Financials

Mike Powell
Group Chief Financial Officer

Group income statement

Year ended 31 July 2018

	Notes	2018 Before exceptional items $m	2018 Exceptional items (note 5) $m	2018 Total $m	Restated[1] 2017 Before exceptional items $m	Restated[1] 2017 Exceptional items (note 5) $m	Restated[1] 2017 Total $m
Revenue	3	**20,752**	**–**	**20,752**	19,284	–	19,284
Cost of sales		**(14,689)**	**(19)**	**(14,708)**	(13,698)	(3)	(13,701)
Gross profit		**6,063**	**(19)**	**6,044**	5,586	(3)	5,583
Operating costs:							
amortisation of acquired intangible assets		**(65)**	**–**	**(65)**	(81)	–	(81)
other		**(4,556)**	**(63)**	**(4,619)**	(4,245)	221	(4,024)
Operating costs		**(4,621)**	**(63)**	**(4,684)**	(4,326)	221	(4,105)
Operating profit	3, 4	**1,442**	**(82)**	**1,360**	1,260	218	1,478
Net finance costs	6	**(53)**	**–**	**(53)**	(54)	–	(54)
Share of profit/(loss) after tax of associates	15	**2**	**–**	**2**	(1)	–	(1)
Impairment of interests in associates	15	**(122)**	**–**	**(122)**	–	–	–
Profit before tax		**1,269**	**(82)**	**1,187**	1,205	218	1,423
Tax	7	**(361)**	**15**	**(346)**	(342)	(28)	(370)
Profit from continuing operations		**908**	**(67)**	**841**	863	190	1,053
Profit/(loss) from discontinued operations	8	**22**	**404**	**426**	(60)	(73)	(133)
Profit for the year attributable to shareholders of the Company		**930**	**337**	**1,267**	803	117	920

	Notes	2018	2017
Earnings per share	10		
Continuing operations and discontinued operations			
Basic earnings per share		**515.7c**	366.1c
Diluted earnings per share		**511.9c**	363.5c
Continuing operations only			
Basic earnings per share		**342.3c**	419.0c
Diluted earnings per share		**339.8c**	416.0c

Alternative performance measures	Notes	2018	2017
Trading profit from ongoing operations	2	**1,507**	1,307
Trading profit from non-ongoing operations	2	**–**	34
Trading profit from continuing operations	2, 3	**1,507**	1,341
Adjusted EBITDA	2	**1,687**	1,519
Headline earnings per share	2, 10	**444.4c**	366.1c

1. All comparative information has been restated to be presented in US dollars, see note 1.

Group statement of comprehensive income

Year ended 31 July 2018

	Notes	2018 $m	Restated 2017 $m
Profit for the year		**1,267**	920
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of overseas operations[1]		**7**	58
Exchange loss on translation of borrowings and derivatives designated as hedges of overseas operations[1]		**(11)**	(8)
Cumulative currency translation differences on disposals[1]		**194**	11
Tax credit on items that may be reclassified to profit or loss[2]	7	**–**	1
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on retirement benefit plans[2]	25	**104**	(2)
Tax charge on items that will not be reclassified to profit or loss[2]	7, 25	**(17)**	(1)
Other comprehensive income for the year		**277**	59
Total comprehensive income for the year		**1,544**	979
Total comprehensive income/(expense) attributable to:			
Continuing operations		**926**	1,106
Discontinued operations		**618**	(127)
Total comprehensive income for the year attributable to shareholders of the Company		**1,544**	979

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

Group statement of changes in equity

	Notes	Share capital $m	Share premium $m	Reserves: Translation reserve $m	Reserves: Treasury shares $m	Reserves: Own shares $m	Reserves: Retained earnings $m	Non-controlling interest $m	Total equity $m
At 1 August 2016 restated		45	67	(807)	(792)	(92)	5,419	(3)	3,837
Profit for the year		–	–	–	–	–	920	–	920
Other comprehensive income/(expense)		–	–	61	–	–	(2)	–	59
Total comprehensive income		–	–	61	–	–	918	–	979
Purchase of own shares by Employee Benefit Trusts	26	–	–	–	–	(8)	–	–	(8)
Issue of own shares by Employee Benefit Trusts	26	–	–	–	–	24	(24)	–	–
Credit to equity for share-based payments		–	–	–	–	–	28	–	28
Tax relating to share-based payments	7	–	–	–	–	–	5	–	5
Disposal of Treasury shares	26	–	–	–	49	–	(22)	–	27
Dividends paid	9	–	–	–	–	–	(328)	–	(328)
At 31 July 2017 restated		**45**	**67**	**(746)**	**(743)**	**(76)**	**5,996**	**(3)**	**4,540**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,267**	**–**	**1,267**
Other comprehensive income		**–**	**–**	**190**	**–**	**–**	**87**	**–**	**277**
Total comprehensive income		**–**	**–**	**190**	**–**	**–**	**1,354**	**–**	**1,544**
Purchase of own shares by Employee Benefit Trusts	26	**–**	**–**	**–**	**–**	**(41)**	**–**	**–**	**(41)**
Issue of own shares by Employee Benefit Trusts	26	**–**	**–**	**–**	**–**	**27**	**(27)**	**–**	**–**
Credit to equity for share-based payments		**–**	**–**	**–**	**–**	**–**	**35**	**–**	**35**
Tax relating to share-based payments	7	**–**	**–**	**–**	**–**	**–**	**8**	**–**	**8**
Adjustment arising from change in non-controlling interest		**–**	**–**	**–**	**–**	**–**	**(16)**	**2**	**(14)**
Purchase of Treasury shares	26	**–**	**–**	**–**	**(675)**	**–**	**–**	**–**	**(675)**
Disposal of Treasury shares	26	**–**	**–**	**–**	**38**	**–**	**(14)**	**–**	**24**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**(1,364)**	**–**	**(1,364)**
At 31 July 2018		**45**	**67**	**(556)**	**(1,380)**	**(90)**	**5,972**	**(1)**	**4,057**

Group balance sheet

As at 31 July 2018

	Notes	2018 $m	Restated 2017 $m	Restated 2016 $m
Assets				
Non-current assets				
Intangible assets: goodwill	12	**1,408**	1,173	1,193
Intangible assets: other	13	**308**	240	267
Property, plant and equipment	14	**1,086**	1,068	1,897
Interests in associates	15	**64**	164	–
Financial assets		**11**	15	30
Retirement benefit assets	25	**193**	4	–
Deferred tax assets	16	**130**	160	168
Trade and other receivables	18	**328**	299	280
Derivative financial assets	23	**17**	19	26
		3,545	3,142	3,861
Current assets				
Inventories	17	**2,516**	2,399	2,668
Trade and other receivables	18	**3,094**	2,766	2,920
Current tax receivable		**10**	3	–
Derivative financial assets	23	**–**	7	15
Cash and cash equivalents	19	**833**	2,525	1,243
		6,453	7,700	6,846
Assets held for sale	20	**151**	1,715	74
Total assets		**10,149**	12,557	10,781
Liabilities				
Current liabilities				
Trade and other payables	21	**3,341**	3,011	3,483
Current tax payable		**188**	116	134
Derivative financial liabilities	23	**2**	–	–
Bank loans and overdrafts	22	**383**	2,150	927
Obligations under finance leases		**3**	4	5
Provisions	24	**95**	107	116
Retirement benefit obligations	25	**4**	11	12
		4,016	5,399	4,677
Non-current liabilities				
Trade and other payables	21	**298**	238	216
Derivative financial liabilities	23	**17**	–	–
Bank loans	22	**1,522**	1,098	1,554
Obligations under finance leases		**3**	5	36
Deferred tax liabilities	16	**42**	12	86
Provisions	24	**179**	159	176
Retirement benefit obligations	25	**15**	21	183
		2,076	1,533	2,251
Liabilities held for sale	20	**–**	1,085	16
Total liabilities		**6,092**	8,017	6,944
Net assets		**4,057**	4,540	3,837
Equity				
Share capital	26	**45**	45	45
Share premium		**67**	67	67
Reserves		**3,946**	4,431	3,728
Equity attributable to shareholders of the Company		**4,058**	4,543	3,840
Non-controlling interest		**(1)**	(3)	(3)
Total equity		**4,057**	4,540	3,837

The accompanying notes are an integral part of these consolidated financial statements. The consolidated financial statements on pages 98 to 139 were approved and authorised for issue by the Board of Directors on 1 October 2018 and were signed on its behalf by:

John Martin

John Martin
Group Chief Executive

Mike Powell

Mike Powell
Group Chief Financial Officer

Group cash flow statement

Year ended 31 July 2018

	Notes	2018 $m	Restated 2017 $m
Cash flows from operating activities			
Cash generated from operations	27	**1,323**	1,410
Interest received		**9**	4
Interest paid		**(62)**	(71)
Tax paid		**(234)**	(393)
Net cash generated from operating activities		**1,036**	950
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	28	**(416)**	(331)
Disposals of businesses (net of cash disposed of)	29	**1,320**	300
Purchases of property, plant and equipment		**(265)**	(192)
Proceeds from sale of property, plant and equipment and assets held for sale		**120**	24
Purchases of intangible assets		**(34)**	(32)
Disposals of financial assets		**–**	22
Acquisition of associates		**(35)**	–
Dividends received from associates		**10**	–
Net cash generated from/(used in) investing activities		**700**	(209)
Cash flows from financing activities			
Purchase of own shares by Employee Benefit Trusts	26	**(41)**	(8)
Purchase of Treasury shares	26	**(675)**	–
Proceeds from the sale of Treasury shares	26	**24**	27
Proceeds from borrowings and derivatives	30	**459**	430
Repayments of borrowings	30	**(261)**	(587)
Finance lease capital payments	30	**(4)**	(6)
Dividends paid to shareholders		**(1,359)**	(328)
Net cash used by financing activities		**(1,857)**	(472)
Net cash (used)/generated		**(121)**	269
Effects of exchange rate changes		**(7)**	(13)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(128)**	256
Cash, cash equivalents and bank overdrafts at the beginning of the year		**586**	330
Cash, cash equivalents and bank overdrafts at the end of the year		**458**	586

	Notes	2018 $m	Restated 2017 $m
Cash, cash equivalents and bank overdrafts at the end of the year in the Group balance sheet	30	**458**	543
Cash, cash equivalents and bank overdrafts at the end of the year in assets held for sale	20	**–**	43
Cash, cash equivalents and bank overdrafts at the end of the year		**458**	586

Notes to the consolidated financial statements

Year ended 31 July 2018

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 152 and 153.

Ferguson plc is a public company limited by shares incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in Switzerland. It operates as the ultimate parent company of the Ferguson Group. Its registered office is 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands.

The consolidated financial statements have been prepared on a going concern basis (see page 68) and under the historical cost convention as modified by the revaluation of financial assets and liabilities held for trading.

Functional and presentational currency

The functional currency of the Company changed from pounds sterling to US dollars, as this is now the primary currency in which the Company's financing activities and investment returns are denominated. The change was effective from 1 August 2017 and in line with IAS 21 "The Effects of Changes in Foreign Exchange Rates" has been accounted for prospectively from this date.

The Group changed its presentational currency to US dollars, to better align with the Group's operations, which generate the majority of revenue and profit in US dollars, and is expected to reduce the impact of foreign exchange rate movements. The change in presentational currency was effective from 1 August 2017 and, in line with IAS 21, is accounted for retrospectively.

Financial information included in the consolidated financial statements for the years ended 31 July 2017 and 31 July 2016 previously reported in pounds sterling have been restated into US dollars using the procedures outlined below:

– Assets and liabilities denominated in non-US dollar currencies were translated into US dollars at the closing rates of exchange on the relevant balance sheet date;

– Non-US dollar income and expenditure were translated at the average rates of exchange prevailing for the relevant period; and

– Share capital, share premium and the other reserves were translated at the historic rates of exchange prevailing on the date of each transaction. The cumulative translation reserve was set to nil at 1 August 2004, the date of transition to IFRS, and has been restated on the basis that the Group has reported in US dollars since that date.

The exchange rates of US dollar to pounds sterling over the periods presented in this report are as follows:

	2018	2017	2016
US dollar/pounds sterling translation rate			
Income statement	**0.74**	0.79	0.68
Balance sheet	**0.76**	0.76	0.76

Accounting developments and changes

At the time of this report a number of accounting standards have been published and endorsed, but not yet applied.

IFRS 9 "Financial Instruments" will be adopted by the Group on 1 August 2018. The standard makes changes to the classification and measurement of financial assets and liabilities, revises the requirements of hedge accounting and introduces a new impairment model for financial assets.

The Group has completed an assessment of the impact of IFRS 9 and has concluded there will be no material impact on the Group's consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers" will be adopted by the Group on 1 August 2018. The standard introduces revised principles for the recognition of revenue with a new five-step model that focuses on the transfer of control instead of a risks and rewards approach.

The Group has completed an assessment of the impact of IFRS 15 and as the Group's current revenue recognition is consistent with the passing of control under IFRS 15 it has been concluded that there will be no material impact on the Group's consolidated financial statements.

IFRS 16 "Leases" is effective for the Group for the year ending 31 July 2020. IFRS 16 represents a significant change to the treatment of leases in the lessee's financial results. Lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards (note 32), unless the underlying asset has a low value or the lease term is 12 months or less.

On adoption of IFRS 16 there will be a significant change to the consolidated financial statements, as each lease will give rise to a right of use asset, which will be depreciated on a straight-line basis, and a lease liability, with the related interest charge. This will replace existing lease balances on the balance sheet and charges to the income statement.

The Group continues to assess the full impact of IFRS 16, however the impact will depend on the transition approach and the contracts in effect at the time of adoption. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated financial statements.

Choices permitted by IFRS

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

Critical accounting judgements

Exceptional Items

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

Pensions and other post-retirement benefits

The Group operates defined benefit pension plans in the UK and in a number of overseas locations that are accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the consolidated financial statements. The Group takes advice from independent actuaries relating to the appropriateness of the assumptions.

The cost of providing benefits is determined annually using the Projected Unit Credit Method, which includes actuarial assumptions for discount rates, expected salary and pension increases, inflation and life expectancy and are disclosed in note 25. The discount rate used is the yield at the valuation date on high quality corporate bonds that have a maturity approximating to the terms of the pension obligations. Significant judgement is required when setting the criteria from which the yield curve is derived.

Sources of estimation uncertainty

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

1 – Accounting policies continued

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.

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.

