Financials

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Group income statement

Year ended 31 July 2019

	Notes	2019 Before exceptional items $m	2019 Exceptional items (note 5) $m	2019 Total $m	2018 Before exceptional items $m	2018 Exceptional items (note 5) $m	2018 Total $m
Revenue	3	**22,010**	**–**	**22,010**	20,752	–	20,752
Cost of sales		**(15,550)**	**(2)**	**(15,552)**	(14,689)	(19)	(14,708)
Gross profit		**6,460**	**(2)**	**6,458**	6,063	(19)	6,044
Operating costs:							
amortisation of acquired intangible assets		**(110)**	**–**	**(110)**	(65)	–	(65)
other		**(4,854)**	**(92)**	**(4,946)**	(4,556)	(63)	(4,619)
Operating costs		**(4,964)**	**(92)**	**(5,056)**	(4,621)	(63)	(4,684)
Operating profit	3, 4	**1,496**	**(94)**	**1,402**	1,442	(82)	1,360
Net finance costs	6	**(74)**	**–**	**(74)**	(53)	–	(53)
Share of profit after tax of associates		**2**	**–**	**2**	2	–	2
Gain on disposal of interests in associates		**–**	**3**	**3**	–	–	–
Impairment of interests in associates		**(9)**	**–**	**(9)**	(122)	–	(122)
Profit before tax		**1,415**	**(91)**	**1,324**	1,269	(82)	1,187
Tax	7	**(282)**	**19**	**(263)**	(361)	15	(346)
Profit from continuing operations		**1,133**	**(72)**	**1,061**	908	(67)	841
Profit from discontinued operations	8	**6**	**41**	**47**	22	404	426
Profit for the year attributable to shareholders of the Company		**1,139**	**(31)**	**1,108**	930	337	1,267

	Notes	2019	2018
Earnings per share	10		
Continuing operations and discontinued operations			
Basic earnings per share		**481.3c**	515.7c
Diluted earnings per share		**477.8c**	511.9c
Continuing operations only			
Basic earnings per share		**460.9c**	342.3c
Diluted earnings per share		**457.5c**	339.8c

Alternative performance measures	Notes	2019	2018
Trading profit from ongoing operations	2	**1,601**	1,493
Trading profit from non-ongoing operations	2	**5**	14
Trading profit from continuing operations	2, 3	**1,606**	1,507
Adjusted EBITDA from continuing operations	2	**1,788**	1,687
Headline earnings per share	2, 10	**517.4c**	444.4c

Group statement of comprehensive income

Year ended 31 July 2019

	Notes	2019 $m	2018 $m
Profit for the year		**1,108**	1,267
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss)/gain on translation of overseas operations[1]		**(86)**	7
Exchange gain/(loss) on translation of borrowings and derivatives designated as hedges of overseas operations[1]		**36**	(11)
Cumulative currency translation differences on disposals[1]	28	**1**	194
Cumulative currency translation differences on disposal of interests in associates[1]		**7**	–
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on retirement benefit plans[2]	24	**(36)**	104
Tax credit/(charge) on items that will not be reclassified to profit or loss[2]	7, 24	**6**	(17)
Other comprehensive (expense)/income for the year		**(72)**	277
Total comprehensive income for the year		**1,036**	1,544
Total comprehensive income attributable to:			
Continuing operations		**993**	926
Discontinued operations		**43**	618
Total comprehensive income for the year attributable to shareholders of the Company		**1,036**	1,544

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

Group statement of changes in equity

Year ended 31 July 2019

	Notes	Share capital $m	Share premium $m	Translation reserve $m	Treasury shares $m	Own shares $m	Retained earnings $m	Non-controlling interest $m	Total equity $m
				Reserves					
At 31 July 2017		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	25	–	–	–	–	(41)	–	–	(41)
Issue of own shares by Employee Benefit Trusts	25	–	–	–	–	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	25	–	–	–	(675)	–	–	–	(675)
Disposal of Treasury shares	25	–	–	–	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**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,108**	**–**	**1,108**
Other comprehensive expense		**–**	**–**	**(42)**	**–**	**–**	**(30)**	**–**	**(72)**
Total comprehensive income		**–**	**–**	**(42)**	**–**	**–**	**1,078**	**–**	**1,036**
Cancellation of Treasury shares	25	**(4)**	**–**	**–**	**1,369**	**–**	**(1,365)**	**–**	**–**
Group reconstruction		**(11)**	**16,083**	**–**	**–**	**–**	**(16,072)**	**–**	**–**
Capital reduction		**–**	**(16,150)**	**–**	**–**	**–**	**16,150**	**–**	**–**
Issue of share capital		**–**	**9**	**–**	**–**	**–**	**–**	**–**	**9**
Purchase of own shares by Employee Benefit Trusts	25	**–**	**–**	**–**	**–**	**(38)**	**–**	**–**	**(38)**
Issue of own shares by Employee Benefit Trusts	25	**–**	**–**	**–**	**–**	**26**	**(26)**	**–**	**–**
Credit to equity for share-based payments		**–**	**–**	**–**	**–**	**–**	**34**	**–**	**34**
Tax relating to share-based payments	7	**–**	**–**	**–**	**–**	**–**	**6**	**–**	**6**
Adjustment arising from change in non-controlling interest		**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Purchase of Treasury shares	25	**–**	**–**	**–**	**(309)**	**–**	**–**	**–**	**(309)**
Disposal of Treasury shares	25	**–**	**–**	**–**	**15**	**–**	**(12)**	**–**	**3**
Dividends paid	9	**–**	**–**	**–**	**–**	**–**	**(449)**	**–**	**(449)**
At 31 July 2019		**30**	**9**	**(598)**	**(305)**	**(102)**	**5,316**	**–**	**4,350**

On 10 May 2019 a new Jersey incorporated, UK headquartered, company became the holding company of the Ferguson Group. Shareholders received one 10 pence ordinary share in this new company for each $11^{227}/_{563}$ pence ordinary share in the old Ferguson holding company (note 25). The introduction of a new parent company constitutes a group reconstruction with the new holding company recording the cost of its investment in the old Ferguson holding company at the fair value on 10 May 2019 resulting in an increase in share premium to $16,150 million. On 10 May 2019 the new holding company undertook a reduction of capital under which the entire amount of the share premium account as at 10 May 2019 was cancelled and transferred to retained earnings.

Group balance sheet

Year ended 31 July 2019

	Notes	2019 $m	2018 $m
Assets			
Non-current assets			
Intangible assets: goodwill	12	**1,656**	1,408
Intangible assets: other	13	**423**	308
Property, plant and equipment	14	**1,349**	1,086
Interests in associates		**29**	64
Financial assets		**42**	11
Retirement benefit assets	24	**178**	193
Deferred tax assets	15	**164**	130
Trade and other receivables	17	**340**	328
Derivative financial assets	22	**10**	17
		4,191	3,545
Current assets			
Inventories	16	**2,821**	2,516
Trade and other receivables	17	**3,213**	3,094
Current tax receivable		**6**	10
Financial assets		**9**	–
Derivative financial assets	22	**12**	–
Cash and cash equivalents	18	**1,133**	833
		7,194	6,453
Assets held for sale	19	**1**	151
Total assets		**11,386**	10,149
Liabilities			
Current liabilities			
Trade and other payables	20	**3,797**	3,341
Current tax payable		**251**	188
Derivative financial liabilities	22	**–**	2
Borrowings	21	**52**	383
Obligations under finance leases		**2**	3
Provisions	23	**79**	95
Retirement benefit obligations	24	**–**	4
		4,181	4,016
Non-current liabilities			
Trade and other payables	20	**292**	298
Derivative financial liabilities	22	**–**	17
Borrowings	21	**2,292**	1,522
Obligations under finance leases		**4**	3
Deferred tax liabilities	15	**56**	42
Provisions	23	**186**	179
Retirement benefit obligations	24	**25**	15
		2,855	2,076
Total liabilities		**7,036**	6,092
Net assets		**4,350**	4,057
Equity			
Share capital	25	**30**	45
Share premium		**9**	67
Reserves		**4,311**	3,946
Equity attributable to shareholders of the Company		**4,350**	4,058
Non-controlling interest		**–**	(1)
Total equity		**4,350**	4,057

The accompanying notes are an integral part of these consolidated financial statements. The consolidated financial statements on pages 108 to 149 were approved and authorised for issue by the Board of Directors on 30 September 2019 and were signed on its behalf by:

John Martin
Group Chief Executive

Mike Powell
Group Chief Financial Officer

Group cash flow statement

Year ended 31 July 2019

	Notes	2019 $m	2018 $m
Cash flows from operating activities			
Cash generated from operations	26	**1,609**	1,323
Interest received		**13**	9
Interest paid		**(90)**	(62)
Tax paid		**(242)**	(234)
Net cash generated from operating activities		**1,290**	1,036
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	27	**(657)**	(416)
Disposals of businesses (net of cash disposed of)	28	**201**	1,320
Purchases of property, plant and equipment		**(382)**	(265)
Proceeds from sale of property, plant and equipment and assets held for sale		**84**	120
Purchases of intangible assets		**(36)**	(34)
Acquisition of associates and other investments		**(11)**	(35)
Disposal of interests in associates		**18**	–
Dividends received from associates		**–**	10
Net cash (used in)/generated from investing activities		**(783)**	700
Cash flows from financing activities			
Proceeds from the issue of shares	25	**9**	–
Purchase of own shares by Employee Benefit Trusts	25	**(38)**	(41)
Purchase of Treasury shares	25	**(150)**	(675)
Proceeds from the sale of Treasury shares	25	**3**	24
Proceeds from loans and derivatives	29	**757**	459
Repayments of loans	29	**(2)**	(261)
Finance lease capital payments	29	**(3)**	(4)
Dividends paid to shareholders		**(445)**	(1,359)
Net cash generated from/(used in) financing activities		**131**	(1,857)
Net cash generated/(used)		**638**	(121)
Effects of exchange rate changes		**(10)**	(7)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**628**	(128)
Cash, cash equivalents and bank overdrafts at the beginning of the year	29	**458**	586
Cash, cash equivalents and bank overdrafts at the end of the year	29	**1,086**	458

Notes to the consolidated financial statements

Year ended 31 July 2019

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.

On 10 May 2019, pursuant to a Scheme of Arrangement under Article 125 of the Companies (Jersey) Law 1991, a new parent company was introduced which is now called Ferguson plc (the "Company"). The previous parent company has been renamed as Ferguson Holdings Limited ("Old Ferguson").

