deposits held with banks which are readily convertible to known amounts of cash. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent there is no right of offset or intention to net settle with cash balances.

Share capital

The Company has one class of shares, ordinary shares, which are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where the Company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to shareholders of the Company until the shares are canceled, reissued or disposed of. Where such shares are subsequently disposed or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to shareholders of the Company.

Share-based payments

Share-based incentives are provided to employees of the Group under the Group's long term incentive plans and all-employee sharesave plans. The Company recognizes a compensation cost in respect of these plans that is based on the fair value of the awards, measured using Binomial and Monte Carlo valuation methodologies. For equity-settled plans, the fair value is determined at the date of grant (including the impact of non-vesting conditions such as the requirement for employees to save) and is not subsequently remeasured unless the conditions on which the award was granted are modified. Generally, the compensation cost is recognized on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or achieve non-market performance conditions.

Dividends payable

Dividends on ordinary shares are recognized in the Company's financial statements in the period in which the dividends are paid or approved by the shareholders of the Company.

3 – Investments in subsidiaries

Cost	**2021 $m**	2020 $m
At August 1	**18,037**	16,180
Dividend in specie	**–**	13,107
Additions	**–**	4,956
Disposals	**–**	(16,206)
At July 31	**18,037**	18,037
Accumulated impairment losses		
At August 1	**–**	–
Impairment charge for year	**–**	(11,276)
Disposals	**–**	11,276
At July 31	**–**	–
Net book value at July 31	**18,037**	18,037

All of the above investments are in unlisted shares. The Directors believe that the carrying value of the investments at July 31, 2021 is supported by the recoverable amount of their underlying assets.

The Company's direct holdings in material subsidiary undertakings as at July 31, 2021 were as follows:

Company	Country of incorporation	Principal activity	Ordinary shares held %
Ferguson UK Holdings Limited	England and Wales	Investment	100

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed on pages 178 and 179 of the Ferguson plc Annual Report.

4 – Debtors: amounts falling due within one year

	2021 $m	2020 $m
Other debtors	**–**	1
Amounts owed by Group companies	**657**	4
Total	**657**	5

The fair value of amounts included in debtors approximates to book value. Amounts owed by Group companies are interest bearing, carrying an interest rate of 0.2 per cent.

5 – Creditors: amounts falling due within one year

	2021 $m	2020 $m
Other creditors	**–**	1
Amounts owed to Group companies	**–**	20
Total	**–**	21

The fair value of amounts included in creditors approximates to book value.

6 – Called up share capital

Details of the Company's share capital are set out in note 25 on page 159 to the Ferguson plc consolidated financial statements.

7 – Share premium

Details of the Company's share capital are set out in note 25 on page 159 to the Ferguson plc consolidated financial statements.

8 – Treasury shares reserve

Details of Treasury shares are set out in note 25 on page 159 to the Ferguson plc consolidated financial statements.

9 – Own shares reserve

During 2020 shares in the Company held by the Jersey Employee Benefit Trust owned by Ferguson Holdings Limited were transferred into a new Jersey Employee Benefit Trust owned by the Company by way of a deed of resettlement. In addition, the USA Employee Benefit Trust was reassigned from Ferguson Holdings Limited to the Company. The shares were recorded at fair value at the date of the transfer.

The shares held by both of these trusts have been consolidated within the Company's balance sheet as at July 31, 2021 and amount to $73 million (July 31, 2020: $111 million).

A summary of the movements in own shares held in the Employee Benefit Trusts is detailed in the table below:

	Number of shares	**Cost $m**
Own shares transfer	1,296,447	113
Exercise of share options	(19,100)	(2)
At July 31, 2020	**1,277,347**	**111**
Exercise of share options	**(444,158)**	**(38)**
At July 31, 2021	**833,189**	**73**

10 – Share-based payments

The net profit and loss charge to the Company for equity-settled share-based payments was $nil (2020: $nil). The Company charged the full amount incurred for equity-settled share-based payments of $71 million (2020: $26 million) to its subsidiary undertakings.

11 – Contingent liabilities

Provision is made for the Directors' best estimate of known claims and legal actions in progress. The Company takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

In addition, the Company has given certain banks and lenders authority to transfer at any time any sum outstanding to its credit against or towards satisfaction of its liability to those banks of certain subsidiary undertakings. The Company has also given indemnities and warranties to the purchasers of businesses from the Company and certain Group companies in respect of which no material liabilities are expected to arise.

The Company acts as a guarantor for the Group's UK defined benefit pension plan, which is disclosed in note 24 on pages 155 to 158 to the Ferguson plc consolidated financial statements.

12 – Employees, employee costs and auditor's remuneration

There were no employees or direct employment costs in 2021 or 2020. Other employees of Group companies may be seconded or assigned to the Company in order to fulfill their duties or to carry out the work of the Company. Each of the Non Executive Directors of the Company has an appointment letter with the Company.

Fees payable to the auditor for the audit of the Company's financial statements are set out in note 4 on page 136 to the Ferguson plc consolidated financial statements.

13 – Dividends

Details of the Company's dividends are set out in note 9 on page 139 to the Ferguson plc consolidated financial statements.

14 – Related party transactions

The Company is exempt under the terms of FRS 102 from disclosing related party transactions with entities that are 100% owned.

15 – Events after the reporting period

Details of events after the reporting period are given in note 32 on page 164 to the Ferguson plc consolidated financial statements.