The financial performance of business operations are 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 unrealised gains and losses arising from intra-group transactions are eliminated on consolidation, with the exception of gains or losses required under relevant IFRS accounting standards.

Discontinued operations

When the Group has disposed of or intends to dispose of a business component that represents a separate major line of business or geographical area of operations, it classifies such operations as discontinued. The post-tax profit or loss of the discontinued operations is shown as a single line on the face of the income statement, separate from the other results of the Group.

Foreign currencies

Items included in the financial statements of 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 and the functional currency of the parent company.

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 period end. Exchange differences arising on the translation into US dollars of the net assets of these subsidiary undertakings are recognised in the currency translation reserve.

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

Foreign currency transactions entered into during the year are translated into 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 IAS 39 "Financial Instruments: Recognition and Measurement", are recognised in the currency 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. Acquisition-related costs are expensed as incurred.

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

Interests in associates

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

On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net assets of the investee is recognised as goodwill, which is included within the carrying amount of the investment. The requirements of IAS 36 "Impairment of Assets", are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate.

Revenue

Revenue is the amount receivable for the provision of goods and services falling within the Group's ordinary activities, excluding intra-group sales, estimated and actual sales returns, trade and early settlement discounts, value added tax and similar sales taxes.

The Group acts as principal for direct sales which are delivered directly to the customer by the supplier.

Revenue from the provision of goods is recognised when the risks and rewards of ownership of goods have been transferred to the customer. The risks and rewards of ownership of goods are deemed to have been transferred when the goods are delivered to, or picked up by, the customer and title has passed to them.

Revenue from services is recognised by reference to the stage of completion of the contract.

Revenue from the provision of goods and services is only recognised when the amounts to be recognised are fixed or determinable and collectability is reasonably assured.

Cost of sales

Cost of sales includes purchased goods, the cost of bringing inventory to its present location and condition and labour and overheads attributable to assembly and construction services.

Supplier rebates

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

1 – Accounting policies continued

Accounting policies continued

Volume-based rebates

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

A small proportion of volume-based rebates are subject to 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, judgement is required to estimate the rebate amount recorded in the income statement at the end of the period. The Group assesses the probability that targeted volumes will be achieved in the year based on forecasts which are informed by historical trading patterns, current performance and trends. This judgement is exercised consistently with historically insignificant true ups at the end of the period.

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

Other rebates

The Group has also entered into other rebate agreements which represent a smaller element of the Group's overall supplier rebates and which are recognised 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.

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. The cost of operating leases (net of any incentives received from the lessor) is charged to the income statement on a straight-line basis over the period of the leases.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on acquisitions of subsidiary undertakings is included within intangible assets. Goodwill is allocated to cash generating units or aggregations of cash generating units (together "CGUs") where synergy benefits are expected. CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group considers that a CGU is a business unit because independent cash flows cannot be identified below this level.

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

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

Other intangible assets

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

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

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

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

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

Property, plant and equipment ("PPE")

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

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

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

The residual values and useful lives of PPE are reviewed and adjusted if appropriate at each balance sheet date.

Borrowing costs directly attributable to the long-term construction or production of an asset are capitalised as part of the cost of the asset.

1 – Accounting policies continued

Accounting policies continued

Assets and disposal groups held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. Where a group of assets and their directly associated liabilities are to be disposed of in a single transaction, such disposal groups are also classified as held for sale. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition and management must be committed to and have initiated a plan to sell the asset or disposal group which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are not depreciated. Assets or disposal groups that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Inventories

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

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

Trade receivables

Trade receivables are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the loss is recognised in the income statement. Trade receivables are written off against the provision when recoverability is assessed as being remote. Subsequent recoveries of amounts previously written off are credited to the income statement.

Provisions

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

Retirement benefit obligations

Contributions to defined contribution pension plans and other post-retirement benefits are charged to the income statement as incurred.

For defined benefit pension plans and other retirement benefits, the cost of providing benefits is determined annually using the Projected Unit Credit Method by independent qualified actuaries. The current and past service cost of defined benefit 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 and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The liability/asset recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. Where a plan is in a net asset position the asset is recognised 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 realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Tax provisions

The Group is subject to income taxes in numerous jurisdictions. Judgement is sometimes required in determining the worldwide provision for income taxes. There may be transactions for which the ultimate tax determination is uncertain and may be challenged by the tax authorities. The Group recognises liabilities for anticipated or actual tax audit issues based on estimates of whether additional taxes will be due. Where an outflow of funds to a tax authority is considered probable and the Group can make a reliable estimate of the outcome of the dispute, management calculates the provision using the single best estimate of likely outcome approach. In assessing its uncertain tax provisions, management takes into account the specific facts of each dispute, the likelihood of settlement and 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.

1 – Accounting policies continued

Accounting policies continued

Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to shareholders of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to 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 recognises a compensation cost in respect of these plans that is based on the fair value of the awards, measured using Binomial and Monte Carlo valuation methodologies. For equity-settled plans, the fair value is determined at the date of grant (including the impact of any non-vesting conditions such as a requirement for employees to save) and is not subsequently remeasured unless the conditions on which the award were granted are modified. For cash-settled plans, the fair value is determined at the date of grant and is remeasured at each balance sheet date until the liability is settled. Generally, the compensation cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to the failure to satisfy service conditions or non-market performance conditions.

Dividends payable

Dividends on ordinary shares are recognised in the Group's 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, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no legal right of offset or no practice of net settlement with cash balances.

Cash which is not freely available to the Group is disclosed as restricted cash.

Derivative financial instruments

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

At the inception of a hedging transaction involving the use of derivative financial instruments, the Group documents the relationship between the hedged item and the hedging instrument together with its risk management objective and the strategy underlying the proposed transaction. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items. Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfil the criteria for hedge accounting contained in IAS 39, changes in their fair values are recognised in the income statement. When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges.

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

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

Borrowings

Borrowings are recognised initially at the fair value of the consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 – Alternative performance measures

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

Ongoing and non-ongoing

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

Non-ongoing operations are businesses, which do not meet the criteria to be classified as discontinued operations under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which have been disposed of, closed or classified as held for sale. In 2017, the Group's Swiss business, Tobler, and a small Industrial business in the USA, Endries, were classified as non-ongoing and subsequently sold during 2017. There are no businesses classified as non-ongoing in 2018.

Ongoing operations are continuing operations excluding non-ongoing operations.

Constant exchange rates

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

Organic revenue growth

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

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

	Ongoing		Non-ongoing	Continuing
Revenue	$m	% growth	$m	$m
Reported 2017 restated	**18,845**		**439**	**19,284**
Impact of exchange rate movements	**229**		**–**	**229**
Reported 2017 at 2018 exchange rates	**19,074**		**439**	**19,513**
Organic growth	**1,439**	**7.5**	**–**	**1,439**
Acquisitions	**239**	**1.3**	**–**	**239**
Disposals	**–**	**–**	**(439)**	**(439)**
Growth at constant exchange rates	**1,678**	**8.8**	**(439)**	**1,239**
Reported 2018	**20,752**		**–**	**20,752**

Like-for-like revenue growth

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

Exceptional items

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

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

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

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

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

2 – Alternative performance measures continued

Ongoing gross margin

The ratio of ongoing gross profit, excluding exceptional items, to ongoing revenue. Ongoing gross margin is used by management for assessing business unit performance and it is a key performance indicator for the Group (see page 28). A reconciliation of ongoing gross margin is provided below:

	2018			Restated 2017		
	Gross profit $m	Revenue $m	Ongoing gross margin %	Gross profit $m	Revenue $m	Ongoing gross margin %
Continuing	**6,044**	**20,752**		5,583	19,284	
Non-ongoing	**–**	**–**		(138)	(439)	
Exceptional items	**19**	**–**		3	–	
Ongoing	**6,063**	**20,752**	**29.2**	5,448	18,845	28.9

Trading profit and ongoing trading margin

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

The ongoing trading margin is the ratio of ongoing trading profit to ongoing revenue and is used to assess business unit profitability and is a key performance indicator for the Group (see page 28).

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

	2018				Restated 2017		
		Ongoing	Non-ongoing	Continuing	Ongoing	Non-ongoing	Continuing
	$m	growth %	$m	$m	$m	$m	$m
Trading profit 2017	**1,307**		**34**	**1,341**			
Impact of exchange rate movements	**7**		**–**	**7**			
Trading profit 2017 at 2018 exchange rates	**1,314**		**34**	**1,348**			
Growth at constant exchange rates	**193**	**14.7**	**(34)**	**159**			
Trading profit	**1,507**		**–**	**1,507**	1,307	34	1,341
Amortisation of acquired intangible assets	**(65)**		**–**	**(65)**	(81)	–	(81)
Exceptional items	**(82)**		**–**	**(82)**	(47)	265	218
Operating profit	**1,360**		**–**	**1,360**	1,179	299	1,478

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

	Revenue		Trading profit		Trading margin	
	2018 $m	Restated 2017 $m	2018 $m	Restated 2017 $m	2018 %	Restated 2017 %
USA	**16,670**	14,977	**1,406**	1,204	**8.4**	8.0
UK	**2,568**	2,548	**73**	96	**2.8**	3.8
Canada and Central Europe	**1,514**	1,320	**83**	57	**5.5**	4.3
Central and other costs	**–**	–	**(55)**	(50)	**–**	–
Total ongoing operations	**20,752**	18,845	**1,507**	1,307	**7.3**	6.9
USA	**–**	216	**–**	20		
Canada and Central Europe	**–**	223	**–**	14		
Total non-ongoing operations	**–**	439	**–**	34		
Continuing operations	**20,752**	19,284	**1,507**	1,341		

2 – Alternative performance measures continued

Adjusted EBITDA

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

			2018			Restated 2017
	Continuing $m	**Discontinued $m**	**Group $m**	Continuing $m	Discontinued $m	Group $m
Operating profit	**1,360**	**461**	**1,821**	1,478	(141)	1,337
Exceptional items	**82**	**(402)**	**(320)**	(218)	86	(132)
Amortisation and impairment of goodwill and acquired intangible assets	**65**	**–**	**65**	81	135	216
Trading profit	**1,507**	**59**	**1,566**	1,341	80	1,421
Depreciation and impairment of property, plant and equipment	**152**	**–**	**152**	151	29	180
Amortisation and impairment of non-acquired intangible assets	**28**	**–**	**28**	27	4	31
Adjusted EBITDA	**1,687**	**59**	**1,746**	1,519	113	1,632

Ongoing effective tax rate

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

Headline profit after tax and headline earnings per share

Headline profit after tax is calculated as the profit from continuing operations after tax, before charges for amortisation and impairment of acquired intangible assets 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 amortisation and impairment of acquired intangible assets to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets.

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

Net debt

Net debt comprises cash and cash equivalents and liabilities from financing activities, including bank overdrafts, bank loans, derivative financial instruments and obligations under finance leases. Net debt is a good indicator of the strength of the Group's balance sheet position and is widely used by credit rating agencies. See note 30 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, adjusted net debt and accumulated amortisation and impairment of goodwill and acquired intangible assets. Return on gross capital employed is a key performance indicator (see page 29). The calculation of return on gross capital employed is shown below:

	2018 $m	Restated 2017 $m
Net debt (note 30)	**1,080**	706
Cash and cash equivalents in assets held for sale (note 20)	**–**	(43)
Bank loans in assets held for sale (note 20)	**–**	105
Adjusted net debt	**1,080**	768
Accumulated impairment losses of goodwill (note 12)[1]	**197**	1,330
Accumulated amortisation and impairment losses of acquired intangible assets (note 13)[2]	**586**	1,231
Shareholders' equity	**4,058**	4,543
Gross capital employed	**5,921**	7,872
Average gross capital employed[3]	**6,897**	7,643
Group trading profit[4]	**1,566**	1,421
Return on gross capital employed %	**22.7**	18.6

1. In 2017 includes $1,131 million reclassified as held for sale.
2. Excludes software and in 2017 includes $708 million reclassified as held for sale.
3. Gross capital employed in 2016 was $7,414 million.
4. Reconciliation provided above 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 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 has combined the Canada and Central Europe operating segments into one reportable segment as individually they do not meet the quantitative thresholds set out in IFRS 8 "Operating Segments" to be separately disclosed.

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 31 July 2017 and 31 July 2018 include changes in exchange rates, disposals, acquisitions and organic change.