Immediately after the Scheme of Arrangement became effective the Company had the same management and corporate governance arrangements as Old Ferguson had immediately before. The consolidated assets and liabilities of the Company immediately after the effective date of the Scheme of Arrangement were the same as the consolidated assets and liabilities of Old Ferguson immediately before.

The introduction of a new parent company constitutes a group reconstruction and has been accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations" and using merger accounting principles. Therefore, although the group reconstruction did not become effective until 10 May 2019, the consolidated financial statements of the Group are presented as if the Company and Old Ferguson had always been part of the same Group.

Accordingly, the results of the Group for the entire year ended 31 July 2019 are shown in the Group income statement, and the comparative figures for the year ended 31 July 2018 are also prepared on this basis. Earnings per share are unaffected by the group reconstruction.

The Group's subsidiary undertakings are set out on pages 162 and 163.

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

The consolidated financial statements have been prepared on a going concern basis (see page 77) and under the historical cost convention as modified by the revaluation of financial assets and liabilities held for trading.

Accounting developments and changes

On 1 August 2018 the Group adopted IFRS 9 "Financial Instruments". 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 adoption of IFRS 9 has not had a material impact on the Group's consolidated financial statements, comparatives have not been restated and there is no adjustment required to opening retained earnings.

On 1 August 2018 the Group adopted IFRS 15 "Revenue from Contracts with Customers" applying the modified retrospective approach which does not require the restatement of comparatives. 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 adoption of IFRS 15 has not had a material impact on the Group's consolidated financial statements and there is no adjustment required to opening retained earnings. The presentation of the provision for sales returns has changed from a net basis to a gross basis on the balance sheet, with a liability for expected refunds to customers included within trade and other payables and an associated asset for the value of returned goods included within inventory.

The following other standards and amendments to existing standards became effective for the year ending 31 July 2019 and have not had a material impact on the Group's consolidated financial statements:

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration";
- Annual Improvements to IFRSs 2014-2016 Cycle;
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 40 – Transfers of Investment Property; and
- Amendments to IFRS 4 – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts".

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

The Group is using the modified retrospective approach to transition. The impact on the opening balance sheet at the date of initial application of 1 August 2019 will be the creation of a right of use asset of $1.2 billion and a lease liability of $1.5 billion. The lease liability on transition is greater than the operating lease commitments (note 31) due to the inclusion of options to extend which the Group is reasonably certain to exercise, partially offset by the effect of discounting.

The net impact on profit for the year in the first year of adoption (year ending 31 July 2020) is not expected to be material to the Group, however, adjusted EBITDA will improve due to the reduction in rental charges which will be broadly offset in the income statement by an increase in depreciation and interest charges.

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, as disclosed in note 24. 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.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

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

Foreign currencies

Items included in the financial statements of the parent and of each of the Group's subsidiary undertakings are measured using the currency of the primary economic environment in which the subsidiary undertaking operates (the "functional currency"). The consolidated financial statements are presented in US dollars, which is the presentational currency of the Group and the functional currency of the 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 year-end. Exchange differences arising on the translation into US dollars of the net assets of these subsidiary undertakings are recognised in other comprehensive income and accumulated in the translation reserve. At 31 July 2019, the translation reserve comprised $384 million in relation to pound sterling entities, $181 million in relation to US dollar entities and $33 million in relation to entities denominated in other currencies.

In the event that a subsidiary undertaking which has a non-US dollar functional currency is disposed of, the gain or loss on disposal 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 IFRS 9 are recognised in other comprehensive income and the translation reserve (see the separate accounting policy on derivative financial instruments).

Business combinations

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

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

Revenue

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

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 customer obtains control of the goods. The customer is deemed to have obtained control of the goods when the goods have been received by the customer.

Revenue from the provision of goods is only recognised when the transaction price is determinable and it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods to be transferred to the customer.

The Group offers a right of return to its customers for most of its goods sold. Revenue is reduced by the amount of expected returns, estimated based on historical data. The Group also provides customers with assurance-type warranties for some own brand goods. Obligations under these warranties are accounted for as provisions.

The Group has no contracts with an expected duration of more than one year and has taken advantage of the practical expedient afforded by section 121 of IFRS 15, and as such is not required to disclose information about its remaining performance obligations.

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.

1 – Accounting policies continued

Accounting policies continued

Supplier rebates

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

Volume-based rebates

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

A small proportion of volume-based rebates are subject to 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, 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 are 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.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

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 the loss allowance. The loss allowance for trade receivables is measured at an amount equal to lifetime expected credit losses, estimated based on historical write-offs adjusted for forward-looking information where appropriate. A loss allowance of 100 per cent is recognised against all trade receivables more than 180 days past due because historical experience indicates that these are generally not recoverable. The loss is recognised in the income statement. Trade receivables are written off when recoverability is assessed as being remote. Subsequent recoveries of amounts previously written off are credited to the income statement.

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 recorded within operating profit.

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The liability or 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 was granted are modified. For cash-settled plans, the fair value is determined at the date of grant and is remeasured at each balance sheet date until the liability is settled. Generally, the compensation cost is 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 with original maturities of three months or less and bank overdrafts to the extent there is a legal right of offset or practice of net settlement with cash balances. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no legal right of offset 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 IFRS 9, 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 measured at amortised cost with any difference between the initial amount and the maturity amount being recognised in the income statement using the effective interest method.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

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 2019, the Group's Dutch business, Wasco, and a small non-core UK business have been sold and classified as non-ongoing and all comparatives have been restated for consistency and comparability.

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 2018 restated	20,334		418	20,752
Impact of exchange rate movements	(155)		(19)	(174)
Reported 2018 at 2019 exchange rates	20,179		399	20,578
Organic growth	884	4.4	27	911
Trading days	(52)	(0.3)	–	(52)
Acquisitions	760	3.8	–	760
Disposals	–	–	(187)	(187)
Growth at constant exchange rates	1,592	7.9	(160)	1,432
Reported 2019	21,771		239	22,010

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 20). A reconciliation of ongoing gross margin is provided below:

	2019			Restated 2018		
	Gross profit $m	Revenue $m	Ongoing gross margin %	Gross profit $m	Revenue $m	Ongoing gross margin %
Continuing	**6,458**	**22,010**		6,044	20,752	
Non-ongoing	**(64)**	**(239)**		(115)	(418)	
Exceptional items	**2**	**–**		19	–	
Ongoing	**6,396**	**21,771**	**29.4**	5,948	20,334	29.3

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 20).

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

	2019				Restated 2018		
	Ongoing		Non-ongoing	Continuing	Ongoing	Non-ongoing	Continuing
	$m	growth %	$m	$m	$m	$m	$m
Trading profit 2018	**1,493**		**14**	**1,507**			
Impact of exchange rate movements	**(4)**		**(2)**	**(6)**			
Trading profit 2018 at 2019 exchange rates	**1,489**		**12**	**1,501**			
Growth at constant exchange rates	**112**	**7.5**	**(7)**	**105**			
Trading profit	**1,601**		**5**	**1,606**	1,493	14	1,507
Amortisation of acquired intangible assets	**(109)**		**(1)**	**(110)**	(60)	(5)	(65)
Exceptional items	**(117)**		**23**	**(94)**	(82)	–	(82)
Operating profit	**1,375**		**27**	**1,402**	1,351	9	1,360

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	
	2019 $m	Restated 2018 $m	2019 $m	Restated 2018 $m	2019 %	Restated 2018 %
USA	**18,358**	16,670	**1,508**	1,406	**8.2**	8.4
UK	**2,222**	2,472	**69**	72	**3.1**	2.9
Canada and Central Europe	**1,191**	1,192	**67**	70	**5.6**	5.9
Central and other costs	**–**	–	**(43)**	(55)	**–**	–
Total ongoing operations	**21,771**	20,334	**1,601**	1,493	**7.4**	7.3
UK	**59**	96	**(4)**	1		
Canada and Central Europe	**180**	322	**9**	13		
Total non-ongoing operations	**239**	418	**5**	14		
Continuing operations	**22,010**	20,752	**1,606**	1,507		

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

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:

			2019			2018
	Continuing $m	**Discontinued $m**	**Group $m**	Continuing $m	Discontinued $m	Group $m
Operating profit	**1,402**	**47**	**1,449**	1,360	461	1,821
Exceptional items	**94**	**(42)**	**52**	82	(402)	(320)
Amortisation and impairment of goodwill and acquired intangible assets	**110**	**–**	**110**	65	–	65
Trading profit	**1,606**	**5**	**1,611**	1,507	59	1,566
Depreciation and impairment of property, plant and equipment	**147**	**–**	**147**	152	–	152
Amortisation and impairment of non-acquired intangible assets	**31**	**–**	**31**	28	–	28
Impairment of assets held for sale	**4**	**–**	**4**	–	–	–
Adjusted EBITDA	**1,788**	**5**	**1,793**	1,687	59	1,746

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 the 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 borrowings, 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 29 for a reconciliation.

Return on gross capital employed

Return on gross capital employed is the ratio of the Group's trading profit to the average year-end shareholders' equity, net debt and accumulated amortisation and impairment of goodwill and acquired intangible assets. Return on gross capital employed is a key performance indicator (see page 21). The calculation of return on gross capital employed is shown below:

	2019 $m	2018 $m
Net debt (note 29)	**1,195**	1,080
Accumulated impairment losses of goodwill (note 12)	**133**	197
Accumulated amortisation and impairment losses of acquired intangible assets (note 13)[1]	**677**	586
Shareholders' equity	**4,350**	4,058
Gross capital employed	**6,355**	5,921
Average gross capital employed[2]	**6,138**	6,897
Group trading profit[3]	**1,611**	1,566
Return on gross capital employed %	**26.2**	22.7

1. Excludes software.
2. Gross capital employed in 2017 was $7,872 million.
3. 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 2018 and 31 July 2019 include changes in exchange rates, disposals, acquisitions, trading days and organic change.

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

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

	2018 $m	Exchange $m	Disposals $m	Acquisitions $m	Trading days $m	Organic change $m	**2019 $m**
USA	16,670	–	–	703	(56)	1,041	**18,358**
UK	2,568	(113)	(37)	–	4	(141)	**2,281**
Canada and Central Europe	1,514	(61)	(150)	57	–	11	**1,371**
Continuing operations	20,752	(174)	(187)	760	(52)	911	**22,010**

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

	2018 $m	Exchange $m	Disposals $m	Acquisitions $m	Trading days $m	Organic change $m	**2019 $m**
USA	1,406	–	–	40	(12)	74	**1,508**
UK[1]	73	(5)	–	–	–	(3)	**65**
Canada and Central Europe[2]	83	(3)	(6)	5	–	(3)	**76**
Central and other costs	(55)	2	–	–	–	10	**(43)**
Continuing operations	1,507	(6)	(6)	45	(12)	78	**1,606**

1. Includes $1 million adverse variance in exchange and $4 million adverse variance in organic change relating to non-ongoing operations.
2. Includes $1 million adverse variance in exchange and $3 million favourable variance in organic change relating to non-ongoing operations.