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

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

	Restated 2017 $m	Exchange $m	Disposals $m	Acquisitions $m	Organic change $m	**2018 $m**
USA	15,193	–	(216)	205	1,488	**16,670**
UK	2,548	163	–	–	(143)	**2,568**
Canada and Central Europe	1,543	66	(223)	34	94	**1,514**
Continuing operations	19,284	229	(439)	239	1,439	**20,752**

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

	Restated 2017 $m	Exchange $m	Disposals $m	Acquisitions $m	Organic change $m	**2018 $m**
USA	1,224	–	(20)	4	198	**1,406**
UK	96	6	–	–	(29)	**73**
Canada and Central Europe	71	3	(14)	4	19	**83**
Central and other costs	(50)	(2)	–	–	(3)	**(55)**
Continuing operations	1,341	7	(34)	8	185	**1,507**

3 – Segmental analysis continued

The reconciliation between trading profit/(loss) (note 2) and operating profit/(loss) by reportable segment for continuing operations is as follows:

	2018 Trading profit/(loss) $m	2018 Exceptional items $m	2018 Amortisation of acquired intangible assets $m	2018 Operating profit/(loss) $m	Restated 2017 Trading profit/(loss) $m	Restated 2017 Exceptional items $m	Restated 2017 Amortisation of acquired intangible assets $m	Restated 2017 Operating profit/(loss) $m
USA	**1,406**	**(5)**	**(58)**	**1,343**	1,224	86	(79)	1,231
UK	**73**	**(70)**	**–**	**3**	96	(35)	–	61
Canada and Central Europe	**83**	**–**	**(7)**	**76**	71	176	(2)	245
Central and other costs	**(55)**	**(7)**	**–**	**(62)**	(50)	(9)	–	(59)
Group	**1,507**	**(82)**	**(65)**	**1,360**	1,341	218	(81)	1,478
Net finance costs				**(53)**				(54)
Share of profit/(loss) after tax of associates				**2**				(1)
Impairment of interests in associates				**(122)**				–
Profit before tax				**1,187**				1,423

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

	2018 Segment assets $m	2018 Segment liabilities $m	2018 Segment net assets/(liabilities) $m	Restated 2017 Segment assets $m	Restated 2017 Segment liabilities $m	Restated 2017 Segment net assets/(liabilities) $m
USA	**6,964**	**(2,772)**	**4,192**	6,187	(2,475)	3,712
UK	**1,301**	**(656)**	**645**	1,122	(650)	472
Canada and Central Europe	**690**	**(297)**	**393**	626	(258)	368
Central and other costs[1]	**88**	**(141)**	**(53)**	185	(125)	60
Discontinued	**116**	**(66)**	**50**	1,723	(1,124)	599
Total	**9,159**	**(3,932)**	**5,227**	9,843	(4,632)	5,211
Tax assets/(liabilities)	**140**	**(230)**	**(90)**	163	(128)	35
Net cash/(debt)	**850**	**(1,930)**	**(1,080)**	2,551	(3,257)	(706)
Group assets/(liabilities)	**10,149**	**(6,092)**	**4,057**	12,557	(8,017)	4,540

1. Segmental assets include $64 million (2017: $164 million) relating to interests in associates.

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

	2018 $m	Restated 2017 $m
USA	**2,343**	2,012
UK	**258**	272
Canada and Central Europe	**265**	361
Group	**2,866**	2,645

3 – Segmental analysis continued

	2018				Restated 2017			
	Additions to goodwill $m	**Additions to other acquired intangible assets and interests in associates $m**	**Additions to non-acquired intangible assets $m**	**Additions to property, plant and equipment $m**	Additions to goodwill $m	Additions to other acquired intangible assets and interests in associates $m	Additions to non-acquired intangible assets $m	Additions to property, plant and equipment $m
USA	**208**	**120**	**8**	**182**	178	102	15	102
UK	**–**	**–**	**16**	**32**	–	–	10	27
Canada and Central Europe	**33**	**10**	**5**	**13**	–	–	4	11
Central and other costs	**–**	**35**	**1**	**1**	–	162	1	–
Discontinued	**–**	**–**	**–**	**–**	3	2	2	58
Group	**241**	**165**	**30**	**228**	181	266	32	198

	2018				Restated 2017			
	Impairment of goodwill, other acquired intangible assets and interests in associates $m	**Amortisation of other acquired intangible assets $m**	**Amortisation and impairment of non-acquired intangible assets $m**	**Depreciation and impairment of property, plant and equipment $m**	Impairment of goodwill, other acquired intangible assets and interests in associates $m	Amortisation of other acquired intangible assets $m	Amortisation and impairment of non-acquired intangible assets $m	Depreciation and impairment of property, plant and equipment $m
USA	**–**	**58**	**15**	**113**	–	79	15	117
UK	**–**	**–**	**10**	**30**	–	–	6	22
Canada and Central Europe	**–**	**7**	**2**	**8**	–	2	2	10
Central and other costs	**122**	**–**	**1**	**1**	–	–	4	2
Discontinued	**–**	**–**	**–**	**–**	129	6	4	29
Group	**122**	**65**	**28**	**152**	129	87	31	180

4 – Operating profit

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

	Notes	2018 $m	Restated 2017 $m
Amortisation of acquired intangible assets	13	65	81
Amortisation of non-acquired intangible assets	13	26	24
Impairment of non-acquired intangible assets	13	2	3
Depreciation of property, plant and equipment	14	145	150
Impairment of property, plant and equipment	14	7	1
Gain on disposal of businesses		–	(265)
Amounts included in costs of sales with respect to inventory		14,618	13,627
Staff costs	11	2,913	2,710
Operating lease rentals: land and buildings		240	236
Operating lease rentals: plant and machinery		85	75
Trade receivables impairment		13	12

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

	2018 $m	Restated 2017 $m
Fees for the audit of the Company and consolidated financial statements	1.4	1.2
Fees for the audit of the Company's subsidiaries pursuant to legislation	2.6	3.1
Total audit fees	4.0	4.3
Audit related assurance services	0.3	0.6
Other assurance services	–	0.1
Other services	0.2	0.3
Total non-audit fees	0.5	1.0
Total fees payable to the auditor	4.5	5.3

During the year fees of $1 million were paid to the auditor in relation to the purchase of Stark Group by Lone Star Funds. These fees were paid by the Group and recharged to Lone Star Funds so are not included in the above analysis.

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 62 to 66. No services were provided pursuant to contingent fee arrangements.

5 – Exceptional items

Exceptional items (charged)/credited to operating profit from continuing operations are analysed by purpose as follows:

	2018 $m	Restated 2017 $m
Gain on disposal of businesses	–	265
Business restructuring	(72)	(51)
Other exceptional items	(10)	4
Total included in operating profit	(82)	218

For the year ended 31 July 2018, business restructuring comprises costs incurred in the UK in respect of its business transformation strategy and includes $19 million (2017: $3 million) charged to cost of sales for inventory write downs.

Other exceptional items include a $5 million settlement cost on the closure of a defined benefit pension plan in the USA.

The net cash outflow from exceptional items, excluding the gain on disposal of businesses, was $59 million (2017: $25 million).

Exceptional items relating to discontinued operations are disclosed in note 8.

6 – Net finance costs

	2018 $m	Restated 2017 $m
Interest receivable	**8**	–
Interest payable		
– Bank loans and overdrafts	**(65)**	(60)
– Unwind of fair value adjustment to senior unsecured loan notes	**7**	10
– Finance lease charges	**(1)**	(1)
	(59)	(51)
Net interest expense on defined benefit obligation (note 25)	**(1)**	(3)
Valuation losses on financial instruments	**(1)**	–
Total net finance costs	**(53)**	(54)

Finance costs relating to discontinued operations are detailed in note 8.

7 – Tax

The tax charge for the year comprises:

	2018 $m	Restated 2017 $m
Current year tax charge	**297**	373
Adjustments to tax charge in respect of prior years	**7**	1
Total current tax charge	**304**	374
Deferred tax charge/(credit): origination and reversal of temporary differences	**42**	(4)
Total tax charge	**346**	370

An exceptional tax credit of $15 million was recorded against exceptional items (2017: charge $28 million). The deferred tax charge of $42 million (2017: credit $4 million) includes a credit of $8 million (2017: charge $13 million) resulting from changes in tax rates.

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

	2018 $m	Restated 2017 $m
Deferred tax charge on actuarial loss on retirement benefits	**(17)**	(4)
Current tax credit on actuarial loss on retirement benefits	**–**	3
Deferred tax credit on losses	**–**	1
Total tax on items charged to the Group statement of comprehensive income	**(17)**	–

Tax on items credited to equity:

	2018 $m	Restated 2017 $m
Current tax credit on share-based payments	**7**	4
Deferred tax credit on share-based payments	**1**	1
Total tax on items credited to equity	**8**	5

The tax charge in the statement of changes in equity relating to tax rate changes is $3 million (2017: $nil).

The Group has made provisions for the liabilities likely to arise from open audits and assessments. At 31 July 2018, the Group has recognised provisions of $237 million in respect of its uncertain tax positions (2017: $214 million). The total provision has increased by $23 million in the year due primarily to increases related to certain cross border transfer pricing risks, partly offset by the settlement of a transfer pricing enquiry through a Mutual Agreement Procedure between the US Internal Revenue Service and HM Revenue & Customs. The remaining open significant tax issues relate predominantly to cross border transfer pricing risks. 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.

7 – Tax continued

Tax reconciliation:	Ongoing profit/tax[7] $m	Ongoing profit/tax[7] %	Non-ongoing and other profit/tax[8] $m	Non-ongoing and other profit/tax[8] %	Total profit/tax from continuing operations $m	Total profit/tax from continuing operations %
2018						
Profit before tax	**1,456**		**(269)**		**1,187**	
Expected tax at weighted average tax rate[1]	**(327)**	**22.5**	**59**	**(22.0)**	**(268)**	**22.6**
Adjusted for the effects of:						
over/(under) provisions in respect of prior periods[2]	**11**	**(0.7)**	**(14)**	**5.1**	**(3)**	**0.3**
exceptional items which are (non-tax deductible)/non-taxable	**–**	**–**	**(1)**	**0.5**	**(1)**	**0.1**
current year charge in relation to uncertain tax provisions[4]	**(43)**	**2.9**	**–**	**–**	**(43)**	**3.6**
tax credits and incentives	**5**	**(0.3)**	**–**	**–**	**5**	**(0.4)**
non-tax deductible amortisation/impairment of acquired intangible assets	**–**	**–**	**(24)**	**9.0**	**(24)**	**2.0**
non-taxable income	**7**	**(0.5)**	**–**	**–**	**7**	**(0.6)**
other non-tax deductible expenditure[5]	**(28)**	**1.9**	**–**	**–**	**(28)**	**2.3**
other	**1**	**(0.1)**	**–**	**–**	**1**	**(0.1)**
effect of tax rate changes[6]	**10**	**(0.7)**	**(2)**	**0.7**	**8**	**(0.7)**
Tax (charge)/credit / effective tax rate	**(364)**	**25.0**	**18**	**(6.7)**	**(346)**	**29.1**

Tax reconciliation:	Ongoing profit/tax[7] $m	Ongoing profit/tax[7] %	Non-ongoing and other profit/tax[8] $m	Non-ongoing and other profit/tax[8] %	Total profit/tax from continuing operations $m	Total profit/tax from continuing operations %
Restated 2017						
Profit before tax	1,253		170		1,423	
Expected tax at weighted average tax rate[1]	(306)	24.4	(52)	30.6	(358)	25.2
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods[2]	(6)	0.5	14	(8.2)	8	(0.6)
exceptional items which are non-taxable/(non-tax deductible)[3]	–	–	19	(11.2)	19	(1.3)
current year charge in relation to uncertain tax provisions[4]	(32)	2.5	–	–	(32)	2.2
tax credits and incentives	4	(0.3)	–	–	4	(0.3)
non-taxable income	10	(0.8)	–	–	10	(0.7)
other non-tax deductible expenditure[5]	(11)	0.9	–	–	(11)	0.8
other	3	(0.2)	–	–	3	(0.2)
effect of tax rate changes	(13)	1.0	–	–	(13)	0.9
Tax charge/effective tax rate	(351)	28.0	(19)	11.2	(370)	26.0

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. The intra-group financing reduces taxable profits in many of the countries and therefore reduces the tax rate. The pre intra-group financing ongoing expected weighted average tax rate is 31.6 per cent (2017: 37.2 per cent) and this is reduced to a post intra-group financing ongoing expected weighted average tax rate of 22.5 per cent (2017: 24.4 per cent). The decrease in the expected weighted average tax rates is primarily due to the reduction in US statutory rate and a change in profit mix.
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. In 2017, this related primarily to non-taxable disposals of businesses.
4. This reflects management's assessment of the potential tax liability for the current year in relation to open tax issues and audits.
5. This relates to certain expenditure for which no tax relief is available such as disallowable business entertaining costs and restrictions on interest deductions.
6. In 2018, this relates to the reduction in the US federal rate of tax from 35 per cent to 21 per cent from 1 January 2018.
7. Ongoing profit means profit before tax, exceptional items, the amortisation and impairment of acquired intangible assets and impairment of interests in associates for ongoing operations as defined in note 2. Ongoing tax is the tax expense arising on ongoing profit.
8. Non-ongoing and other profit or loss is profit or loss from non-ongoing operations as defined in note 2 and from the amortisation and impairment of acquired intangible assets, impairment of interests in associates and exceptional items. Non-ongoing and other tax is the tax expense or credit arising on the non-ongoing and other profit or loss and includes other non-recurring tax items. In 2018, the non-ongoing and other credit of $18 million relates primarily to exceptional UK restructuring costs, an increase in uncertain tax provisions in respect of prior periods and the settlement of a transfer pricing enquiry.

8 – Discontinued operations

The Group disposed of Silvan on 31 August 2017, Stark Group on 29 March 2018 and is in the process of selling its remaining property assets in the Nordic region (together the "disposal group"). In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the disposal group has been classified as discontinued and prior periods have been restated to reflect this.

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

			2018			Restated 2017
	Before exceptional items $m	Exceptional items $m	Total $m	Before exceptional items $m	Exceptional items $m	Total $m
Revenue	1,705	–	1,705	2,660	–	2,660
Cost of sales	(1,280)	(5)	(1,285)	(1,982)	(10)	(1,992)
Gross profit	425	(5)	420	678	(10)	668
Operating costs:						
gain on disposal of businesses	–	439	439	–	–	–
amortisation of acquired intangible assets	–	–	–	(6)	–	(6)
impairment of goodwill and acquired intangible assets	–	–	–	(129)	–	(129)
other	(366)	(32)	(398)	(598)	(76)	(674)
Operating income/(costs)	(366)	407	41	(733)	(76)	(809)
Operating profit/(loss)	59	402	461	(55)	(86)	(141)
Net finance (costs)/income	(6)	2	(4)	(5)	10	5
Profit/(loss) before tax	53	404	457	(60)	(76)	(136)
Tax	(31)	–	(31)	–	3	3
Profit/(loss) from discontinued operations	22	404	426	(60)	(73)	(133)
Basic earnings/(loss) per share			173.4c			(52.9)c
Diluted earnings/(loss) per share			172.1c			(52.5)c

The discontinued exceptional items in 2018 relate predominantly to the disposal of Stark Group (see note 29), gains from the sale of Nordic property assets and an impairment charge for the remaining Nordic properties.

The discontinued exceptional items in 2017 relate predominantly to restructuring activities in the Nordic region.

During the year, discontinued operations used cash of $120 million (2017: generated $66 million) in respect of operating activities, generated $1,368 million (2017: used $36 million) in respect of investing activities and used $99 million (2017: used $68 million) in respect of financing activities.

9 – Dividends

Amounts recognised as distributions to equity shareholders:

	2018 $m	Restated 2017 $m
Final dividend for the year ended 31 July 2016: 66.72 pence per share	–	209
Interim dividend for the year ended 31 July 2017: 36.67 pence per share	–	119
Final dividend for the year ended 31 July 2017: 73.33 pence per share	248	–
Interim dividend for the year ended 31 July 2018: 57.4 cents per share	142	–
Special dividend: $4 per share	974	–
Dividends paid	1,364	328

Since the end of the financial year, the Directors have proposed a final ordinary dividend of $304 million (131.9 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 31 July 2018.

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

10 – Earnings per share

	2018 Earnings $m	2018 Basic earnings per share cents	2018 Diluted earnings per share cents	Restated 2017 Earnings $m	Restated 2017 Basic earnings per share cents	Restated 2017 Diluted earnings per share cents
Profit from continuing and discontinued operations attributable to shareholders of the Company	**1,267**	**515.7**	**511.9**	920	366.1	363.5
(Profit)/loss from discontinued operations	**(426)**	**(173.4)**	**(172.1)**	133	52.9	52.5
Profit from continuing operations	**841**	**342.3**	**339.8**	1,053	419.0	416.0
Non-recurring tax charge relating to changes in tax rates and other adjustments	**16**	**6.4**		–	–	
Amortisation and impairment of acquired intangible assets and impairment of interests in associates (net of tax)	**168**	**68.4**		57	22.7	
Exceptional items (net of tax)	**67**	**27.3**		(190)	(75.6)	
Headline profit after tax from continuing operations	**1,092**	**444.4**		920	366.1	

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 245.7 million (2017: 251.3 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 247.5 million (2017: 253.1 million).

On 11 June 2018, the shares of Ferguson plc were consolidated on an 18 for 19 basis. The impact of the share consolidation on the weighted average number of shares used to calculate basic and diluted earnings per share is 1.9 million. Further details in respect of the share consolidation are given in note 26.

11 – Employee and key management information

	2018 $m	Restated 2017 $m
Wages and salaries	**2,608**	2,449
Social security costs	**183**	170
Pension costs – defined contribution plans	**78**	72
Pension costs/(credit) – defined benefit plans (note 25)	**9**	(9)
Share-based payments	**35**	28
Total staff costs	**2,913**	2,710

The total staff costs, including discontinued operations, was $3,155 million (2017: $3,105 million).

Average number of employees	2018	2017
USA	**25,129**	24,086
UK	**5,871**	6,064
Canada and Central Europe	**2,962**	3,257
Central and other	**94**	104
Continuing operations	**34,056**	33,511

The average number of employees including discontinued operations was 37,877 (2017: 39,205).

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)	2018 $m	Restated 2017 $m
Salaries, bonuses and other short-term employee benefits	**14**	14
Post-employment benefits	**1**	–
Termination benefits	**4**	–
Share-based payments	**9**	5
Total compensation	**28**	19

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 70 to 96.

12 – Intangible assets – goodwill

	2018 $m	Restated 2017 $m
Cost		
At 1 August	**1,372**	2,356
Exchange rate adjustment	**(8)**	71
Acquisitions	**241**	181
Disposal of businesses	**–**	(85)
Reclassification as held for sale	**–**	(1,151)
At 31 July	**1,605**	1,372
Accumulated impairment losses		
At 1 August	**199**	1,163
Exchange rate adjustment	**(2)**	68
Impairment charge for the year	**–**	103
Disposal of businesses	**–**	(4)
Reclassification as held for sale	**–**	(1,131)
At 31 July	**197**	199
Net book value at 31 July	**1,408**	1,173

The impairment charge in 2017 comprises $103 million in respect of discontinued operations.

Goodwill and intangible assets acquired during the year have been allocated to the individual cash generating units or aggregated cash generating units (together "CGUs") which are deemed to be the smallest identifiable group of assets generating independent cash inflows. CGUs have been aggregated in the disclosure below at a segmental level except for certain CGUs in the USA which are considered to be significant (more than 10 per cent of the current year goodwill balance). Impairment reviews were performed for each individual CGU during the year ended 31 July 2018.

	2018				Restated 2017			
	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				**442**				432
B2C				**316**				263
Waterworks				**169**				169
Rest of USA				**290**				145
USA	**2.1**	**9.0**	**12.0**	**1,217**	2.3	9.3	15.2	1,009
UK	**2.0**	**7.6**	**9.3**	**43**	2.0	8.1	10.0	43
Canada	**2.0**	**8.4**	**11.5**	**148**	2.0	8.7	11.9	121
Total				**1,408**				1,173

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 the 30-year long-term growth rate by country, as published by the IMF in April 2018.

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

Management has performed a sensitivity analysis across all CGUs which have goodwill and acquired intangible assets using reasonably possible changes in the following key impairment review assumptions: compound average revenue growth rate, post-tax discount rate and long-term growth rate, keeping all other assumptions constant. The sensitivity testing identified no reasonably possible changes in key assumptions that would cause the carrying amount of any CGU to exceed its recoverable amount.

13 – Intangible assets – other

	Software $m	Acquired intangible assets: Trade names and brands $m	Customer relationships $m	Other $m	Total $m
Cost					
At 1 August 2016 restated	201	425	768	102	1,496
Exchange rate adjustment	2	21	20	–	43
Acquisitions	–	60	31	13	104
Additions	32	–	–	–	32
Disposals	(9)	–	–	–	(9)
Disposal of businesses	(16)	(2)	(26)	(5)	(49)
Reclassification as held for sale	(15)	(382)	(331)	–	(728)
At 31 July 2017 restated	**195**	**122**	**462**	**110**	**889**
Exchange rate adjustment	**(1)**	**–**	**(1)**	**–**	**(2)**
Acquisitions	**–**	**54**	**21**	**55**	**130**
Additions	**30**	**–**	**–**	**–**	**30**
At 31 July 2018	**224**	**176**	**482**	**165**	**1,047**
Accumulated amortisation and impairment losses					
At 1 August 2016 restated	123	381	661	64	1,229
Exchange rate adjustment	1	22	20	–	43
Amortisation charge for the year	28	17	45	25	115
Impairment charge for the year	3	17	9	–	29
Disposals	(9)	–	–	–	(9)
Disposal of businesses	(13)	(2)	(23)	(5)	(43)
Reclassification as held for sale	(7)	(378)	(330)	–	(715)
At 31 July 2017 restated	**126**	**57**	**382**	**84**	**649**
Exchange rate adjustment	**(1)**	**(1)**	**(1)**	**–**	**(3)**
Amortisation charge for the year	**26**	**16**	**39**	**10**	**91**
Impairment charge for the year	**2**	**–**	**–**	**–**	**2**
At 31 July 2018	**153**	**72**	**420**	**94**	**739**
Net book value at 31 July 2018	**71**	**104**	**62**	**71**	**308**
Net book value at 31 July 2017 restated	69	65	80	26	240

The amortisation charge includes $nil (2017: $10 million) in respect of discontinued operations of which $nil (2017: $4 million) relates to software. The impairment charge includes $nil (2017: $26 million) in respect of discontinued operations of which $nil (2017: $nil) relates to software.

14 – Property, plant and equipment

	Land and buildings					
	Freehold $m	Finance leases $m	Operating leasehold improvements $m	Plant and machinery $m	Other equipment $m	Total $m
Cost						
At 1 August 2016 restated	1,798	42	431	768	268	3,307
Exchange rate adjustment	57	(1)	3	6	2	67
Acquisitions	16	–	–	17	–	33
Additions	70	–	31	66	31	198
Disposal of businesses	(15)	(31)	(2)	(39)	(16)	(103)
Disposals and transfers	(9)	(7)	(29)	(56)	(26)	(127)
Reclassification as held for sale	(984)	–	(9)	(99)	(27)	(1,119)
At 31 July 2017 restated	**933**	**3**	**425**	**663**	**232**	**2,256**
Exchange rate adjustment	**–**	**–**	**(2)**	**(2)**	**(1)**	**(5)**
Acquisitions	**9**	**–**	**–**	**3**	**–**	**12**
Additions	**83**	**–**	**49**	**70**	**26**	**228**
Disposals	**(7)**	**–**	**(24)**	**(33)**	**(22)**	**(86)**
Reclassification as held for sale	**(69)**	**–**	**–**	**(21)**	**(3)**	**(93)**
At 31 July 2018	**949**	**3**	**448**	**680**	**232**	**2,312**
Accumulated depreciation and impairment losses						
At 1 August 2016 restated	386	10	295	533	186	1,410
Exchange rate adjustment	11	–	1	3	2	17
Depreciation charge for the year	44	–	31	70	34	179
Impairment charge for the year	1	–	–	–	–	1
Disposal of businesses	(2)	(4)	(2)	(31)	(13)	(52)
Disposals and transfers	(2)	(6)	(9)	(50)	(28)	(95)
Reclassification as held for sale	(188)	–	(8)	(56)	(20)	(272)
At 31 July 2017 restated	**250**	**–**	**308**	**469**	**161**	**1,188**
Exchange rate adjustment	**–**	**–**	**(1)**	**(1)**	**–**	**(2)**
Depreciation charge for the year	**28**	**–**	**31**	**60**	**26**	**145**
Impairment charge for the year	**6**	**–**	**–**	**–**	**1**	**7**
Disposals	**(3)**	**–**	**(16)**	**(27)**	**(21)**	**(67)**
Reclassification as held for sale	**(22)**	**–**	**–**	**(20)**	**(3)**	**(45)**
At 31 July 2018	**259**	**–**	**322**	**481**	**164**	**1,226**
Owned assets	**690**	**–**	**126**	**197**	**65**	**1,078**
Assets under finance leases	**–**	**3**	**–**	**2**	**3**	**8**
Net book value at 31 July 2018	**690**	**3**	**126**	**199**	**68**	**1,086**
Owned assets	683	–	117	194	63	1,057
Assets under finance leases	–	3	–	–	8	11
Net book value at 31 July 2017 restated	683	3	117	194	71	1,068

At 31 July 2018, the book value of property, plant and equipment that had been pledged as security for liabilities was $8 million (2017: $16 million). In addition, $nil (2017: $237 million) of property, plant and equipment included in assets held for sale (note 20) had been pledged as security for liabilities at 31 July 2018.

The depreciation charge for the year includes $nil (2017: $29 million) relating to discontinued operations.

15 – Associates

	2018 $m	Restated 2017 $m
Meier Tobler Group AG	**31**	164
Other associates[1]	**33**	–
Total interests in associates	**64**	164

1. Other associates comprise individually immaterial associates which contributed $nil (2017: $nil) to the Group's share of profit/(loss) from continuing operations and $nil (2017: $nil) to the Group's share of total comprehensive income.

The Group holds a 39.21 per cent share in Meier Tobler Group AG (previously Walter Meier AG), a trading company whose principal place of business is Switzerland and which is engaged in the distribution and maintenance of heating and air conditioning systems.

Meier Tobler Group AG

The investment in Meier Tobler Group AG is accounted for as an associate using the equity method. Meier Tobler Group AG prepares accounts under Swiss GAAP FER with a year-end of 31 December. The Group's accounts have been prepared based on Meier Tobler Group AG's half-year accounts ended 30 June 2018. There were no significant transactions between that date and 31 July 2018.

Summarised financial information from Meier Tobler Group AG's half-year accounts ended 30 June 2018 is set out below. Trading results are for the 12 months ending 30 June 2018 (2017: from date of acquisition) and have been adjusted for IFRS.

	2018 $m	Restated 2017 $m
Non-current assets	**309**	323
Current assets	**180**	182
Current liabilities	**(157)**	(127)
Non-current liabilities	**(174)**	(197)
Net assets	**158**	181
Revenue	**564**	138
Profit/(loss) from continuing operations	**6**	(4)
Other comprehensive income attributable to the owners of the company	**–**	–
Total comprehensive income/(expense)	**6**	(4)

The amount recognised in the Group's consolidated financial statements is as follows:

	2018 $m	Restated 2017 $m
Share of profit/(loss) after tax of associate	**2**	(1)

Dividends received from the associate amount to $10 million (2017: $nil).

The reconciliation of associate net assets to the carrying amount recognised in the Group's consolidated financial statements is as follows:

	%	2018 $m	%	Restated 2017 $m
Net assets of associate		**158**		181
Proportion of the Group's ownership interest in the associate	**39.21**	**62**	39.21	71
Goodwill		**91**		93
Impairment		**(122)**		–
Carrying amount of the Group's interest in the associate		**31**		164

During the period there were a number of public announcements made by Meier Tobler Group AG regarding difficult trading conditions and the temporary suspension of dividends until 2020. This generated a trigger event for management to reassess the recoverability of the carrying value recognised in the Group's consolidated financial statements. Due to the size of the Group's shareholding and the illiquid nature of the shares, it was not appropriate to use the quoted share price for assessing the fair value. This assessment resulted in an impairment charge, as follows:

	Carrying value $m	Impairment $m	Remaining balance $m	Post-tax discount rate %	Pre-tax discount rate %
Meier Tobler Group AG	**153**	**(122)**	**31**	**6.7**	**8.7**

Any change in trading conditions or outlook could result in further impairment or a reversal of part of the recorded impairment. Management does not consider that there is a significant risk that this change could be material.

16 – Deferred tax assets and liabilities

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

	2018 $m	Restated 2017 $m
Deferred tax assets	**130**	160
Deferred tax liabilities	**(42)**	(12)
	88	148

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

	Goodwill and intangible assets $m	Share-based payments $m	Property, plant and equipment $m	Retirement benefit obligations $m	Inventories $m	Tax losses $m	Other $m	Total $m
At 31 July 2016 restated	(69)	24	(9)	111	(103)	67	61	82
Credit/(charge) to income	9	(1)	(5)	(4)	(5)	26	(11)	9
(Charge)/credit to other comprehensive income	–	–	–	(4)	–	1	–	(3)
Credit to equity	–	1	–	–	–	–	–	1
Acquisitions	(7)	–	(4)	–	–	–	–	(11)
Disposal of businesses	–	–	1	(1)	3	–	–	3
Transferred to held for sale	2	(1)	80	(4)	(5)	(8)	3	67
Transfers between categories	–	–	–	–	–	(9)	9	–
Exchange rate adjustment	–	–	(1)	1	(1)	2	(1)	–
At 31 July 2017 restated	**(65)**	**23**	**62**	**99**	**(111)**	**79**	**61**	**148**
Credit/(charge) to income	**17**	**(2)**	**(24)**	**(44)**	**16**	**6**	**(11)**	**(42)**
Charge to other comprehensive income	**–**	**–**	**–**	**(17)**	**–**	**–**	**–**	**(17)**
Credit to equity	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Acquisitions	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**
Transferred to held for sale	**–**	**–**	**(2)**	**–**	**–**	**–**	**–**	**(2)**
Exchange rate adjustment	**2**	**1**	**(2)**	**(2)**	**–**	**2**	**–**	**1**
At 31 July 2018	**(47)**	**23**	**34**	**36**	**(95)**	**87**	**50**	**88**

Legislation has been enacted in the US to reduce the US federal corporate income tax rate, effective 1 January 2018. Accordingly, the US deferred tax assets and liabilities have predominately been calculated based on a 26 per cent tax rate (combined federal and state rates) which materially reflects the rate for the period in which the deferred tax assets and liabilities are expected to reverse.