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

	2019				2018			
	Trading profit/(loss) $m	**Exceptional items $m**	**Amortisation of acquired intangible assets $m**	**Operating profit/(loss) $m**	Trading profit/(loss) $m	Exceptional items $m	Amortisation of acquired intangible assets $m	Operating profit/(loss) $m
USA	**1,508**	**(63)**	**(102)**	**1,343**	1,406	(5)	(58)	1,343
UK	**65**	**(54)**	**–**	**11**	73	(70)	–	3
Canada and Central Europe	**76**	**34**	**(8)**	**102**	83	–	(7)	76
Central and other costs	**(43)**	**(11)**	**–**	**(54)**	(55)	(7)	–	(62)
Group	**1,606**	**(94)**	**(110)**	**1,402**	1,507	(82)	(65)	1,360
Net finance costs				**(74)**				(53)
Share of profit after tax of associates				**2**				2
Gain on disposal of interests in associates				**3**				–
Impairment of interests in associates				**(9)**				(122)
Profit before tax				**1,324**				1,187

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

3 – Segmental analysis continued

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

	2019			2018		
	Segment assets $m	**Segment liabilities $m**	**Segment net assets/ (liabilities) $m**	Segment assets $m	Segment liabilities $m	Segment net assets/ (liabilities) $m
USA[1]	**8,252**	**(3,243)**	**5,009**	6,964	(2,772)	4,192
UK	**1,144**	**(553)**	**591**	1,301	(656)	645
Canada and Central Europe	**564**	**(267)**	**297**	690	(297)	393
Central and other costs[1]	**97**	**(282)**	**(185)**	88	(141)	(53)
Discontinued	**4**	**(34)**	**(30)**	116	(66)	50
Total	**10,061**	**(4,379)**	**5,682**	9,159	(3,932)	5,227
Tax assets/(liabilities)	**170**	**(307)**	**(137)**	140	(230)	(90)
Net cash/(debt)	**1,155**	**(2,350)**	**(1,195)**	850	(1,930)	(1,080)
Group assets/(liabilities)	**11,386**	**(7,036)**	**4,350**	10,149	(6,092)	4,057

1. Segmental assets include $8 million (2018: $nil) in the USA and $21 million (2018: $64 million) in Central and other costs relating to interests in associates.

Geographical information on 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.

	2019 $m	2018 $m
USA	**3,036**	2,343
UK	**225**	258
Canada and Central Europe	**196**	265
Group	**3,457**	2,866

	2019				2018			
	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	**258**	**224**	**26**	**327**	208	120	8	182
UK	**–**	**–**	**8**	**33**	–	–	16	32
Canada and Central Europe	**1**	**–**	**2**	**11**	33	10	5	13
Central and other costs	**–**	**–**	**–**	**3**	–	35	1	1
Group	**259**	**224**	**36**	**374**	241	165	30	228

	2019				2018			
	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	**–**	**102**	**20**	**118**	–	58	15	113
UK	**–**	**–**	**8**	**21**	–	–	10	30
Canada and Central Europe	**–**	**8**	**2**	**8**	–	7	2	8
Central and other costs	**9**	**–**	**1**	**–**	122	–	1	1
Group	**9**	**110**	**31**	**147**	122	65	28	152

4 – Operating profit

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

	Notes	2019 $m	2018 $m
Amortisation of acquired intangible assets	13	**110**	65
Amortisation of non-acquired intangible assets	13	**31**	26
Impairment of non-acquired intangible assets	13	**–**	2
Depreciation of property, plant and equipment	14	**147**	145
Impairment of property, plant and equipment	14	**–**	7
Impairment of assets held for sale		**4**	–
Gain on disposal of businesses	28	**(23)**	–
Amounts included in cost of sales with respect to inventory		**15,427**	14,618
Staff costs	11	**3,163**	2,913
Operating lease rentals: land and buildings		**252**	240
Operating lease rentals: plant and machinery		**88**	85
Trade receivables impairment		**11**	13

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

	2019 $m	2018 $m
Fees for the audit of the Company and consolidated financial statements	**1.6**	1.4
Fees for the audit of the Company's subsidiaries pursuant to legislation	**2.2**	2.6
Total audit fees	**3.8**	4.0
Audit related assurance services	**0.3**	0.3
Other assurance services	**1.3**	–
Other services	**–**	0.2
Total non-audit fees	**1.6**	0.5
Total fees payable to the auditor	**5.4**	4.5

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 66 to 71. No services were provided pursuant to contingent fee arrangements.

5 – Exceptional items

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

	2019 $m	2018 $m
Gain on disposal of businesses	**23**	–
Business restructuring	**(108)**	(72)
Other exceptional items	**(9)**	(10)
Total included in operating profit	**(94)**	(82)

For the year ended 31 July 2019, business restructuring comprises costs incurred in the USA, UK and Canada in respect of their business transformation strategies and costs relating to the change in the Group corporate headquarters.

Other exceptional items of $9 million relate to changes in the defined benefit pension plan in the UK.

During the year, the cash flows relating to exceptional items were $53 million (2018: $59 million) used in respect of operating activities and $169 million (2018: $nil) generated in respect of investing activities.

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

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

6 – Net finance costs

	2019 $m	2018 $m
Interest income	**12**	8
Interest expense		
Borrowings	**(97)**	(65)
Unwind of fair value adjustment to senior unsecured loan notes	**6**	7
Finance lease charges	**–**	(1)
	(91)	(59)
Net interest income/(expense) on defined benefit obligation (note 24)	**5**	(1)
Valuation losses on financial instruments	**–**	(1)
Total net finance costs	**(74)**	(53)

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

7 – Tax

The tax charge for the year comprises:

	2019 $m	2018 $m
Current year tax charge	**306**	297
Adjustments to tax charge in respect of prior years	**4**	7
Total current tax charge	**310**	304
Deferred tax (credit)/charge: origination and reversal of temporary differences	**(47)**	42
Total tax charge	**263**	346

An exceptional tax credit of $19 million was recorded against exceptional items (2018: $15 million). The deferred tax credit of $47 million (2018: charge $42 million) includes a charge of $3 million (2018: credit $8 million) resulting from changes in tax rates.

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

	2019 $m	2018 $m
Deferred tax credit/(charge) on actuarial loss on retirement benefits	**6**	(17)
Total tax on items credited/(charged) to the Group statement of comprehensive income	**6**	(17)

Tax on items credited to equity:

	2019 $m	2018 $m
Current tax credit on share-based payments	**5**	7
Deferred tax credit on share-based payments	**1**	1
Total tax on items credited to equity	**6**	8

There is no tax charge in the statement of changes in equity which relates to changes in tax rates (2018: $3 million).

The Group has made provisions for the liabilities likely to arise from open audits and assessments. At 31 July 2019, the Group has recognised provisions of $254 million in respect of its uncertain tax positions (2018: $237 million). The total provision has increased by $17 million in the year due primarily to increases related to certain 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

	2019					
	Ongoing profit/tax[7]		Non-ongoing and other profit/tax[8]		Total profit/tax from continuing operations	
Tax reconciliation:	$m	%	$m	%	$m	%
Profit before tax	**1,529**		**(205)**		**1,324**	
Expected tax at weighted average tax rate[1]	**(303)**	**19.8**	**83**	**(40.5)**	**(220)**	**16.6**
Adjusted for the effects of:						
over provisions in respect of prior periods[2]	**–**	**–**	**2**	**(1.0)**	**2**	**(0.1)**
exceptional items which are non-tax deductible[3]	**–**	**–**	**(7)**	**3.4**	**(7)**	**0.6**
current year charge in relation to uncertain tax provisions[4]	**(35)**	**2.3**	**–**	**–**	**(35)**	**2.6**
tax credits and incentives	**4**	**(0.3)**	**–**	**–**	**4**	**(0.3)**
non-taxable income	**3**	**(0.2)**	**–**	**–**	**3**	**(0.2)**
other non-tax deductible expenditure[5]	**(15)**	**1.0**	**(1)**	**0.5**	**(16)**	**1.2**
recognition of previously unrecognised deferred tax asset	**–**	**–**	**11**	**(5.4)**	**11**	**(0.8)**
other	**2**	**(0.1)**	**(4)**	**2.0**	**(2)**	**0.1**
effect of tax rate changes[6]	**–**	**–**	**(3)**	**1.5**	**(3)**	**0.2**
Tax (charge)/credit / effective tax rate	**(344)**	**22.5**	**81**	**(39.5)**	**(263)**	**19.9**

	Restated 2018					
	Ongoing profit/tax[7]		Non-ongoing and other profit/tax[8]		Total profit/tax from continuing operations	
Tax reconciliation:	$m	%	$m	%	$m	%
Profit before tax	1,445		(258)		1,187	
Expected tax at weighted average tax rate[1]	(325)	22.5	57	(22.1)	(268)	22.6
Adjusted for the effects of:						
over/(under) provisions in respect of prior periods[2]	11	(0.7)	(14)	5.4	(3)	0.3
exceptional items which are non-tax deductible[3]	–	–	(1)	0.4	(1)	0.1
current year (charge)/credit in relation to uncertain tax provisions[4]	(44)	3.0	1	(0.4)	(43)	3.6
tax credits and incentives	5	(0.3)	–	–	5	(0.4)
non-tax deductible amortisation/impairment of acquired intangible assets	–	–	(24)	9.3	(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	10	(0.7)	(2)	0.8	8	(0.7)
Tax (charge)/credit / effective tax rate	(363)	25.1	17	(6.6)	(346)	29.1

1. This expected weighted average tax rate reflects the applicable statutory corporate tax rates on the accounting profits/losses in the countries in which the Group operates after intra-group financing. This results in interest deductions and lower taxable profits in many of the countries and therefore reduces the tax rate. The pre intra-group financing ongoing expected weighted average tax rate is 26.4 per cent (2018: 31.6 per cent) and this is reduced to a post intra-group financing ongoing expected weighted average tax rate of 19.8 per cent (2018: 22.5 per cent) following intra-group financing. The 2.7 per cent decrease in the post intra-group financing ongoing expected weighted average tax rate is primarily due to the reduction in US statutory tax 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. This primarily relates to non-taxable disposal 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 legal/professional fees.
6. This relates to the difference between the current tax rate of 19 per cent and deferred tax rate of 17 per cent in the UK.
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 2019, the non-ongoing and other credit of $81 million relates primarily to exceptional UK and US restructuring costs, a decrease in uncertain tax provisions in respect of prior periods, tax deductible amortisation in relation to intangible assets, non-taxable disposal of businesses and recognition of deferred tax assets in relation to corporation interest restriction and the amortisation of loan premium.