Legislation has been enacted in the UK to reduce the standard rate of UK corporation tax from 19 per cent to 17 per cent with effect from 1 April 2020. Accordingly, the UK deferred tax assets and liabilities have predominantly been calculated based on a 17 per cent tax rate which materially reflects the rate for the period in which the deferred tax assets and liabilities are expected to reverse.

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

In addition, the Group has unrecognised gross tax losses totalling $469 million (2017: $433 million) that have not been recognised on the basis that their future economic benefit is uncertain. These losses have no expiry date and relate predominantly to capital losses.

No deferred tax liability has been recognised in respect of temporary differences associated with unremitted earnings from its investments in subsidiaries. However, tax may arise on $408 million (2017: $375 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

	2018 $m	Restated 2017 $m
Goods purchased for resale	**2,680**	2,548
Inventory provisions	**(164)**	(149)
Net inventories	**2,516**	2,399

18 – Trade and other receivables

Current	2018 $m	Restated 2017 $m
Trade receivables	**2,642**	2,372
Less: provision for impairment	**(32)**	(32)
Net trade receivables	**2,610**	2,340
Other receivables	**135**	122
Prepayments	**349**	304
	3,094	2,766
Non-current		
Other receivables	**328**	299

Included in prepayments is $266 million (2017: $234 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 as follows:

	2018 $m	Restated 2017 $m
Amounts not yet due	**1,790**	1,576
Less than one month past due	**580**	565
More than one month past due	**272**	231
	2,642	2,372

19 – Cash and cash equivalents

	2018 $m	Restated 2017 $m
Cash and cash equivalents	**833**	2,525

Included in the balance at 31 July 2018 is an amount of $255 million (2017: $1,876 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within bank overdrafts (note 22). These amounts are subject to a master netting arrangement.

At 31 July 2018, cash and cash equivalents included $86 million (2017: $85 million) which is used to collateralise letters of credit on behalf of Wolseley Insurance Limited.

20 – Assets and liabilities held for sale

	2018 $m	Restated 2017 $m
Properties awaiting disposal	**151**	87
Assets of disposal groups held for sale	**–**	1,628
Assets held for sale	**151**	1,715
Liabilities of disposal groups held for sale	**–**	1,085

During the previous year, the Group announced its decision to sell its Nordic business and at 31 July 2017 the assets of the business were classified as a disposal group held for sale.

Properties awaiting disposal principally comprises the Nordic property assets, which were retained following the disposal of the Nordic business, and properties in the UK which are in the process of being exited as a result of the business restructuring.

The assets and liabilities of disposal groups held for sale consist of:

	2018 $m	Restated 2017 $m
Intangible assets	**–**	33
Property, plant and equipment	**–**	812
Inventories	**–**	364
Trade and other receivables	**–**	337
Tax receivables	**–**	39
Cash and cash equivalents	**–**	43
Bank loans	**–**	(105)
Trade and other payables	**–**	(790)
Provisions and retirement benefit obligations	**–**	(96)
Tax payables	**–**	(94)
	–	543

21 – Trade and other payables

Current	2018 $m	Restated 2017 $m
Trade payables	**2,597**	2,335
Tax and social security	**108**	88
Other payables	**97**	117
Accruals and deferred income	**539**	471
	3,341	3,011
Non-current		
Other payables	**298**	238

Trade payables are stated net of $32 million (2017: $nil) due from suppliers with respect to supplier rebates where an agreement exists that allows these to be net settled.

22 – Bank loans and overdrafts

			2018			Restated 2017
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Bank overdrafts	**375**	**–**	**375**	1,982	–	1,982
Bank and other loans	**2**	**–**	**2**	3	5	8
Senior unsecured loan notes	**6**	**1,522**	**1,528**	165	1,093	1,258
Total bank loans	**8**	**1,522**	**1,530**	168	1,098	1,266
Total bank loans and overdrafts	**383**	**1,522**	**1,905**	2,150	1,098	3,248

Included in bank overdrafts at 31 July 2018 is an amount of $255 million (2017: $1,876 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.

No bank loans are secured against the Group's freehold property (2017: $2 million). In addition, no bank loans included in liabilities held for sale (note 20) are secured against freehold property included in assets held for sale (2017: $104 million). No bank loans were secured against trade receivables at 31 July 2018 (2017: $nil) as the trade receivables facility of $600 million was undrawn as at 31 July 2018 and 31 July 2017.

22 – Bank loans and overdrafts continued

Non-current loans are repayable as follows:

	2018 $m	Restated 2017 $m
Due in one to two years	**5**	8
Due in two to three years	**283**	5
Due in three to four years	**–**	283
Due in four to five years	**250**	1
Due in over five years	**984**	801
Total	**1,522**	1,098

The carrying value of the senior unsecured loan notes of $1,528 million comprises a par value of $1,530 million and a fair value adjustment of $2 million (2017: $1,258 million, $1,238 million and $20 million respectively). During the year the Group applied fair value hedge accounting to debt of $355 million, swapping fixed interest rates into floating interest rates using a series of interest rate swaps.

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

23 – Financial instruments and financial risk management

Financial instruments by measurement basis

The carrying value of financial instruments by category as defined by IAS 39 "Financial Instruments: Recognition and Measurement" is as follows:

	2018 $m	Restated 2017 $m
Financial assets		
Financial assets at fair value through profit and loss	**17**	26
Loans and receivables	**3,350**	3,010
Financial liabilities		
Financial liabilities at fair value through profit and loss	**19**	–
Financial liabilities at amortised cost	**5,063**	6,071

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

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

The Group's derivatives are measured at fair value through profit and loss at 31 July 2018 and 31 July 2017 using level 2 inputs.

The Group uses interest rate swaps to manage its exposure to interest rate movements on its borrowings and foreign exchange swaps to hedge cash flows in respect of committed transactions or to hedge its investment in overseas operations. The current element of derivative financial assets is $nil (2017: $7 million) and the non-current element is $17 million (2017: $19 million). The current element of derivative financial liabilities is $2 million (2017: $nil) and the non-current element is $17 million (2017: $nil). Total net derivative financial instruments is a liability of $2 million (2017: asset $26 million). No transfers between levels occurred during the current or prior year.

The fair value of financial instruments that are not traded in an active market (such as over-the-counter derivatives) is determined by using valuation techniques. The Group's other financial instruments are measured on bases other than fair value. Other receivables include an amount of $67 million (2017: $66 million) which has been discounted at a rate of 3.0 per cent (2017: 2.3 per cent) due to the long-term nature of the receivable. Other current assets and liabilities are either of short maturity or bear floating rate interest and their fair values approximate to book values. The only non-current financial assets or liabilities for which fair value does not approximate to book value are the senior unsecured loan notes, which had a book value of $1,528 million (2017: $1,258 million) and a fair value (level 2) of $1,621 million (2017: $1,309 million).

23 – 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 31 July 2018	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		31	(14)	17	–	17
Current assets						
Derivative financial assets		23	(23)	–	–	–
Cash and cash equivalents	19	833	–	833	(255)	578
		887	(37)	850	(255)	595
Financial liabilities						
Current liabilities						
Derivative financial liabilities		25	(23)	2	–	2
Bank loans and overdrafts	22	383	–	383	(255)	128
Finance leases		3	–	3	–	3
Non-current liabilities						
Derivative financial liabilities		31	(14)	17	–	17
Bank loans	22	1,522	–	1,522	–	1,522
Finance leases		3	–	3	–	3
		1,967	(37)	1,930	(255)	1,675
Closing net debt	30	(1,080)	–	(1,080)	–	(1,080)

At 31 July 2017 restated	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		51	(32)	19	–	19
Current assets						
Derivative financial assets		23	(16)	7	–	7
Cash and cash equivalents	19	2,525	–	2,525	(1,876)	649
		2,599	(48)	2,551	(1,876)	675
Financial liabilities						
Current liabilities						
Derivative financial liabilities		16	(16)	–	–	–
Bank loans and overdrafts	22	2,150	–	2,150	(1,876)	274
Finance leases		4	–	4	–	4
Non-current liabilities						
Derivative financial liabilities		32	(32)	–	–	–
Bank loans	22	1,098	–	1,098	–	1,098
Finance leases		5	–	5	–	5
		3,305	(48)	3,257	(1,876)	1,381
Closing net debt	30	(706)	–	(706)	–	(706)

1. The gross amounts of the recognised 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 arrangement, or similar arrangement, not included in (3).
5. The net amount after deducting the amounts in (4) from the amounts in (3).

23 – 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 interest rate, liquidity, foreign exchange and counterparty exposures, which have been consistently applied during the financial years ended 31 July 2018 and 31 July 2017. By the nature of its business, the Group also has trade credit and commodity price exposures, the management of which is delegated to the operating businesses. There has been no change since the previous year in the major financial risks faced by the Group.

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

Capital structure and risk management

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 ensure this ratio remains within 1 to 2 times. The Group's main borrowing facilities contain a financial covenant limiting the ratio of net debt to adjusted EBITDA to 3.5:1. The reconciliation of opening to closing net debt is detailed in note 30.

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 31 July 2018, the maximum exposure to credit risk was $3,005 million (2017: $2,673 million).

Each of the Group's businesses have established procedures in place to review and collect outstanding receivables. Significant outstanding and overdue balances are reviewed on a regular basis and resulting actions are put in place on a timely basis. In some cases, protection is provided through credit insurance arrangements. All of the major businesses use professional 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 impairment. The ageing 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 $429 million (2017: $560 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 trade and other payables and bank borrowings, on an undiscounted basis. The principal assumptions are that floating rate interest is calculated using the prevailing interest rate at the balance sheet date and cash flows in foreign currency are translated using spot rates at the balance sheet date. These cash flows can be analysed by maturity as follows:

				2018				Restated 2017
	Trade and other payables $m	**Debt $m**	**Interest on debt $m**	**Total $m**	Trade and other payables $m	Debt $m	Interest on debt $m	Total $m
Due in less than one year	**2,829**	**5**	**68**	**2,902**	2,557	165	51	2,773
Due in one to two years	**44**	**1**	**63**	**108**	26	5	47	78
Due in two to three years	**59**	**281**	**52**	**392**	28	1	43	72
Due in three to four years	**19**	**–**	**44**	**63**	13	281	43	337
Due in four to five years	**16**	**250**	**40**	**306**	12	1	34	47
Due in over five years	**160**	**1,001**	**92**	**1,253**	159	801	84	1,044
Total	**3,127**	**1,538**	**359**	**5,024**	2,795	1,254	302	4,351

23 – Financial instruments and financial risk management continued

Liquidity risk continued

The Group holds three main bank facilities: an £800 million (2017: £800 million) revolving credit facility that matures in September 2021, a $290 million (2017: $190 million) bi-lateral facility that matures in November 2018 and a $600 million (2017: $600 million) securitisation facility that matures in December 2020. This facility is secured against the trade receivables of Ferguson Enterprises Inc. All facilities were undrawn at 31 July 2018 and 31 July 2017. The maturity profile of the Group's undrawn facilities is as follows:

	2018 $m	Restated 2017 $m
Less than one year	**290**	190
Between one and two years	**–**	–
Between two and three years	**600**	600
Between three and four years	**1,050**	–
Between four and five years	**–**	1,057
After five years	**–**	–
Total	**1,940**	1,847

At 31 July 2018 the Group has total available facilities, excluding bank overdrafts, of $3,470 million (2017: $3,085 million), of which $1,530 million is drawn (note 22) and $1,940 million is undrawn (2017: $1,238 million and $1,847 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 80 per cent of the Group's revenue is in US dollars. Within each country it operates, the Group does not have significant transactional foreign currency cash flow exposures. However, those that do arise may be hedged with either forward contracts or currency options. The Group does not normally hedge profit translation exposure since such hedges have only a temporary effect.

The Group's policy is to adjust the currencies in which its net debt is denominated materially to match the currencies in which its trading profit is generated. Details of average exchange rates used in the translation of overseas earnings and of year-end exchange rates used in the translation of overseas balance sheets for the principal currencies used by the Group are shown in the five-year summary on page 151. The net effect of currency translation was to increase revenue by $229 million (2017: decrease by $391 million) and to increase trading profit by $7 million (2017: decrease by $6 million). These currency effects primarily reflect a movement of the average US dollar exchange rate against pounds sterling, euro and Canadian dollars as follows:

	2018 Weakening of USD	2017 Strengthening/ (weakening) of USD
Pounds sterling	**(6.4%)**	13.3%
Euro	**(9.2%)**	1.6%
Canadian dollars	**(4.0%)**	(0.2%)

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 $431 million (2017: pounds sterling equivalent of $2,019 million). The loss on translation of these financial instruments into US dollars of $11 million (2017: pounds sterling equivalent of $8 million) has been taken to the translation reserve.

Net debt by currency was as follows:

As at 31 July 2018	**Interest rate swaps $m**	**Finance lease obligations $m**	**Cash, overdrafts and bank loans $m**	**Currency sold forward $m**	**Total $m**
US dollars	**–**	**(2)**	**(1,297)**	**–**	**(1,299)**
Pounds sterling	**–**	**(4)**	**101**	**–**	**97**
Euro, Danish kroner and Swedish kronor	**–**	**–**	**23**	**–**	**23**
Other currencies	**–**	**–**	**101**	**(2)**	**99**
Total	**–**	**(6)**	**(1,072)**	**(2)**	**(1,080)**

As at 31 July 2017 restated	Interest rate swaps $m	Finance lease obligations $m	Cash, overdrafts and bank loans $m	Currency bought/(sold) forward $m	Total $m
US dollars	26	(5)	(798)	9	(768)
Pounds sterling	–	(4)	82	(9)	69
Euro, Danish kroner and Swedish kronor	–	–	8	–	8
Other currencies	–	–	(15)	–	(15)
Total	26	(9)	(723)	–	(706)

Currency (sold)/bought forward comprises short-term foreign exchange contracts which were designated and effective as hedges of overseas operations.

23 – Financial instruments and financial risk management continued

Net investment hedging

Exchange differences arising from the translation of the net investment in foreign operations are recognised in the currency translation reserve. Gains and losses on those hedging instruments designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective. These amounts are included in exchange differences on translation of foreign operations as stated in the Group statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the translation reserve are included in the income statement when the foreign operation is disposed of.

Interest rate risk

At 31 July 2018, 70 per cent of loans were at fixed rates. The Group borrows in the desired currencies principally at rates determined by reference to short-term benchmark rates applicable to the relevant currency or market, such as LIBOR. Rates which reset at least every 12 months are regarded as floating rates and the Group then, if appropriate, considers interest rate swaps to generate the desired interest rate profile.

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

The interest rate profile of the Group's net debt including the effect of interest rate swaps is set out below:

			2018			Restated 2017
	Floating $m	**Fixed $m**	**Total $m**	Floating $m	Fixed $m	Total $m
US dollars	**(217)**	**(1,082)**	**(1,299)**	475	(1,243)	(768)
Pounds sterling	**101**	**(4)**	**97**	73	(4)	69
Euro, Danish kroner and Swedish kronor	**23**	**–**	**23**	8	–	8
Other currencies	**99**	**–**	**99**	(15)	–	(15)
Total	**6**	**(1,086)**	**(1,080)**	541	(1,247)	(706)

The Group's weighted average cost of debt is 4.0 per cent. Fixed rate borrowings at 31 July 2018 carried a weighted average interest rate of 3.4 per cent fixed for a weighted average duration of 6.6 years (31 July 2017: 3.3 per cent for 6.5 years). Floating rate borrowings, excluding overdrafts, at 31 July 2018 had a weighted average interest rate of 2.6 per cent (31 July 2017: the Group had no floating rate borrowings, excluding overdrafts).

In November 2017, the Group entered into interest rate swap contracts comprising fixed interest receivable on $355 million of notional principal. These contracts expire between November 2023 and November 2026 and the fixed interest rates range between 3.30 per cent and 3.51 per cent. These swaps were designated as a fair value hedge against a portion of the Group's outstanding debt.

The table below shows the income statement movement on interest rate swaps at fair value through profit and loss:

	2018 $m	Restated 2017 $m
At 1 August	**26**	38
Settled	**(9)**	(12)
Valuation loss debited to income statement	**(17)**	–
At 31 July	**–**	26

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 one per cent in the principal floating interest rates to which it is exposed would result in a charge to the income statement of $nil (2017: $nil). The Group has estimated that a weakening of the US dollar by 10 per cent against gross borrowings denominated in a foreign currency in which the Group does business would result in a charge to the currency translation reserve of $4 million (2017: $146 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.

24 – Provisions

	Environmental and legal $m	Wolseley Insurance $m	Restructuring $m	Other provisions $m	Total $m
At 31 July 2016 restated	101	70	36	85	292
Utilised in the year	(14)	(16)	(29)	(5)	(64)
Changes in discount rate	(13)	–	–	–	(13)
Charge for the year	9	18	63	6	96
Disposal of businesses and reclassified as held for sale	(5)	–	(12)	(30)	(47)
Exchange rate adjustment	–	–	1	1	2
At 31 July 2017 restated	**78**	**72**	**59**	**57**	**266**
Utilised in the year	**(3)**	**(23)**	**(38)**	**(7)**	**(71)**
Changes in discount rate	**(4)**	**–**	**–**	**–**	**(4)**
Charge for the year	**12**	**24**	**31**	**12**	**79**
Acquisition of businesses	**–**	**–**	**–**	**4**	**4**
Exchange rate adjustment	**(1)**	**1**	**(1)**	**1**	**–**
At 31 July 2018	**82**	**74**	**51**	**67**	**274**

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

At 31 July 2018	Environmental and legal $m	Wolseley Insurance $m	Restructuring $m	Other provisions $m	Total $m
Current	**16**	**11**	**32**	**36**	**95**
Non-current	**66**	**63**	**19**	**31**	**179**
Total provisions	**82**	**74**	**51**	**67**	**274**

At 31 July 2017 restated	Environmental and legal $m	Wolseley Insurance $m	Restructuring $m	Other provisions $m	Total $m
Current	13	24	37	33	107
Non-current	65	48	22	24	159
Total provisions	78	72	59	57	266

The environmental and legal provision includes $69 million (2017: $69 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 3.0 per cent (2017: 2.3 per cent). This amount has been actuarially determined as at 31 July 2018 based on advice from independent professional advisers. The Group has insurance that it currently believes significantly covers the estimated liability and accordingly an insurance receivable has been recorded in other receivables. Based on current estimates, the amount of performing insurance cover significantly exceeds the expected level of future claims and no material profit or cash flow impact is therefore expected to arise in the foreseeable future. Due to the nature of these provisions, the timing of any settlements is uncertain.

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

Restructuring provisions include provisions for staff redundancy costs and future lease rentals on closed branches. The weighted average maturity of these obligations is approximately three years.

Other provisions include warranty costs relating to businesses disposed of, rental commitments on vacant properties and dilapidations on leased properties. The weighted average maturity of these obligations is approximately three years.

25 – 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. This plan was closed to new entrants in 2009. The assets are held in separate trustee administered funds. The Group contribution rate is calculated on the Projected Unit Credit Method and agreed with an independent consulting actuary. The Group Retirement Benefits Plan was closed to future service accrual in December 2013 and was replaced by a defined contribution plan. During October 2016, the plan was closed for future non-inflationary salary accrual.

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

The principal plans operated for USA employees are defined contribution plans, which are established in accordance with USA 401k rules. Companies contribute to both employee compensation deferral and profit sharing plans. The Group completed a buy out of its primary defined benefit plan in the USA during the year.

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.

The Group operates a number of smaller defined benefit and defined contribution plans providing pensions or other long-term benefits such as long service or termination awards.

Investment policy

The Group's investment strategy for its funded post-employment plans is decided locally and, if relevant, by the trustees of the plan and takes account of the relevant statutory requirements. The Group's objective for the investment strategy is to achieve a target rate of return in excess of the increase in the liabilities, while taking an acceptable amount of investment risk relative to the liabilities.

This objective is implemented by using specific allocations to a variety of asset classes that are expected over the long term to deliver the target rate of return. Most investment strategies have significant allocations to equities, with the intention that this will result in the ongoing cost to the Group of the post-employment plans being lower over the long term and within acceptable boundaries of risk.

For the UK plan, the buy-in insurance policy represents approximately 30 per cent of the plan assets. For the remaining assets, the strategy is to invest in a balanced portfolio of equities, government bonds and corporate bonds. The investment strategy is subject to regular review by the plan trustees in consultation with the Company. For the overseas plans, the investment strategy involves the investment in defined levels, predominantly equities with the remainder of the assets being invested in cash and bonds.

Investment risk

The present value of the UK defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the actual return on plan assets is below this rate, it will decrease a net surplus or increase a net pension liability. Currently, the plan has a relatively balanced investment in equity securities, debt instruments and property. Due to the long-term nature of the plan liabilities, the trustees of the pension plan consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest risk

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

Longevity risk

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

25 – Retirement benefit obligations continued

(ii) Financial impact of plans

As disclosed in the Group balance sheet	2018 $m	Restated 2017 $m
Non-current asset	193	4
Current liability	(4)	(11)
Non-current liability	(15)	(21)
Total liability	(19)	(32)
Net asset/(liability)	174	(28)

	2018			Restated 2017		
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	1,824	121	1,945	1,766	217	1,983
Present value of defined benefit obligations	(1,631)	(140)	(1,771)	(1,762)	(249)	(2,011)
Net asset/(liability)	193	(19)	174	4	(32)	(28)

Analysis of total expense/(income) recognised in the Group income statement	2018 $m	Restated 2017 $m
Current service cost	1	6
Administration costs	3	4
Exceptional settlement losses and past service gains (note 5)	5	(14)
Past service gain from settlements	–	(3)
Charged/(credited) to operating costs (note 11)[1]	9	(7)
Charged to finance costs (note 6)[2]	1	4
Total expense/(income) recognised in the Group income statement	10	(3)

1. Includes a charge of $nil (2017: $2 million) relating to discontinued operations.
2. Includes a charge of $nil (2017: $1 million) relating to discontinued operations.

Expected employer contributions to the defined benefit plans for the year ending 31 July 2019 are $39 million. The remeasurement of the defined benefit net asset is included in the Group statement of comprehensive income.

Analysis of amount recognised in the Group statement of comprehensive income	2018 $m	Restated 2017 $m
The return on plan assets (excluding amounts included in net interest expense)	22	6
Actuarial gain arising from changes in demographic assumptions	12	40
Actuarial gain/(loss) arising from changes in financial assumptions	74	(99)
Actuarial (loss)/gain arising from experience adjustments	(4)	51
Tax	(17)	(1)
Total amount recognised in the Group statement of comprehensive income	87	(3)

The cumulative amount of actuarial losses recognised in the Group statement of comprehensive income is $488 million (2017: $592 million).

25 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

The fair value of plan assets is as follows:

	2018			Restated 2017		
	UK $m	Non-UK $m	Total $m	UK $m	Non-UK $m	Total $m
At 1 August	**1,766**	**217**	**1,983**	1,730	331	2,061
Interest income	**46**	**5**	**51**	39	6	45
Employer's contributions	**97**	**13**	**110**	47	38	85
Participants' contributions	**–**	**–**	**–**	–	3	3
Benefit payments	**(89)**	**(8)**	**(97)**	(58)	(18)	(76)
Settlement payments	**–**	**(105)**	**(105)**	–	(4)	(4)
Disposal of businesses	**–**	**–**	**–**	–	(129)	(129)
Reclassification as held for sale	**–**	**–**	**–**	–	(10)	(10)
Remeasurement gain/(loss):						
Return on plan assets (excluding amounts included in net interest expense)	**17**	**5**	**22**	9	(3)	6
Currency translation	**(13)**	**(6)**	**(19)**	(1)	3	2
At 31 July	**1,824**	**121**	**1,945**	1,766	217	1,983
Actual return on plan assets	**63**	**10**	**73**	48	3	51

Employer's contributions included special funding contributions of $99 million (2017: $70 million), including $94 million to the UK pension scheme.

At 31 July 2018, the plan assets were invested in a diversified portfolio comprised of:

		2018			Restated 2017		
		UK $m	Non-UK $m	Total $m	UK $m	Non-UK $m	Total $m
Equity type assets	quoted	**284**	**72**	**356**	536	71	607
Government bonds	quoted	**464**	**20**	**484**	337	47	384
Corporate bonds	quoted	**253**	**22**	**275**	41	74	115
Real estate		**25**	**–**	**25**	52	–	52
Cash		**61**	**–**	**61**	47	10	57
Insurance policies		**626**	**–**	**626**	667	–	667
Other		**111**	**7**	**118**	86	15	101
Total market value of assets		**1,824**	**121**	**1,945**	1,766	217	1,983

The present value of defined benefit obligations is as follows:

	2018			Restated 2017		
	UK $m	Non-UK $m	Total $m	UK $m	Non-UK $m	Total $m
At 1 August	**1,762**	**249**	**2,011**	1,768	488	2,256
Current service cost (including administrative costs)	**3**	**1**	**4**	3	7	10
Past service gain	**–**	**–**	**–**	(14)	(3)	(17)
Interest cost	**46**	**6**	**52**	39	10	49
Benefit payments	**(89)**	**(8)**	**(97)**	(58)	(18)	(76)
Settlement and curtailment payments	**–**	**(100)**	**(100)**	–	(6)	(6)
Participants' contributions	**–**	**–**	**–**	–	3	3
Remeasurement (gain)/loss:						
Actuarial gain arising from changes in demographic assumptions	**(12)**	**–**	**(12)**	(39)	(1)	(40)
Actuarial (gain)/loss arising from changes in financial assumptions	**(74)**	**–**	**(74)**	115	(16)	99
Actuarial loss/(gain) arising from experience adjustments	**4**	**–**	**4**	(48)	(3)	(51)
Disposal of businesses	**–**	**–**	**–**	–	(152)	(152)
Reclassified as held for sale	**–**	**–**	**–**	–	(69)	(69)
Currency translation	**(9)**	**(8)**	**(17)**	(4)	9	5
At 31 July	**1,631**	**140**	**1,771**	1,762	249	2,011

25 – 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:

	2018 $m	Restated 2017 $m
Amounts arising from wholly unfunded plans	3	3
Amounts arising from plans that are wholly or partly funded	1,768	2,008
	1,771	2,011

(iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2018		2017	
	UK %	Non-UK %	UK %	Non-UK %
Discount rate	2.7	3.5	2.6	3.6
Inflation rate	3.2	2.5	3.2	2.5
Increase to deferred benefits during deferment	2.1	n/a	2.1	n/a
Increases to pensions in payment	2.8	2.0	2.9	2.0
Salary increases	2.1	2.5	2.1	2.5

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

	2018		2017	
	UK Years	Non-UK Years	UK Years	Non-UK Years
Current pensioners (at age 65) – male	22	22	22	21
Current pensioners (at age 65) – female	23	24	24	24
Future pensioners (at age 65) – male	24	23	24	23
Future pensioners (at age 65) – female	26	25	26	25

The weighted average duration of the defined benefit obligation is 21.5 years (2017: 20.4 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.

	2018			Restated 2017		
	Change	UK $m	Non-UK $m	Change	UK $m	Non-UK $m
Discount rate	+0.25%	70	5	+0.25%	74	5
	(0.25)%	(76)	(4)	(0.25)%	(81)	(5)
Inflation rate	+0.25%	(64)	–	+0.25%	(73)	–
	(0.25)%	66	–	(0.25)%	69	–
Life expectancy	+1 year	(33)	(4)	+1 year	(36)	(8)

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 asset.

26 – Share capital

(i) Ordinary shares in issue

Allotted and issued shares	2018 Number of shares	2018 Cost $m	Restated 2017 Number of shares	Restated 2017 Cost $m
Number / cost of ordinary 10 53/66 pence shares in the Company (million)	–	–	267	45
Number / cost of ordinary 11 227/563 pence shares in the Company (million)	253	45	–	–
As at 31 July	253	45	267	45

The authorised share capital of the Company is 439 million ordinary 11 227/563 pence shares (2017: 463 million ordinary 10 53/66 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.

Following approval at the General Meeting held on 23 May 2018 and in connection with the special dividend approved at that meeting, a share consolidation under which shareholders received 18 new ordinary shares of 11 227/563 pence each for every 19 existing ordinary shares of 10 53/66 pence each, became effective on 11 June 2018.