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

8 – Discontinued operations

The Group disposed of Stark Group on 29 March 2018 and during the year sold 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 had been classified as discontinued.

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

	2019			2018		
	Before exceptional items $m	Exceptional items $m	Total $m	Before exceptional items $m	Exceptional items $m	Total $m
Revenue	–	–	–	1,705	–	1,705
Cost of sales	–	–	–	(1,280)	(5)	(1,285)
Gross profit	–	–	–	425	(5)	420
Operating costs:						
gain on disposal of businesses	–	34	34	–	439	439
other	5	8	13	(366)	(32)	(398)
Operating income	5	42	47	(366)	407	41
Operating profit	5	42	47	59	402	461
Net finance income/(costs)	1	3	4	(6)	2	(4)
Profit before tax	6	45	51	53	404	457
Tax	–	(4)	(4)	(31)	–	(31)
Profit from discontinued operations	6	41	47	22	404	426
Basic earnings per share			20.4c			173.4c
Diluted earnings per share			20.3c			172.1c

The discontinued exceptional items in 2019 relate predominantly to gains from the sale of Nordic property assets.

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

During the year, discontinued operations used cash of $16 million (2018: $120 million) in respect of operating activities, generated $121 million (2018: $1,368 million) in respect of investing activities and used $nil (2018: $99 million) in respect of financing activities.

9 – Dividends

Amounts recognised as distributions to equity shareholders:

	2019 $m	2018 $m
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
Final dividend for the year ended 31 July 2018: 131.9 cents per share	303	–
Interim dividend for the year ended 31 July 2019: 63.1 cents per share	146	–
Dividends paid	449	1,364

Since the end of the financial year, the Directors have proposed a final ordinary dividend of $332 million (145.1 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 2019.

The interim, special and final dividends for the year ended 31 July 2018 and the interim dividend for the year ended 31 July 2019 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

	2019			2018		
	Earnings $m	**Basic earnings per share cents**	**Diluted earnings per share cents**	Earnings $m	Basic earnings per share cents	Diluted earnings per share cents
Profit from continuing and discontinued operations attributable to shareholders of the Company	**1,108**	**481.3**	**477.8**	1,267	515.7	511.9
Profit from discontinued operations	**(47)**	**(20.4)**	**(20.3)**	(426)	(173.4)	(172.1)
Profit from continuing operations	**1,061**	**460.9**	**457.5**	841	342.3	339.8
Non-recurring tax (credit)/charge relating to changes in tax rates and other adjustments	**(33)**	**(14.3)**		16	6.4	
Amortisation and impairment of acquired intangible assets and impairment of interests in associates (net of tax)	**91**	**39.5**		168	68.4	
Exceptional items (net of tax)	**72**	**31.3**		67	27.3	
Headline profit after tax from continuing operations	**1,191**	**517.4**		1,092	444.4	

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 230.2 million (2018: 245.7 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 231.9 million (2018: 247.5 million).

11 – Employee and key management information

	2019 $m	2018 $m
Wages and salaries	**2,833**	2,608
Social security costs	**194**	183
Pension costs – defined contribution plans	**91**	78
Pension costs – defined benefit plans (note 24)	**11**	9
Share-based payments	**34**	35
Total staff costs	**3,163**	2,913

The total staff costs, including discontinued operations, was $3,163 million (2018: $3,155 million).

Average number of employees	**2019**	2018
USA	**27,447**	25,129
UK	**5,439**	5,871
Canada and Central Europe	**2,974**	2,962
Central and other	**79**	94
Continuing operations	**35,939**	34,056

The average number of employees including discontinued operations was 35,939 (2018: 37,877).

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)	**2019 $m**	2018 $m
Salaries, bonuses and other short-term employee benefits	**13**	14
Post-employment benefits	**1**	1
Termination benefits	**–**	4
Share-based payments	**11**	9
Total compensation	**25**	28

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 80 to 106.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

12 – Intangible assets – goodwill

	2019 $m	2018 $m
Cost		
At 1 August	**1,605**	1,372
Exchange rate adjustment	**(14)**	(8)
Acquisitions	**259**	241
Adjustment to fair value on prior year acquisitions	**(6)**	–
Disposal of businesses	**(55)**	–
At 31 July	**1,789**	1,605
Accumulated impairment losses		
At 1 August	**197**	199
Exchange rate adjustment	**(9)**	(2)
Disposal of businesses	**(55)**	–
At 31 July	**133**	197
Net book value at 31 July	**1,656**	1,408

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 2019.

	2019				2018[1]			
	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				**830**				623
eBusiness				**294**				294
Waterworks				**188**				169
Rest of USA				**163**				131
USA	**2.2**	**9.3**	**12.6**	**1,475**	2.1	9.0	12.0	1,217
UK	**2.0**	**8.0**	**9.8**	**39**	2.0	7.6	9.3	43
Canada	**2.0**	**8.5**	**11.6**	**142**	2.0	8.4	11.5	148
Total				**1,656**				1,408

1. On conclusion of the acquisition accounting for several own brand businesses acquired in 2018 it has been determined that they are part of the Blended Branches CGU. These were included in rest of USA in the prior year and as such the comparative has been reclassified for comparability.

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

Cash flow forecasts for years one to three are derived from the most recent Board approved strategic plan. The forecast for year five represents an estimate of "mid-cycle" trading performance for the CGU based on historic analysis. Year four is calculated as the average of the final year of the strategic plan and year five's mid-cycle estimate. The other inputs include a risk-adjusted, pre-tax discount rate, calculated by reference to the weighted average cost of capital ("WACC") of each country and the 30-year long-term growth rate by country, as published by the IMF in April 2019.

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

		Acquired intangible assets			
	Software $m	Trade names and brands $m	Customer relationships $m	Other $m	Total $m
Cost					
At 1 August 2017	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**
Exchange rate adjustment	**(5)**	**(1)**	**(3)**	**–**	**(9)**
Acquisitions	**–**	**19**	**202**	**3**	**224**
Adjustment to fair value on prior year acquisitions	**–**	**–**	**7**	**–**	**7**
Additions	**36**	**–**	**–**	**–**	**36**
Disposal of businesses	**(12)**	**(2)**	**(15)**	**–**	**(29)**
Disposals	**(40)**	**–**	**–**	**–**	**(40)**
At 31 July 2019	**203**	**192**	**673**	**168**	**1,236**
Accumulated amortisation and impairment losses					
At 1 August 2017	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**
Exchange rate adjustment	**(3)**	**(1)**	**(3)**	**–**	**(7)**
Amortisation charge for the year	**31**	**26**	**65**	**19**	**141**
Disposal of businesses	**(7)**	**(2)**	**(13)**	**–**	**(22)**
Disposals	**(38)**	**–**	**–**	**–**	**(38)**
At 31 July 2019	**136**	**95**	**469**	**113**	**813**
Net book value at 31 July 2019	**67**	**97**	**204**	**55**	**423**
Net book value at 31 July 2018	71	104	62	71	308

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

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 2017	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**
Exchange rate adjustment	**(7)**	**–**	**(6)**	**(9)**	**(5)**	**(27)**
Acquisitions	**82**	**–**	**–**	**10**	**3**	**95**
Additions	**193**	**–**	**76**	**73**	**32**	**374**
Disposal of businesses	**(35)**	**–**	**–**	**(19)**	**(5)**	**(59)**
Disposals and transfers	**2**	**(2)**	**(20)**	**(56)**	**(38)**	**(114)**
At 31 July 2019	**1,184**	**1**	**498**	**679**	**219**	**2,581**
Accumulated depreciation and impairment losses						
At 1 August 2017	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**
Exchange rate adjustment	**(2)**	**–**	**(3)**	**(7)**	**(4)**	**(16)**
Depreciation charge for the year	**31**	**–**	**31**	**61**	**24**	**147**
Disposal of businesses	**(8)**	**–**	**–**	**(9)**	**(3)**	**(20)**
Disposals and transfers	**(2)**	**–**	**(12)**	**(51)**	**(40)**	**(105)**
At 31 July 2019	**278**	**–**	**338**	**475**	**141**	**1,232**
Owned assets	**906**	**–**	**160**	**203**	**74**	**1,343**
Assets under finance leases	**–**	**1**	**–**	**1**	**4**	**6**
Net book value at 31 July 2019	**906**	**1**	**160**	**204**	**78**	**1,349**
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

At 31 July 2019, the book value of property, plant and equipment that had been pledged as security for liabilities was $6 million (2018: $8 million).

15 – Deferred tax assets and liabilities

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

	2019 $m	2018 $m
Deferred tax assets	**164**	130
Deferred tax liabilities	**(56)**	(42)
	108	88

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	Trade and other payables $m	Other $m	Total $m
At 31 July 2017	(65)	23	62	99	(111)	79	46	15	148
Credit/(charge) to income	17	(2)	(24)	(44)	16	6	(24)	13	(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**	**22**	**28**	**88**
Credit/(charge) to income	**4**	**1**	**5**	**(4)**	**(21)**	**1**	**18**	**43**	**47**
Credit to other comprehensive income	**–**	**–**	**–**	**6**	**–**	**–**	**–**	**–**	**6**
Credit to equity	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**1**
Acquisitions	**(31)**	**–**	**(4)**	**–**	**2**	**–**	**–**	**–**	**(33)**
Disposal of businesses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Exchange rate adjustment	**–**	**–**	**(4)**	**2**	**–**	**–**	**–**	**–**	**(2)**
At 31 July 2019	**(74)**	**25**	**31**	**40**	**(114)**	**88**	**40**	**72**	**108**

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.

An additional analysis of the deferred tax assets and liabilities has been provided by separating out "Trade and other payables" from "Other" to provide further details.

In addition, the Group has unrecognised gross tax losses totalling $367 million (2018: $469 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 taxable temporary differences associated with unremitted earnings from the Group's subsidiary undertakings. However, tax may arise on $436 million (2018: $408 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.

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

16 – Inventories

	2019 $m	2018 $m
Goods purchased for resale	**2,997**	2,680
Inventory provisions	**(176)**	(164)
Net inventories	**2,821**	2,516

17 – Trade and other receivables

Current	2019 $m	2018 $m
Trade receivables	**2,747**	2,642
Less: provision for expected credit losses	**(28)**	(32)
Net trade receivables	**2,719**	2,610
Other receivables	**143**	135
Prepayments	**351**	349
	3,213	3,094
Non-current		
Other receivables	**340**	328

Included in prepayments is $277 million (2018: $266 million) due in relation to supplier rebates where there is no right of offset against trade payable balances.