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

	2018	2017
Number of 10 53/66 pence ordinary shares in the Company in issue at 1 August	266,636,106	266,636,106
Cancellation of Treasury shares	(5)	–
Effect of share consolidation	(14,033,479)	–
Number of 11 227/563 pence (2017: 10 53/66 pence) ordinary shares in the Company in issue at 31 July	252,602,622	266,636,106

(ii) Treasury shares

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

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

	2018 Number of shares	2018 Cost $m	Restated 2017 Number of shares	Restated 2017 Cost $m
As at 1 August	13,382,580	743	14,259,276	792
Treasury shares purchased	9,178,209	675	–	–
Disposal of Treasury shares to settle share options	(646,988)	(38)	(876,696)	(49)
Cancellation of Treasury shares	(5)	–	–	–
Effect of share consolidation	(1,135,924)	–	–	–
As at 31 July	20,777,872	1,380	13,382,580	743

Consideration received in respect of shares transferred to participants in certain long-term incentive plans and all-employee plans amounted to $24 million (2017: $27 million).

(iii) Own shares

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

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

	2018 Number of shares	2018 Cost $m	Restated 2017 Number of shares	Restated 2017 Cost $m
As at 1 August	1,435,155	76	1,762,657	92
New shares purchased	564,476	41	142,000	8
Exercise of share options	(492,870)	(27)	(469,502)	(24)
Effect of share consolidation	(80,156)	–	–	–
As at 31 July	1,426,605	90	1,435,155	76

Consideration received in respect of shares transferred to participants in the discretionary share option plans and long-term incentive plans amounted to $nil (2017: $nil). At 31 July 2018, the shares held in the trusts had a market value of $113 million (2017: $86 million).

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

27 – Reconciliation of profit to cash generated from operations

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

	2018 $m	Restated 2017 $m
Profit for the year attributable to shareholders	**1,267**	920
Net finance costs	**57**	49
Share of (profit)/loss after tax of associates	**(2)**	1
Impairment of interests in associates	**122**	–
Tax charge	**377**	367
Profit on disposal and closure of businesses and revaluation of assets held for sale	**(407)**	(255)
Amortisation and impairment of goodwill and acquired intangible assets	**65**	216
Amortisation and impairment of non-acquired intangible assets	**28**	31
Depreciation and impairment of property, plant and equipment	**152**	180
(Profit)/loss on disposal of property, plant and equipment and assets held for sale	**(6)**	11
Increase in inventories	**(102)**	(121)
Increase in trade and other receivables	**(351)**	(267)
Increase in trade and other payables	**208**	293
Decrease in provisions and other liabilities	**(120)**	(43)
Share-based payments	**35**	28
Cash generated from operations	**1,323**	1,410

28 – Acquisitions

The Group acquired the following businesses in the year ended 31 July 2018. All these businesses are engaged in the distribution of plumbing and heating products and were acquired to support growth principally in the USA and Canada. All transactions have been accounted for by the purchase method of accounting.

Name	Date of acquisition	Country of incorporation	Shares/asset deal	% acquired
Wholesale Group, Inc.	August 2017	USA	Asset	100
Aircovent B.V.	August 2017	Netherlands	Shares	100
HM Wallace, Inc.	September 2017	USA	Shares	100
3097-3275 Quebec Inc.	September 2017	Canada	Shares	100
Tackaberry Heating Supplies Limited	September 2017	Canada	Shares	100
Duhig and Co., Inc.	January 2018	USA	Shares	100
National Fire Products, L.L.C.[1]	May 2018	USA	Asset	100
National Fire Protection of Albuquerque, LLC[1]	May 2018	USA	Asset	100
National Fire Protection Manufacturing & Supply, Inc.[1]	May 2018	USA	Asset	100
Cooper National Leasing, L.L.C.[1]	May 2018	USA	Asset	100
AMRE Supply Inc.[2]	July 2018	Canada	Shares	100
AMRE Supply Company Limited[2]	July 2018	Canada	Asset	100
Wright Plumbing Supply, Inc.	July 2018	USA	Asset	100
Lighting Design Enterprises, Inc.	July 2018	USA	Asset	100
Appliance Distributors of Louisiana – Baton Rouge, LLC.	July 2018	USA	Asset	100
Brock-McVey Company	July 2018	USA	Asset	100
Safe Step Walk In Tub, LLC	July 2018	USA	Shares	100

1. These businesses trade as National Fire and were acquired together.
2. These businesses trade as AMRE Supply and were acquired together.

28 – Acquisitions continued

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

	Provisional fair values acquired $m
Intangible assets	
– Customer relationships	21
– Trade names and brands	54
– Other	55
Property, plant and equipment	12
Inventories	34
Receivables	34
Cash, cash equivalents and bank overdrafts	7
Payables	(38)
Deferred tax	(1)
Provisions	(4)
Total	174
Goodwill arising	241
Consideration	415
Satisfied by:	
Cash	376
Deferred consideration	39
Total consideration	415

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 judgemental areas.

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

The acquisitions contributed $187 million to revenue, $6 million to trading profit and $3 million loss to the Group's operating profit for the period between the date of acquisition and the balance sheet date. It is not practicable to disclose profit before and after tax, as the Group manages its borrowings as a portfolio and cannot attribute an effective borrowing rate to an individual acquisition.

If each acquisition had been completed on the first day of the financial year, continuing revenue would have been $21,000 million and continuing trading profit would have been $1,532 million. It is not practicable to disclose profit before tax or profit attributable to shareholders of the Company, as stated above. It is also not practicable to disclose operating profit as the Group cannot estimate the amount of intangible assets that would have been acquired at a date other than the acquisition date.

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

	2018 $m	Restated 2017 $m
Purchase consideration	376	326
Deferred and contingent consideration in respect of prior year acquisitions	47	15
Cash consideration	423	341
Cash, cash equivalents and bank overdrafts acquired	(7)	(10)
Net cash outflow in respect of the purchase of businesses	416	331

29 – Disposals

In the year ended 31 July 2018, the Group disposed of the following businesses:

Name	Country	Date of disposal	Shares/asset deal
Silvan A/S	Denmark	August 2017	Shares
Stark Group A/S	Denmark	March 2018	Shares
Ferguson Property (Norway) AS	Norway	June 2018	Shares
Arhus Property Denmark A/S	Denmark	June 2018	Shares

The Group recognised a total gain on current year disposals of $439 million, which is reported within discontinued operations.

	2018 $m
Consideration received	1,411
Net assets disposed of	(697)
Disposal costs and provisions	(81)
Recycling of deferred foreign exchange losses[1]	(194)
Gain on disposal	439

1. Includes recycling of remaining foreign exchange relating to France and other European assets following the abandonment of operations.

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

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

	2018 $m
Cash consideration received for current year disposals (net of cash disposed of)	1,367
Cash paid in respect of prior year disposals	(2)
Disposal costs paid	(45)
Net cash inflow	1,320

30 – Reconciliation of opening to closing net debt

				Liabilities from financing activities			
	Cash and cash equivalents (note 19) $m	Bank overdrafts (note 22) $m	Total cash, cash equivalents and bank overdrafts $m	Derivative financial Instruments (note 23) $m	Bank loans (note 22) $m	Obligations under finance leases $m	Net debt $m
At 1 August 2017 restated	2,525	(1,982)	543	26	(1,266)	(9)	(706)
Cash movements							
Proceeds from borrowings and derivatives			–	(9)	(450)	–	(459)
Repayments of borrowings			–	–	261	–	261
Finance lease capital payments			–	–	–	4	4
Changes in net debt due to disposal of businesses			(42)	–	7	–	(35)
Changes in net debt due to acquisition of businesses			7	–	–	–	7
Held for sale movements			43	–	(105)	–	(62)
Other cash flows			(86)	–	–	–	(86)
Non-cash movements							
New finance leases			–	–	–	(1)	(1)
Fair value and other adjustments			–	(17)	16	–	(1)
Exchange movements			(7)	(2)	7	–	(2)
At 31 July 2018	833	(375)	458	(2)	(1,530)	(6)	(1,080)

31 – Related party transactions

There are no related party transactions requiring disclosure under IAS 24 “Related Party Disclosures” other than the compensation of key management personnel which is set out in note 11.

32 – Operating lease commitments

Future minimum lease payments under non-cancellable operating leases for the following periods are:

	2018 $m	Restated 2017 $m
Less than one year	**328**	344
After one year and less than five years	**591**	609
After five years	**162**	176
Total operating lease commitments	**1,081**	1,129

Operating lease payments mainly represent rents payable for properties. Some of the Group's operating lease arrangements have renewal options and rental escalation clauses. No arrangements have been entered into for contingent rental payments.

The commitments shown above include commitments for onerous leases which have already been provided for. At 31 July 2018, provisions include an amount of $32 million (2017: $36 million) in respect of minimum lease payments for such onerous leases net of sublease income expected to be received. The total minimum sublease income expected to be received under non-cancellable subleases at 31 July 2018 is $6 million (2017: $10 million).

The commitments above include $nil operating lease commitments (2017: $120 million) for discontinued operations.

33 – Contingent liabilities

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

Warranties and indemnities in relation to business disposals

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

Environmental liabilities

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

Outcome of claims and litigation

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

34 – Post-balance sheet events

Since the year-end, the Group has acquired five businesses, four in the USA and one in Canada for total consideration of $240 million with a combined annual revenue of $171 million. These acquisitions include Plumbing Holdings Corporation (trading as Jones Stephens), a master distributor of own brand plumbing speciality products. 100% of this company was acquired to further develop our product strategy and expand our customer base in the USA. As at the date of this report, the accounting for these transactions has not been finalised.

Since the year-end, the Group has initiated a process to dispose of Wasco Holding B.V., a Dutch plumbing and heating business.

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 31 July 2018 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;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been properly prepared in accordance with the requirements of Companies (Jersey) Law, 1991.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Company profit and loss account;
- the Group and Company balance sheets;
- the Group cash flow statement;
- the Group and Company statements of changes in equity;
- the notes to the consolidated financial statements 1 to 34; and
- the notes to the Company financial statements 1 to 15.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the Group and the 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. 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.

Summary of our audit approach

Key audit matters	The key matters that we identified in the current year were: – appropriateness of supplier rebates; – inventory provision for slow-moving and obsolete inventory; and – accounting for the disposal of the Nordic businesses. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used in the current year was $65 million (2017: £45 million) which was determined on the basis of approximately 5% of profit before tax excluding exceptional items and impairment of interests in associates.
Scoping	We performed full audits on the three key regions of continuing businesses, Head Office entities and the consolidation process, representing 99% of revenue, 99% of profit before tax and 98% of net assets.
Significant changes in our approach	Our approach is consistent with the previous year with the exception of: – the inclusion of an additional key audit matter relating to the accounting for the disposal of the Nordic businesses which were completed in the year; and – the exclusion of the key audit matter relating to restructuring costs. The Nordic related restructuring was completed during the prior year and in the context of our Group materiality level we have concluded that there is no longer a significant risk of material misstatement in the accounting for UK restructuring costs.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

– the disclosures on pages 44-49 that describe the principal risks and explain how they are being managed or mitigated;

– the Directors' confirmation on page 69 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or

– the Directors' explanation on page 45 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

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

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

Appropriateness of supplier rebates	
Key audit matter description	As described in the Audit Committee report on page 63 as a significant judgement and the accounting policies in note 1 to the financial statements, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers in the form of rebate arrangements. Where the rebate arrangements are non-tiered arrangements (flat rate), there is limited judgement. However, a proportion of the rebate arrangements comprise annual tiered volume rebates, for which the end of the period is often non-coterminous with the Group's year-end. Notes 18 and 21 to the financial statements disclose the quantum of accrued supplier rebates at year-end. There is complexity in supplier rebates which give rise to management judgement and scope for potential fraud or error in accounting for this income. Judgement is required in estimating the expected level of rebates for the rebate year, driven by the forecast purchase volumes. This requires a detailed understanding of the specific contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to.
How the scope of our audit responded to the key audit matter	We assessed the design and implementation of manual and automated controls over the recording of supplier rebate income. Our procedures on supplier rebates included: – in certain components, testing the operating effectiveness of the controls relating to supplier rebates; – making inquiries of members of management responsible either for buying decisions or managing vendor relationships to supplement our understanding of the key contractual rebate arrangements; – testing the accuracy of the amounts recognised by agreeing a sample to individual supplier agreements; – circularising a sample of suppliers to test whether the arrangements recorded were complete; – testing the completeness and accuracy of the inputs to the calculations for recording supplier rebates by agreement to supporting evidence, including historical volume data. We challenged the assumptions underlying management's estimates of purchase volumes including looking at the historical accuracy of previous estimates and historical purchase trends; – recalculating the rebate recognised for a sample of suppliers; – considering the adequacy of rebate related disclosure within the Group's financial statements; – holding discussions with management to understand if there has been any whistleblowing; and – testing a sample of rebate receivables to cash receipts, where relevant, to test the recoverability of amounts recorded.
Key observations	We consider the Group's estimation methodology to be prudent based on a number of factors, including a look back at historical cash receipts. However, the methodology is consistently applied year-on-year and the understatement of rebate income is not material to the financial position or the reported financial result as at 31 July 2018.

Inventory provision for slow-moving and obsolete inventory	
Key audit matter description	The Group had inventories of $2,516 million at 31 July 2018, held in distribution centres, warehouses and numerous branches, and across multiple product lines. Details of its valuation are included in the Audit Committee report on page 63 and the accounting policies in note 1 to the consolidated financial statements. Inventories are carried at the lower of cost and net realisable value. As a result, the Directors apply judgement in determining the appropriate values for slow-moving or obsolete items. As outlined in note 17 to the consolidated financial statements, inventories are net of a provision of $164 million which is primarily driven by comparing the level of inventory held to future projected sales. The provision is calculated within the Group's accounting systems using an automated process. We consider the assessment of inventory provisions to require judgement based on the size of the inventories balance held at year-end and the manual intervention required in the calculation. There is risk that inappropriate management override and/or error may occur.
How the scope of our audit responded to the key audit matter	We challenged the appropriateness of management's assumptions applied in calculating the value of the inventory provisions by: – evaluating the design and implementation of key inventory provision controls operating across the Group, including those at a sample of distribution centres, warehouses and branches; – comparing the net realisable value, obtained through a detailed review of sales subsequent to the year-end, to the cost price of a sample of inventories and comparison to the associated provision to assess whether inventory provisions are complete; – reviewing the historical accuracy of inventory provisioning, and the level of inventory write-offs during the year; – recalculating for a sample of inventory items the required provision based on a look-back at historical demand over several years to predict forward future demand, to test the validity of the provisioning methodology; – evaluating the business rationale behind any significant change in product strategy that had a consequential impact on inventory provisions recognised; and – challenging the completeness of inventory provisions through assessing actual and forecast sales of inventory lines to assess whether provisions for slow-moving or obsolete inventories are valid and complete.
Key observations	We consider the Group's provisioning methodology to be prudent when compared with historical levels of inventory write-offs. However, the methodology is consistently applied year-on-year and our estimate of the potential overstatement of the provision is not material to the financial position or the reported financial result as at 31 July 2018.