Trade receivables have been aged with respect to the payment terms specified in the terms and conditions established with customers. The loss allowance for trade receivables by ageing category is as follows:

At 31 July 2019	Amounts not yet due $m	Less than six months past due $m	More than six months past due $m	Total $m
Expected credit loss rate	**0%**	**1%**	**100%**	
Gross trade receivables	**1,934**	**799**	**14**	**2,747**
Lifetime expected credit losses	**(7)**	**(7)**	**(14)**	**(28)**
Net trade receivables	**1,927**	**792**	**–**	**2,719**

At 31 July 2018	Amounts not yet due $m	Less than six months past due $m	More than six months past due $m	Total $m
Expected credit loss rate	1%	1%	100%	
Gross trade receivables	1,795	834	13	2,642
Lifetime expected credit losses	(12)	(7)	(13)	(32)
Net trade receivables	1,783	827	–	2,610

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

The contractual amount outstanding on trade receivables that were written off during the year and that are subject to enforcement activity was $12 million (2018: $9 million).

18 – Cash and cash equivalents

	2019 $m	2018 $m
Cash and cash equivalents	**1,133**	833

Included in the balance at 31 July 2019 is an amount of $18 million (2018: $255 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within bank overdrafts (note 21). These amounts are subject to a master netting arrangement.

At 31 July 2019, cash and cash equivalents included $87 million (2018: $86 million) which is used to collateralise letters of credit on behalf of Wolseley Insurance Limited.

19 – Assets held for sale

	2019 $m	2018 $m
Properties awaiting disposal	**1**	151
Assets held for sale	**1**	151

At 31 July 2018 properties awaiting disposal principally comprised the Nordic property assets, which were retained following the disposal of the Nordic business, and properties in the UK which were in the process of being sold as a result of the business restructuring.

20 – Trade and other payables

Current	2019 $m	2018 $m
Trade payables	**2,885**	2,597
Tax and social security	**112**	108
Other payables	**116**	97
Accruals and deferred income	**684**	539
	3,797	3,341
Non-current		
Other payables	**292**	298

Trade payables are stated net of $44 million (2018: $32 million) due from suppliers with respect to supplier rebates where an agreement exists that allows these to be net settled.

Accruals and deferred income includes $159 million (2018: $nil) payable in relation to the irrevocable and non-discretionary share buy back programme announced in July 2019.

21 – Borrowings

	2019			2018		
	Current $m	Non-current $m	Total $m	Current $m	Non-current $m	Total $m
Bank overdrafts	**47**	**–**	**47**	375	–	375
Bank and other loans	**–**	**–**	**–**	2	–	2
Senior unsecured loan notes	**5**	**2,292**	**2,297**	6	1,522	1,528
Total loans	**5**	**2,292**	**2,297**	8	1,522	1,530
Total borrowings	**52**	**2,292**	**2,344**	383	1,522	1,905

In October 2018, the Group successfully issued $750 million of 10 year 4.5% notes maturing in October 2028 in the USA 144a public debt market.

The carrying value of the USPP senior unsecured loan notes of $1,547 million comprises a par value of $1,530 million and a fair value adjustment of $17 million (2018: $1,528 million, $1,530 million and $2 million respectively).

Included in bank overdrafts at 31 July 2019 is an amount of $18 million (2018: $255 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 18). These amounts are subject to a master netting arrangement.

No bank loans were secured against trade receivables at 31 July 2019 (2018: $nil) as the trade receivables facility of $600 million was undrawn as at 31 July 2019 and 31 July 2018.

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

21 – Borrowings continued
Non-current loans are repayable as follows:

	2019 $m	2018 $m
Due in one to two years	**282**	5
Due in two to three years	**–**	283
Due in three to four years	**250**	–
Due in four to five years	**150**	250
Due in over five years	**1,610**	984
Total	**2,292**	1,522

The Group applies fair value hedge accounting to debt of $355 million (2018: $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.

22 – Financial instruments and financial risk management
Financial instruments by measurement basis
The carrying value of financial instruments by category as defined by IFRS 9 "Financial Instruments" is as follows:

	2019 $m	2018 $m
Financial assets		
Financial assets at fair value through profit and loss	**22**	17
Financial assets at fair value through other comprehensive income	**27**	–
Financial assets at amortised cost	**3,503**	3,350
Financial liabilities		
Financial liabilities at fair value through profit and loss	**–**	19
Financial liabilities at amortised cost	**5,809**	5,063

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); 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 2019 and 31 July 2018 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 $12 million (2018: $nil) and the non-current element is $10 million (2018: $17 million). The current element of derivative financial liabilities is $nil (2018: $2 million) and the non-current element is $nil (2018: $17 million). Total net derivative financial instruments is an asset of $22 million (2018: liability $2 million). No transfers between levels occurred during the current or prior year.

The Group has made the irrevocable election to designate its investments in equity instruments as financial assets at fair value through other comprehensive income as this presentation is more representative of the nature of the Group's investments. The fair value of the investments as at 31 July 2019 are measured using level 2 inputs. The investments are classified as non-current financial assets in the balance sheet. No dividends were received from these investments in the year.

The Group's other financial instruments are measured at amortised cost. Other receivables include an amount of $70 million (2018: $67 million) which has been discounted at a rate of 2.0 per cent (2018: 3.0 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 USPP senior unsecured loan notes, which had a book value of $1,547 million (2018: $1,528 million) and a fair value (level 2) of $1,621 million (2018: $1,621 million).

22 – Financial instruments and financial risk management continued

Disclosure of offsetting arrangements

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

At 31 July 2019	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		**10**	**–**	**10**	**–**	**10**
Current assets						
Derivative financial assets		**23**	**(11)**	**12**	**–**	**12**
Cash and cash equivalents	18	**1,133**	**–**	**1,133**	**(18)**	**1,115**
		1,166	**(11)**	**1,155**	**(18)**	**1,137**
Financial liabilities						
Current liabilities						
Derivative financial liabilities		**11**	**(11)**	**–**	**–**	**–**
Borrowings	21	**52**	**–**	**52**	**(18)**	**34**
Finance leases		**2**	**–**	**2**	**–**	**2**
Non-current liabilities						
Borrowings	21	**2,292**	**–**	**2,292**	**–**	**2,292**
Finance leases		**4**	**–**	**4**	**–**	**4**
		2,361	**(11)**	**2,350**	**(18)**	**2,332**
Closing net debt	29	**(1,195)**	**–**	**(1,195)**	**–**	**(1,195)**

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	18	833	–	833	(255)	578
		887	(37)	850	(255)	595
Financial liabilities						
Current liabilities						
Derivative financial liabilities		25	(23)	2	–	2
Borrowings	21	383	–	383	(255)	128
Finance leases		3	–	3	–	3
Non-current liabilities						
Derivative financial liabilities		31	(14)	17	–	17
Borrowings	21	1,522	–	1,522	–	1,522
Finance leases		3	–	3	–	3
		1,967	(37)	1,930	(255)	1,675
Closing net debt	29	(1,080)	–	(1,080)	–	(1,080)

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).

22 – Financial instruments and financial risk management continued

Risk management policies

The Group is exposed to market risks arising from its international operations and the financial instruments which fund them. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and liquidity risk. The Group has well-defined policies for the management of interest rate, liquidity, foreign exchange and counterparty exposures, which have been consistently applied during the financial years ended 31 July 2019 and 31 July 2018. 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, with the exception of the $750 million USA 144a public debt issued in the year which is covenant free, 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 29.

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

Credit risk

The Group provides sales on credit terms to most of its customers. There is an associated risk that customers may not be able to pay outstanding balances. At 31 July 2019, the maximum exposure to credit risk was $3,117 million (2018: $3,005 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 17.

The Group has cash balances deposited for short periods with financial institutions and enters into certain contracts (such as interest rate swaps) which entitle the Group to receive future cash flows from financial institutions. These transactions give rise to credit risk on amounts due from counterparties with a maximum exposure of $1,089 million (2018: $429 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:

				2019				2018
	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	**3,133**	**2**	**85**	**3,220**	2,829	5	68	2,902
Due in one to two years	**53**	**282**	**97**	**432**	44	1	63	108
Due in two to three years	**26**	**1**	**86**	**113**	59	281	52	392
Due in three to four years	**15**	**250**	**78**	**343**	19	–	44	63
Due in four to five years	**14**	**150**	**74**	**238**	16	250	40	306
Due in over five years	**184**	**1,601**	**295**	**2,080**	160	1,001	92	1,253
Total	**3,425**	**2,286**	**715**	**6,426**	3,127	1,538	359	5,024

22 – Financial instruments and financial risk management continued

Liquidity risk continued

The Group holds an £800 million (2018: £800 million) revolving credit facility that matures in September 2022, and a $600 million (2018: $600 million) securitisation facility that matures in December 2021. This facility is secured against the trade receivables of Ferguson Enterprises, LLC. In 2018 the Group held a bi-lateral facility of $290 million that matured in November 2018. All facilities were undrawn at 31 July 2019 and 31 July 2018. The maturity profile of the Group's undrawn facilities is as follows:

	2019 $m	2018 $m
Less than one year	**–**	290
Between one and two years	**–**	–
Between two and three years	**600**	600
Between three and four years	**973**	1,050
Between four and five years	**–**	–
After five years	**–**	–
Total	**1,573**	1,940

At 31 July 2019 the Group has total available facilities, excluding bank overdrafts, of $3,870 million (2018: $3,470 million), of which $2,297 million is drawn (note 21) and $1,573 million is undrawn (2018: $1,530 million and $1,940 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 83 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 160. The net effect of currency translation was to decrease revenue by $174 million (2018: increase by $229 million) and to decrease trading profit by $6 million (2018: increase by $7 million). These currency effects primarily reflect a movement of the average US dollar exchange rate against pounds sterling, euro and Canadian dollars as follows:

	2019 Strengthening of USD	2018 Weakening of USD
Pounds sterling	**4.4%**	(6.4%)
Euro	**4.8%**	(9.2%)
Canadian dollars	**3.8%**	(4.0%)

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 $327 million (2018: $431 million). The gain on translation of these financial instruments into US dollars of $36 million (2018: $11 million loss) has been taken to the translation reserve.

Net debt by currency was as follows:

As at 31 July 2019	**Interest rate swaps $m**	**Finance lease obligations $m**	**Cash and borrowings $m**	**Currency bought forward $m**	**Total $m**
US dollars	**18**	**(3)**	**(1,465)**	**–**	**(1,450)**
Pounds sterling	**–**	**(3)**	**85**	**3**	**85**
Euro, Danish kroner and Swedish kronor	**–**	**–**	**29**	**–**	**29**
Other currencies	**–**	**–**	**140**	**1**	**141**
Total	**18**	**(6)**	**(1,211)**	**4**	**(1,195)**

As at 31 July 2018	Interest rate swaps $m	Finance lease obligations $m	Cash and borrowings $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)

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

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

22 – Financial instruments and financial risk management continued

Net investment hedging

Exchange differences arising from the translation of the net investment in foreign operations are recognised in the 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 2019, 80 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:

	2019			2018		
	Floating $m	Fixed $m	Total $m	Floating $m	Fixed $m	Total $m
US dollars	**384**	**(1,834)**	**(1,450)**	(217)	(1,082)	(1,299)
Pounds sterling	**88**	**(3)**	**85**	101	(4)	97
Euro, Danish kroner and Swedish kronor	**29**	**–**	**29**	23	–	23
Other currencies	**141**	**–**	**141**	99	–	99
Total	**642**	**(1,837)**	**(1,195)**	6	(1,086)	(1,080)

The Group's weighted average cost of debt is 4.5 per cent. Fixed rate borrowings at 31 July 2019 carried a weighted average interest rate of 3.9 per cent fixed for a weighted average duration of 7.8 years (31 July 2018: 3.4 per cent for 6.3 years). Floating rate borrowings, excluding overdrafts, at 31 July 2019 had a weighted average interest rate of 3.7 per cent (31 July 2018: 3.5 per cent).

The Group holds 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 3.3 per cent and 3.5 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:

	2019 $m	2018 $m
At 1 August	**–**	26
Settled	**(7)**	(9)
Valuation gain credited/(loss charged) to the income statement	**25**	(17)
At 31 July	**18**	–

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 credit to the income statement of $6 million (2018: $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 translation reserve of $nil (2018: $4 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.

23 – Provisions

	Environmental and legal $m	Wolseley Insurance $m	Restructuring $m	Other provisions $m	Total $m
At 31 July 2017	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**
Utilised in the year	**(5)**	**(18)**	**(22)**	**(5)**	**(50)**
Changes in discount rate	**5**	**–**	**–**	**–**	**5**
(Credit)/charge for the year	**(1)**	**22**	**13**	**7**	**41**
Acquisition of businesses	**2**	**–**	**–**	**–**	**2**
Exchange rate adjustment	**(1)**	**(1)**	**(2)**	**(3)**	**(7)**
At 31 July 2019	**82**	**77**	**40**	**66**	**265**

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

At 31 July 2019	**Environmental and legal $m**	**Wolseley Insurance $m**	**Restructuring $m**	**Other provisions $m**	**Total $m**
Current	**12**	**6**	**25**	**36**	**79**
Non-current	**70**	**71**	**15**	**30**	**186**
Total provisions	**82**	**77**	**40**	**66**	**265**

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

The environmental and legal provision includes $70 million (2018: $69 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 2.0 per cent (2018: 3.0 per cent). This amount has been actuarially determined as at 31 July 2019 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 two 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 two years.

24 – Retirement benefit obligations

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

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

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

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

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 in 2018.

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 32 per cent of the plan assets. For the remaining assets, the strategy is to invest in a balanced portfolio of equities, government bonds, corporate bonds and securitised fixed income. The investment strategy is subject to regular review by the trustees of the plan in consultation with the Company. For the non-UK plans, the investment strategy involves the investment in defined levels, predominantly equities and bonds.

Investment risk

The present value of the UK defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the actual return on plan assets is below this rate, it will decrease a net surplus or increase a net pension liability. Currently, the plan has a relatively balanced investment in equity securities, growth assets and debt instruments. Due to the long-term nature of the plan liabilities, the trustees of the pension plan consider the investment allocation an appropriate balance between higher return growth assets and lower risk assets which provide protection against the inflation and interest risk inherent in the plan's underlying liabilities.

Interest risk

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

Longevity risk

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

24 – Retirement benefit obligations continued

(ii) Financial impact of plans

As disclosed in the Group balance sheet	**2019 $m**	2018 $m
Non-current asset	**178**	193
Current liability	**–**	(4)
Non-current liability	**(25)**	(15)
Total liability	**(25)**	(19)
Net asset	**153**	174

	2019			2018		
Analysis of Group balance sheet net asset	**UK $m**	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
Fair value of plan assets	**1,788**	**116**	**1,904**	1,824	121	1,945
Present value of defined benefit obligations	**(1,610)**	**(141)**	**(1,751)**	(1,631)	(140)	(1,771)
Net asset/(liability)	**178**	**(25)**	**153**	193	(19)	174

Analysis of total expense recognised in the Group income statement	**2019 $m**	2018 $m
Current service cost	**–**	1
Administration costs	**2**	3
Exceptional settlement losses, past service costs and administrative costs (note 5)	**9**	5
Charged to operating costs (note 11)	**11**	9
(Credited)/charged to finance costs (note 6)	**(5)**	1
Total expense recognised in the Group income statement	**6**	10

Expected employer contributions to the defined benefit plans for the year ending 31 July 2020 are $2 million. The triennial funding valuation of the UK defined benefit plan is currently in progress, which, once agreed between the trustees and the Group, is expected to lead to further special funding contributions.

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	**2019 $m**	2018 $m
The return on plan assets (excluding amounts included in net interest expense)	**134**	22
Actuarial gain arising from changes in demographic assumptions	**38**	12
Actuarial (loss)/gain arising from changes in financial assumptions	**(210)**	74
Actuarial gain/(loss) arising from experience adjustments	**2**	(4)
Tax	**6**	(17)
Total amount recognised in the Group statement of comprehensive income	**(30)**	87

The cumulative amount of actuarial losses recognised in the Group statement of comprehensive income is $524 million (2018: $488 million).

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

24 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

The fair value of plan assets is as follows:

	2019			2018		
	UK $m	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
At 1 August	**1,824**	**121**	**1,945**	1,766	217	1,983
Interest income	**48**	**4**	**52**	46	5	51
Employer's contributions	**34**	**1**	**35**	97	13	110
Benefit payments	**(110)**	**(10)**	**(120)**	(89)	(8)	(97)
Settlement payments	**–**	**–**	**–**	–	(105)	(105)
Remeasurement gain:						
Return on plan assets (excluding amounts included in net interest expense)	**132**	**2**	**134**	17	5	22
Currency translation	**(140)**	**(2)**	**(142)**	(13)	(6)	(19)
At 31 July	**1,788**	**116**	**1,904**	1,824	121	1,945
Actual return on plan assets	**180**	**6**	**186**	63	10	73

Employer's contributions included special funding contributions of $32 million (2018: $99 million).

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

		2019			2018		
		UK $m	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
Equity type assets	quoted	**241**	**69**	**310**	284	72	356
Government bonds	quoted	**495**	**25**	**520**	464	20	484
Corporate bonds	quoted	**142**	**12**	**154**	253	22	275
Real estate		**15**	**–**	**15**	25	–	25
Cash		**85**	**–**	**85**	61	–	61
Insurance policies		**580**	**–**	**580**	626	–	626
Securitised fixed income		**154**	**–**	**154**	–	–	–
Other		**76**	**10**	**86**	111	7	118
Total fair value of assets		**1,788**	**116**	**1,904**	1,824	121	1,945

The present value of defined benefit obligations is as follows:

	2019			2018		
	UK $m	**Non-UK $m**	**Total $m**	UK $m	Non-UK $m	Total $m
At 1 August	**1,631**	**140**	**1,771**	1,762	249	2,011
Current service cost (including administrative costs)	**4**	**–**	**4**	3	1	4
Past service costs	**7**	**–**	**7**	–	–	–
Interest cost	**42**	**5**	**47**	46	6	52
Benefit payments	**(110)**	**(10)**	**(120)**	(89)	(8)	(97)
Settlement and curtailment payments	**–**	**–**	**–**	–	(100)	(100)
Remeasurement (gain)/loss:						
Actuarial gain arising from changes in demographic assumptions	**(38)**	**–**	**(38)**	(12)	–	(12)
Actuarial loss/(gain) arising from changes in financial assumptions	**199**	**11**	**210**	(74)	–	(74)
Actuarial loss/(gain) arising from experience adjustments	**1**	**(3)**	**(2)**	4	–	4
Currency translation	**(126)**	**(2)**	**(128)**	(9)	(8)	(17)
At 31 July	**1,610**	**141**	**1,751**	1,631	140	1,771

24 – Retirement benefit obligations continued

(ii) Financial impact of plans continued

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

	2019 $m	2018 $m
Amounts arising from wholly unfunded plans	3	3
Amounts arising from plans that are wholly or partly funded	1,748	1,768
Total present value of defined benefit obligations	1,751	1,771

(iii) Valuation assumptions

The financial assumptions used to estimate defined benefit obligations are:

	2019		2018	
	UK %	Non-UK %	UK %	Non-UK %
Discount rate	2.2	2.9	2.7	3.5
Inflation rate	3.2	2.0	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	2.8	2.0
Salary increases	2.1	2.5	2.1	2.5

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

	2019		2018	
	UK Years	Non-UK Years	UK Years	Non-UK Years
Current pensioners (at age 65) – male	21	22	22	22
Current pensioners (at age 65) – female	23	24	23	24
Future pensioners (at age 65) – male	23	23	24	23
Future pensioners (at age 65) – female	25	25	26	25

The weighted average duration of the defined benefit obligation is 22.0 years (2018: 21.5 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.

	2019			2018		
	Change	UK $m	Non-UK $m	Change	UK $m	Non-UK $m
Discount rate	+0.25%	71	5	+0.25%	70	5
	(0.25)%	(77)	(4)	(0.25)%	(76)	(4)
Inflation rate	+0.25%	(64)	–	+0.25%	(64)	–
	(0.25)%	64	3	(0.25)%	66	–
Life expectancy	+1 year	(34)	(3)	+1 year	(33)	(4)

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.

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

25 – Share capital

(i) Ordinary shares in issue

	2019		2018	
Allotted and issued shares	**Number of shares**	**Cost $m**	Number of shares	Cost $m
Number/cost of ordinary $11\frac{227}{563}$ pence shares in Old Ferguson (million)	**–**	**–**	253	45
Number/cost of ordinary 10 pence shares in the Company (million)	**232**	**30**	–	–
As at 31 July	**232**	**30**	253	45

The authorised share capital of the Company is 500 million ordinary 10 pence shares (2018: the authorised share capital of Old Ferguson is 439 million ordinary $11\frac{227}{563}$ 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.