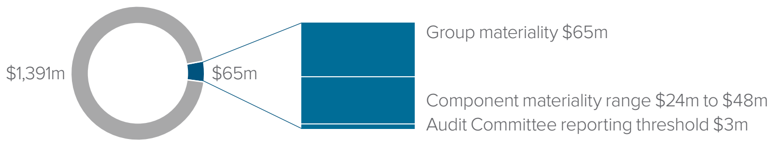
Accounting for the disposal of the Nordic businesses	
Key audit matter description	As described in the Audit Committee report on page 63 as a significant judgement and in notes 8 and 29 to the consolidated financial statements, the Group completed its disposal of the Nordic businesses in the period with a resultant gain of $439 million. The key judgements related to this key audit matter lie in the determination of the amount of foreign exchange balances to recycle from reserves and the balance sheet adjustments to net assets in respect of the completion accounts process for Stark Group.
How the scope of our audit responded to the key audit matter	Our procedures on the disposal included: – reviewing the completion account submissions and assessing the net asset values in light of the completion accounts process, including management's estimation of any final payment or receipt; – challenging the nature of the amounts recycled from reserves to the income statement to determine whether they relate to the entities disposed of or abandoned in the year; – testing the quantum of the amount recycled from reserves back to underlying accounting records; and – performing a completeness check on amounts remaining in reserves with reference to the Group structure, historical transactions and a proof of the closing balance.
Key observations	We consider that the judgements taken by management in concluding on the total gain to be recognised in the financial statements are reasonable and materially consistent with the results of our audit work, reflecting the substance and nature of the businesses disposed of or abandoned.

Our application of materiality

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

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

	Group financial statements	Company financial statements
Materiality	$65 million (2017: £45 million)	$30 million (2017: £23 million)
Basis for determining materiality	Approximately 5% of profit before tax excluding exceptional items and impairment of interests in associates. The profit before tax excluding exceptional items and impairment of interests in associates was $1,391 million which was $204 million higher than statutory profit. The exceptional items we excluded from our determination are explained further in note 5. We have also excluded impairment of interests in associates. These amounts were excluded to normalise for items which are considered significant by virtue of their nature, size or incidence.	Materiality was determined on the basis of the Company's net assets. This was then capped at approximately 50% of Group materiality.
Rationale for the benchmark applied	Profit before tax is a key metric for users of the financial statements and adjusting for exceptional items and impairment of interests in associates is to reflect 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.



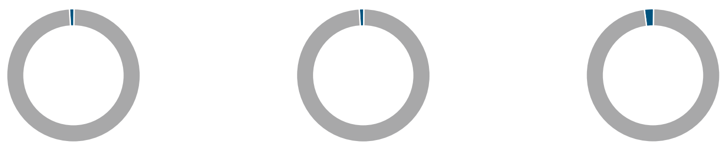
■ PBT excluding exceptionals and impairment of interests in associates ■ Group materiality

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $3 million (2017: £2 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

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 at the three key regions of continuing businesses (USA, UK and Canada). Full audits were performed in these locations, as was the case in the prior year. At the Group level we also tested Head Office entities and the consolidation process. Of continuing results, this provided coverage of 99% (2017: 97%) of revenue, 99% (2017: 99%) of the profit before tax and 98% (2017: 98%) of the net assets.



	Revenue	Profit before tax	Net assets
■ Full audit scope	99%	99%	98%
■ Analytical procedures	1%	1%	2%

The Group team is responsible for the Head Office entities and the consolidation. The Group team carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

The component teams in the USA, UK and Canada perform audit work and report into the Group team.

The Group audit team continued to follow a programme of planned visits that has been designed to enhance our oversight of the component teams. A senior member of the Group audit team visited each of the most significant locations where the Group audit scope was focused, being the USA, UK and Canada. We included the component audit partners in our team briefing, sent detailed instructions to our component audit teams, reviewed their planned audit work and challenged their risk assessment. We communicated regularly with all components to discuss the progress of their work and a senior member of the Group audit team performed a review of the work performed on significant risks and other areas of focus set out in our instructions. For all components we attended the local close meetings.

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Other information

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

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

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

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

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of the Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's 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 related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team including the USA, UK and Canadian component audit teams and involving relevant internal specialists, including tax, treasury, valuations and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in relation to supplier rebates given the complexity of the annual tiered volume rebates and manual adjustments to revenue; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Jersey Law, Listing Rules, pensions legislation and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the appropriateness of supplier rebates as a key audit matter. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- profiling the manual revenue postings made and tested the appropriateness of a sample that met certain risk criteria;
- 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;
- 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 UK 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 of 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.

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.

Directors' remuneration

We are also required to report if in our opinion certain disclosures of Directors' remuneration that would be required under the UK Companies Act 2006 have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Company on 12 November 2015 to audit the financial statements for the year ending 31 July 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering periods from our appointment to 31 July 2018.

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/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Waller

Ian Waller
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Recognised Auditor
London, UK

1 October 2018

Company profit and loss account

Year ended 31 July 2018

	2018 $m	Restated[1] 2017 $m
Administrative expenses	**(54)**	(13)
Operating loss	**(54)**	(13)
Income from shares in Group undertakings	**1,442**	572
Profit on ordinary activities before interest	**1,388**	559
Interest receivable and similar income	**2**	–
Interest payable and similar charges	**(24)**	(10)
Profit before tax	**1,366**	549
Tax	**2**	–
Profit for the financial year	**1,368**	549

1. All comparative information has been restated to be presented in US dollars, see note 1.

Company statement of changes in equity

	Notes	Called up share capital $m	Share premium $m	Treasury shares reserve $m	Own shares reserve $m	Retained earnings $m	Translation Reserve $m	Total shareholders' equity $m
At 1 August 2016 restated		45	67	(792)	(92)	12,302	(1,877)	9,653
Profit for the year		–	–	–	–	549	–	549
Purchase of own shares by Employee Benefit Trusts	9	–	–	–	(8)	–	–	(8)
Issue of own shares by Employee Benefit Trusts		–	–	–	24	(24)	–	–
Credit to equity for share-based payments	10	–	–	–	–	28	–	28
Disposal of Treasury shares	8	–	–	49	–	(22)	–	27
Dividends paid		–	–	–	–	(328)	–	(328)
Exchange rate adjustment		–	–	–	–	–	18	18
At 31 July 2017 restated		**45**	**67**	**(743)**	**(76)**	**12,505**	**(1,859)**	**9,939**
Profit for the year		**–**	**–**	**–**	**–**	**1,368**	**–**	**1,368**
Purchase of own shares by Employee Benefit Trusts	9	**–**	**–**	**–**	**(41)**	**–**	**–**	**(41)**
Issue of own shares by Employee Benefit Trusts		**–**	**–**	**–**	**27**	**(27)**	**–**	**–**
Credit to equity for share-based payments	10	**–**	**–**	**–**	**–**	**35**	**–**	**35**
Purchase of Treasury shares		**–**	**–**	**(675)**	**–**	**–**	**–**	**(675)**
Disposal of Treasury shares	8	**–**	**–**	**38**	**–**	**(14)**	**–**	**24**
Dividends paid		–	**–**	**–**	**–**	**(1,364)**	**–**	**(1,364)**
At 31 July 2018		**45**	**67**	**(1,380)**	**(90)**	**12,503**	**(1,859)**	**9,286**

Company balance sheet
Year ended 31 July 2018

	Notes	2018 $m	Restated 2017 $m
Fixed assets			
Investments in subsidiaries	3	**10,979**	10,979
		10,979	10,979
Current assets			
Debtors: amounts falling due within one year	4	**2**	1
Cash at bank and in-hand		**1**	–
		3	1
Current liabilities			
Creditors: amounts falling due within one year	5	**(1,696)**	(1,041)
Net current liabilities		**(1,693)**	(1,040)
Net assets		**9,286**	9,939
Capital and reserves			
Called up share capital	6	**45**	45
Share premium	7	**67**	67
Treasury shares reserve	8	**(1,380)**	(743)
Own shares reserve	9	**(90)**	(76)
Retained earnings		**12,503**	12,505
Translation reserve		**(1,859)**	(1,859)
Total shareholders' equity		**9,286**	9,939

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

The Company financial statements on pages 146 to 149 were approved by the Board of Directors on 1 October 2018 and were signed on its behalf by:

John Martin

John Martin
Group Chief Executive

Mike Powell

Mike Powell
Group Chief Financial Officer

Notes to the Company financial statements

Year ended 31 July 2018

1 – Corporate information

Ferguson plc (the "Company") was incorporated and registered in Jersey on 28 September 2010 under the Jersey Companies Law as a public company limited by shares under the name Ferguson plc with registered number 106605. The principal legislation under which the Company operates is the Companies (Jersey) Law 1991, as amended, and regulations made thereunder. The address of its registered office is 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands. It is headquartered in Switzerland.

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

Change in functional and presentation currency

With effect from 1 August 2017, the functional currency of the Company was changed from pounds sterling to US dollars and applied prospectively from the date of change, as this is now the primary currency in which the Company's financing activities and investments returns are denominated. As a result of the change in functional currency, the Company has chosen to change its presentational currency to US dollars which is accounted for retrospectively.

Statutory financial information included in the Company financial statements for the years ended 31 July 2017 and 31 July 2016 previously reported in pounds sterling has been restated into US dollars using the procedures outlined below:

– assets and liabilities denominated in non-US dollar currencies were translated into US dollars at the closing rates of exchange on the relevant balance sheet date;
– non-US dollar income and expenditure were translated at the average rates of exchange prevailing for the relevant period;
– share capital, share premium and the other reserves were translated at the historic rates of exchange prevailing on the date of each transaction; and
– all exchange rates used were extracted from the Company's underlying financial records.

The exchange rates of US dollar to pounds sterling over the periods presented in this report are as follows:

	2018	2017	2016
US dollar/pounds sterling translation rate			
Profit and loss	**0.74**	0.79	0.68
Balance sheet	**0.76**	0.76	0.76

2 – Company accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council ("FRC"). Accordingly, the financial statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) "Reduced Disclosure Framework" as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis.

Note 4 (Operating profit) on page 113, note 9 (Dividends) on page 116, note 26 (Share capital) on page 135 and note 34 (Post-balance sheet events) on page 139 of the Ferguson plc consolidated financial statements form part of these financial statements.

Foreign currencies

The financial statements are presented in US dollars which was the functional currency of the Company at 31 July 2018.

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

Share-based payments

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

Dividends payable

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

Tax

Ferguson plc is taxed as a holding company in Switzerland so no tax is due at cantonal or communal level. The tax charge is therefore made up of federal tax and capital tax. Federal tax is levied on profits in the year subject to any participation exemption for qualifying dividends from subsidiaries. Capital tax is based on the value of the Company's assets, primarily its investment in Wolseley Limited and Ferguson Holdings (Switzerland) AG.

3 – Fixed asset investments

	Cost $m
At 1 August 2017 restated	**10,979**
Additions	**–**
At 31 July 2018	**10,979**

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

The Company's direct holdings in subsidiary undertakings as at 31 July 2018 were as follows:

Company	Country of registration and operation	Principal activity	Ordinary shares held %
Wolseley Limited	England and Wales	Investment	100
Ferguson Holdings (Switzerland) AG	Switzerland	Investment	100

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed on pages 152 and 153 of the Ferguson plc Annual Report.

4 – Debtors: amounts falling due within one year

	2018 $m	Restated 2017 $m
Other debtors	**2**	1

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

5 – Creditors: amounts falling due within one year

	2018 $m	Restated 2017 $m
Bank overdrafts	**199**	1,040
Other creditors	**7**	1
Amounts owed to Group companies	**1,490**	–
Total	**1,696**	1,041

The fair value of amounts included in creditors approximates to book value. Bank overdrafts are interest bearing, carrying an interest rate of 2.5 per cent and are payable on demand. Amounts owed to Group companies are interest bearing, carrying an interest rate of 2.5 per cent and are payable on demand.

6 – Share capital

Details of the Company's share capital are set out in note 26 on page 135 to the Ferguson plc consolidated financial statements.

7 – Share premium account

Details of new share capital subscribed are set out in note 26 on page 135 to the Ferguson plc consolidated financial statements.

8 – Treasury shares

Details of Treasury shares are set out in note 26 on page 135 to the Ferguson plc consolidated financial statements.

9 – Own shares reserve

During the year, the Company contributed $35 million (2017: $8 million) of cash to its USA Employee Benefit Trust and $6 million (2017: $nil) to its Jersey Employee Benefit Trust to purchase shares. The Treasury shares held by both of these trusts have been consolidated within the Company's balance sheet as at 31 July 2018 and amount to $90 million (2017: $76 million).

10 – Share-based payments

The net profit and loss charge to the Company for equity-settled share-based payments was $nil (2017: $nil). The Company charged the full amount incurred for equity-settled share-based payments of $35 million (2017: $28 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 25 on pages 131 to 134 to the Ferguson plc consolidated financial statements.

12 – Employees, employee costs and auditor's remuneration

The average number of employees of the Company in the year ended 31 July 2018 was one (2017: one). Other employees of Group companies were seconded or assigned to the Company in the period in order to fulfil their duties or to carry out the work of the Company. Each of the Non Executive Directors of the Company has an appointment letter with the Company. The Executive Directors and certain other senior managers of the Group have assignment letters in place with the Company. Total employment costs of the Company for the period, including Non Executive Directors and seconded employees, were $3 million (2017: $3 million).

Fees payable to the auditor for the audit of the Company's financial statements are set out in note 4 on page 113 to the Ferguson plc consolidated financial statements.

13 – Dividends

Details of the Company's dividends are set out in note 9 on page 116 to the Ferguson plc consolidated financial statements.

14 – Related party transactions

The Company is exempt under the terms of FRS 101 from disclosing related party transactions with entities that are 100 per cent owned.

15 – Post-balance sheet events

Details of post-balance sheet events are given in note 34 on page 139 to the Ferguson plc consolidated financial statements.