On 10 May 2019 pursuant to the Scheme of Arrangement under Article 125 of the Companies (Jersey) Law 1991 between Old Ferguson (the former holding company of the Group) and the Old Ferguson shareholders, and as sanctioned by the Royal Court of Jersey, all the issued $11\frac{227}{563}$ pence ordinary shares in Old Ferguson were cancelled and the same number of new shares were issued to the Company in consideration for the allotment to shareholders of one ordinary 10 pence share in the Company for each ordinary $11\frac{227}{563}$ pence share in Old Ferguson held at the scheme record time of 6.00pm on 9 May 2019.

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

	2019	2018
Number of ordinary $11\frac{227}{563}$ pence shares in Old Ferguson in issue at 1 August	**252,602,622**	266,636,106
Cancellation of Treasury shares	**(20,611,650)**	(5)
Effect of share consolidation	**–**	(14,033,479)
Group reconstruction	**(231,990,972)**	–
Number of ordinary $11\frac{227}{563}$ pence shares in Old Ferguson in issue at 31 July	**–**	252,602,622
Number of ordinary 10 pence shares in the Company in issue at 1 August	**–**	
Initial subscriber shares issued on 8 March 2019	**2**	
Group reconstruction	**231,990,972**	
Redemption of initial subscriber shares	**(2)**	
New shares issued to settle options	**180,210**	
Number of ordinary 10 pence shares in the Company in issue at 31 July	**232,171,182**	

During the year, the Company issued 180,210 (2018: nil) ordinary shares with a nominal value of 10 pence per share to participants in the long-term incentive plans and all-employee sharesave plans. The terms of issue were fixed on the respective dates of grant. The relevant dates of grants were between December 2010 and April 2018 and the market price on those dates was between £20.99 and £58.90. Consideration received, net of transaction costs, amounted to $9 million (2018: $nil).

25 – Share capital continued

(ii) Treasury shares

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

On 9 May 2019, prior to the Scheme of Arrangement, all Treasury shares held by Old Ferguson were cancelled.

On 10 June 2019, the Group announced a $500 million share buy back programme. As at 31 July 2019, ordinary shares had been purchased for a consideration of $150 million and a further purchase of $159 million was irrevocably committed to.

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

	2019		2018	
	Number of shares	Cost $m	Number of shares	Cost $m
Treasury shares held by Old Ferguson at 1 August	20,777,872	1,380	13,382,580	743
Treasury shares purchased	–	–	9,178,209	675
Disposal of Treasury shares to settle share options	(166,222)	(11)	(646,988)	(38)
Cancellation of Treasury shares	(20,611,650)	(1,369)	(5)	–
Effect of share consolidation	–	–	(1,135,924)	–
Treasury shares held by Old Ferguson at 31 July	–	–	20,777,872	1,380
Treasury shares held by the Company at 1 August	–	–		
Treasury shares purchased	2,090,371	150		
Disposal of Treasury shares to settle share options	(53,426)	(4)		
Treasury shares held by the Company at 31 July	2,036,945	146		
Treasury shares purchase irrevocably committed to at 31 July		159		
Treasury shares total cost at 31 July		305		

Consideration received in respect of shares transferred to participants in certain long-term incentive plans and all-employee plans amounted to $3 million (2018: $24 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:

	2019		2018	
	Number of shares	Cost $m	Number of shares	Cost $m
Own shares in Old Ferguson at 1 August	1,426,605	90	1,435,155	76
New shares purchased	540,000	38	564,476	41
Exercise of share options	(396,192)	(26)	(492,870)	(27)
Effect of share consolidation	–	–	(80,156)	–
Group reconstruction	(1,570,413)	(102)	–	–
Own shares in Old Ferguson at 31 July	–	–	1,426,605	90
Own shares in the Company at 1 August	–	–		
Group reconstruction	1,570,413	102		
Exercise of share options	(6,635)	–		
Own shares in the Company at 31 July	1,563,778	102		

Consideration received in respect of shares transferred to participants in the discretionary share option plans and long-term incentive plans amounted to $nil (2018: $nil). At 31 July 2019, the shares held in the trusts had a market value of $117 million (2018: $113 million).

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

Notes to the consolidated financial statements (continued)

Year ended 31 July 2019

26 – Reconciliation of profit to cash generated from operations

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

	2019 $m	2018 $m
Profit for the year attributable to shareholders	**1,108**	1,267
Net finance costs	**70**	57
Share of profit after tax of associates	**(2)**	(2)
Gain on disposal of interests in associates	**(3)**	–
Impairment of interests in associates	**9**	122
Tax charge	**267**	377
Profit on disposal and closure of businesses and revaluation of assets held for sale	**(53)**	(407)
Amortisation and impairment of goodwill and acquired intangible assets	**110**	65
Amortisation and impairment of non-acquired intangible assets	**31**	28
Depreciation and impairment of property, plant and equipment	**147**	152
Profit on disposal of property, plant and equipment and assets held for sale	**(7)**	(6)
Increase in inventories	**(172)**	(102)
Increase in trade and other receivables	**(132)**	(351)
Increase in trade and other payables	**227**	208
Decrease in provisions and other liabilities	**(25)**	(120)
Share-based payments	**34**	35
Cash generated from operations	**1,609**	1,323

27 – Acquisitions

The Group acquired the following businesses during the year ended 31 July 2019. All these businesses are engaged in the distribution of plumbing and heating products and were acquired to support growth in the USA and Canada. All transactions have been accounted for by the acquisition method of accounting.

Name	Date of acquisition	Country of incorporation	Shares/asset deal	% acquired
Jones Stephens	August 2018	USA	Shares	100
Action Automation, Inc.	August 2018	USA	Assets	100
Millennium Lighting, Inc.	August 2018	USA	Shares	100
Grand Junction Pipe & Supply	September 2018	USA	Assets	100
James Electric Motor Services Ltd.	September 2018	Canada	Shares	100
Dogwood Building Supply	October 2018	USA	Assets	100
Capital Distributing[1]	October 2018	USA	Assets	100
Robertson Supply, Inc.	November 2018	USA	Assets	100
Wallwork Bros., Inc.	December 2018	USA	Assets	100
Blackman Plumbing Supply[2]	December 2018	USA	Shares	100
James Martin Signature Vanities[3]	January 2019	USA	Shares	100
Kitchen Art of South Florida, LLC	February 2019	USA	Assets	100
Mission Valley Pipe & Supply, Inc.	June 2019	USA	Assets	100
Action Plumbing Supply Co.	July 2019	USA	Assets	100
Innovative Soil Solutions LLC	July 2019	USA	Assets	100

1. The acquisition comprised of 2 legal entities.
2. The acquisition comprised of 6 legal entities.
3. The acquisition comprised of 2 legal entities.

27 – Acquisitions continued

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

	Provisional fair values acquired $m
Intangible assets	
Customer relationships	202
Trade names and brands	19
Other	3
Property, plant and equipment	95
Inventories	122
Trade and other receivables	93
Cash, cash equivalents and bank overdrafts	11
Obligations under finance leases	(3)
Trade and other payables	(71)
Deferred tax	(33)
Provisions	(2)
Total	436
Goodwill arising	259
Consideration	695
Satisfied by:	
Cash	656
Deferred consideration	39
Total consideration	695

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 $456 million to revenue, $22 million to trading profit and $19 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 $22,241 million and continuing trading profit would have been $1,625 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:

	2019 $m	2018 $m
Purchase consideration	656	376
Deferred and contingent consideration in respect of prior year acquisitions	12	47
Cash consideration	668	423
Cash, cash equivalents and bank overdrafts acquired	(11)	(7)
Net cash outflow in respect of the purchase of businesses	657	416

28 – Disposals

During the year ended 31 July 2019, the Group disposed of the following businesses:

Name	Country	Date of disposal	Shares/asset deal
Ferguson Property Rover A/S	Denmark	November 2018	Shares
Brokvarteret Komplementar ApS	Denmark	November 2018	Shares
Brokvarteret P/S	Denmark	November 2018	Shares
Wasco Holding B.V.	Netherlands	January 2019	Shares
Luxury For Less Limited (t/a Soak.com)	United Kingdom	March 2019	Shares
Soborg Property Denmark A/S	Denmark	March 2019	Shares

Notes to the consolidated financial statements (continued)
Year ended 31 July 2019

28 – Disposals continued

The Group recognised a total gain on disposals of $57 million as follows:

	2019		
	Continuing operations $m	Discontinued operations $m	Group $m
Consideration received	**109**	**110**	**219**
Net assets disposed of	**(76)**	**(72)**	**(148)**
Non-controlling interest disposed of	**(1)**	**–**	**(1)**
Disposal costs and provisions	**(10)**	**(2)**	**(12)**
Recycling of deferred foreign exchange losses	**1**	**(2)**	**(1)**
Gain on disposal	**23**	**34**	**57**

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

	2019		
	Continuing operations $m	Discontinued operations $m	Group $m
Cash consideration received for current year disposals (net of cash disposed of)	**108**	**110**	**218**
Cash paid in respect of prior year disposals	**–**	**(1)**	**(1)**
Disposal costs paid	**(5)**	**(11)**	**(16)**
Net cash inflow	**103**	**98**	**201**

29 – Reconciliation of opening to closing net debt

				Liabilities from financing activities			
	Cash and cash equivalents (note 18) $m	Bank overdrafts (note 21) $m	Total cash, cash equivalents and bank overdrafts $m	Derivative financial instruments (note 22) $m	Loans (note 21) $m	Obligations under finance leases $m	Net debt $m
At 1 August 2017	2,525	(1,982)	543	26	(1,266)	(9)	(706)
Cash movements							
Proceeds from loans and derivatives			–	(9)	(450)	–	(459)
Repayments of loans			–	–	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)**
Cash movements							
Proceeds from loans and derivatives			**–**	**(7)**	**(750)**	**–**	**(757)**
Repayments of loans			**–**	**–**	**2**	**–**	**2**
Finance lease capital payments			**–**	**–**	**–**	**3**	**3**
Changes in net debt due to disposal of businesses			**(1)**	**–**	**–**	**–**	**(1)**
Changes in net debt due to acquisition of businesses			**11**	**–**	**–**	**(3)**	**8**
Other cash flows			**628**	**–**	**–**	**–**	**628**
Non-cash movements							
Fair value and other adjustments			**–**	**25**	**(26)**	**–**	**(1)**
Exchange movements			**(10)**	**6**	**7**	**–**	**3**
At 31 July 2019	**1,133**	**(47)**	**1,086**	**22**	**(2,297)**	**(6)**	**(1,195)**

30 – Related party transactions

In the year ended 31 July 2019, the Group purchased goods and services on an arms length basis totalling $7 million from and owed $nil in respect of these goods and services to a company that is controlled by another company in respect of which one of the Group's Non Executive Directors is the chief executive officer.

There are no other related party transactions requiring disclosure under IAS 24 "Related Party Disclosures" in the years ended 31 July 2019 and 31 July 2018 other than the compensation of key management personnel which is set out in note 11.

31 – Operating lease commitments

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

	2019 $m	2018 $m
Less than one year	**342**	328
After one year and less than five years	**631**	591
After five years	**153**	162
Total operating lease commitments	**1,126**	1,081

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 2019, provisions include an amount of $29 million (2018: $32 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 2019 is $3 million (2018: $6 million).

32 – 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.

33 – Post-balance sheet events

Since the year-end, the Group has announced its intention to demerge its UK operations, subject to shareholder approval. On completion of the transaction Wolseley UK will become an independent listed company.

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 2019 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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 and Company income statements;
- the Group statement of comprehensive income;
- the Group and Company statements of changes in equity;
- the Group and Company balance sheets;
- the Group cash flow statement;
- the notes to the consolidated financial statements 1 to 33; and
- the notes to the Company's financial statements 1 to 13.

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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the Group and 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.

While the Company is not a public interest entity subject to European Regulation 537/2014, the Directors have decided that the Company should follow the same requirements as if that Regulation applied to 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 audit matters that we identified in the current year were: – appropriateness of supplier rebates; and – inventory provision for slow-moving and obsolete inventory.
Materiality	The materiality that we used for the Group financial statements was $70 million (2018: $65 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 have performed full scope audits of two components, being the USA and UK, as well as on Head Office entities and the consolidation process. We have performed an audit of certain specified account balances on one component, Canada. Full scope audits represent 99% of the Group's revenue and 93% of the Group's net assets.
Significant changes in our approach	Our approach is consistent with the previous year with the exception of: – a change in the scope of our audit work in Canada from a full-scope audit to an audit of certain specified account balances (being revenue, cost of goods sold and inventory); and – the exclusion of the key audit matter relating to the accounting for the disposal of the Nordic businesses which was completed in the prior year. In addition, the Group has introduced a new parent company now called Ferguson plc; this introduction constitutes a group reconstruction and has been accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations" and using merger accounting principles. See notes 1 and 25 for further information in relation to this. We have therefore included comparative information in relation to our scoping and materiality, which relates to the old parent company.

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 considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

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 47 to 53 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 79 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 48 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 69 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 17 and 20 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. The risk relates to the US business given the accrued tiered arrangements in UK and Canada are not material.
How the scope of our audit responded to the key audit matter	Our procedures on supplier rebates included: – evaluating the design and implementation 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; – challenging 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	The Group has improved its estimation methodology during the year to reflect recent experience of achieving tiered rebates. 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 2019.

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

Inventory provision for slow-moving and obsolete inventory	
Key audit matter description	The Group had inventories of $2,821 million at 31 July 2019, 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 69 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 16 to the consolidated financial statements, inventories are net of a provision of $176 million which is primarily driven by comparing the level of inventory held to future projected sales. 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 the provision may be overstated.
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 through a range of procedures performed across the US and UK businesses, as relevant. This included: – evaluating the design and implementation of relevant inventory provision controls operating across the Group, including those at a sample of distribution centres, warehouses and branches; – performing analytics to determine whether there is any significant change in the product lines requiring provision and whether there is any indication the provision may be overstated as a result; – forming an expectation of the inventory obsolescence reserve at year-end based on prior year ratios; – testing the completeness and accuracy of data included in the provision models by attending a sample of stock counts and by agreeing a sample of historic demand to supporting evidence of the sale; – extending management's model to include older historic data and extrapolating the demand trend-lines to assess whether management's assumptions do not result in a material difference in the level of provision required; and – 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.
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 2019.

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	$70 million (2018: $65 million)	$28 million (2018: $26 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 $1,424 million, which was $100 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 40% 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.

We agreed with the Audit Committee that we would report to them all audit differences in excess of $3.5 million (2018: $3.3 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 performed at the two key components in the USA and the UK. Full scope audits were performed in these two components by local component auditors under the direction and supervision of the Group audit team, as was the case in the prior year. The scope of work performed on one component, Canada, which is performed by a local component team under the direction and supervision of the Group audit team, has reduced this year to an audit of specified account balances (being revenue, cost of goods sold and inventory) based on its contribution to the Group's results.

Our audit work on the three components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from $28.0 million to $59.5 million (2018: $26.0 million to $55.3 million).

Of continuing results, the full scope procedures provided coverage of 99% of revenue (2018: 99%), 96% (2018: 99%) of the profit before tax and 93% (2018: 98%) of the net assets.

At the Company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. The Company is located in the UK and is audited directly by the Group audit team.

The Group audit team continued to follow a programme of planned visits designed to enhance our oversight of the component teams. The Lead Audit Partner, and other senior members of the Group team visited the USA and UK locations. A senior member of the Group audit team visited Canada. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component audit work papers.

In addition to the planned program of visits, planning meetings were also held with key component audit teams. The purpose of these planning meetings was to ensure a good level of understanding of the Group's businesses, its core strategy and a discussion of the significant risks.

As part of our oversight of the component teams we sent detailed instructions, included them in our team briefings and discussed their risk assessment. We also provided direction on enquiries made by the component auditors through online and telephone conversations. All the findings noted were discussed with the component auditors in detail and further procedures to be performed were issued where relevant.

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.

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

Auditor's responsibilities for the audit of the financial statements

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

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 matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the 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 4 years, covering the years ending 31 July 2016 to 31 July 2019.

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

30 September 2019

Company income statement

For the period from 8 March 2019 to 31 July 2019

	2019 $m
Administrative expenses	(14)
Loss on ordinary activities before interest	(14)
Interest receivable and similar income from Group companies	3
Loss for the financial period	(11)

Company statement of changes in equity

For the period from 8 March 2019 to 31 July 2019

	Notes	Called up share capital $m	Share premium $m	Treasury shares reserve $m	Retained earnings $m	Total shareholders' equity $m
Loss for the period		–	–	–	(11)	(11)
Scheme of Arrangement		30	16,150	–	–	16,180
Capital reduction		–	(16,150)	–	16,150	–
Issue of share capital		–	9	–	–	9
Credit to equity for share-based payments	8	–	–	–	9	9
Purchase of Treasury shares		–	–	(309)	–	(309)
Disposal of Treasury shares	7	–	–	4	(2)	2
At 31 July 2019		30	9	(305)	16,146	15,880

On 10 May 2019 the Company became the holding company of the Ferguson Group, recording the cost of its investment in the old Ferguson holding company at the fair value at that date of $16,180 million. On 10 May 2019 the Company undertook a reduction of capital under which the entire amount of the share premium account was cancelled and transferred as a distributable amount to retained earnings.

Company balance sheet

Period ended 31 July 2019

	Notes	2019 $m
Fixed assets		
Investments in subsidiaries	3	16,180
		16,180
Current liabilities		
Creditors: amounts falling due within one year	4	(300)
Net current liabilities		(300)
Net assets		15,880
Capital and reserves		
Called up share capital	5	30
Share premium		9
Treasury shares reserve	7	(305)
Retained earnings		16,146
Total shareholders' equity		15,880

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

The Company financial statements on pages 156 to 159 were approved by the Board of Directors on 30 September 2019 and were signed on its behalf by:

John Martin
Group Chief Executive

Mike Powell
Group Chief Financial Officer

Notes to the Company financial statements

Period ended 31 July 2019

1 – Corporate information

Ferguson plc (the "Company") was incorporated and registered in Jersey on 8 March 2019 under the Jersey Companies Law as a limited company under the name Alpha JCo Limited with company number 128484. On 26 March 2019 the Company was converted to a public company and changed its name to Ferguson NewCo plc (subsequently changed to Ferguson plc on 10 May 2019). The principal legislation under which the Company operates is the Companies (Jersey) Law 1991, as amended, and regulations made thereunder. The address of its registered office is 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands. It is headquartered in the UK.

On 10 May 2019 the Company became the ultimate holding company of the then Ferguson plc (the former holding company of the Ferguson Group of companies ("Old Ferguson")), a public limited company incorporated in Jersey, pursuant to a Scheme of Arrangement under Article 125 of the Companies (Jersey) Law 1991 that was approved by the Royal Court of Jersey and the shareholders of Old Ferguson (the "Scheme of Arrangement"). Pursuant to the Scheme of Arrangement, all of the ordinary shares of Old Ferguson were exchanged on a one-for-one basis for ordinary shares of the Company. The ordinary shares of the Company were then listed on the London Stock Exchange's main market. Trading in these shares commenced on 10 May 2019.

As a result of the Scheme of Arrangement Old Ferguson is now a wholly owned subsidiary of the Company and it has since re-registered as a private limited company and changed its name to Ferguson Holdings Limited. The Scheme of Arrangement did not involve any cash payment for ordinary shares.

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

2 – Company accounting policies

Basis of accounting

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

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

The financial statements of the Company cover the period from incorporation on 8 March 2019 to 31 July 2019 and hence, no comparative information is presented.

Note 4 (Operating profit) on page 123, note 9 (Dividends) on page 126, note 25 (Share capital) on pages 144 to 145 and note 33 (Post-balance sheet events) on page 149 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 2019.

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

Investments in subsidiaries

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

Cash at bank and in-hand

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

Share capital

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

Where the Company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to shareholders of the Company until the shares are 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 long-term incentive plans and all-employee sharesave 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 the requirement for employees to save) and is not subsequently remeasured unless the conditions on which the award was granted are modified. Generally, the compensation cost is 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.

Taxation

Current tax represents the expected tax payable (or recoverable) on the taxable income 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.

Provision is made for deferred taxation in so far as a liability or asset has arisen as a result of transactions that had occurred by the balance sheet date and have given rise to an obligation to pay more tax in the future, or the right to pay less tax in the future. An asset has not been recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted. Provision is made for UK or foreign taxation arising on the distribution to the UK of retained profits of overseas subsidiary undertakings where dividends have been recognised as receivable.

3 – Fixed asset investments

	Cost $m
Scheme of Arrangement	**16,180**
At 31 July 2019	**16,180**

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.

Following the Scheme of Arrangement on 10 May 2019, the Company recorded the cost of its investment in Old Ferguson, which changed its name to Ferguson Holdings Limited, at the fair value at that date of $16,180 million.

The Company's direct holdings in subsidiary undertakings as at 31 July 2019 were as follows:

Company	Country of incorporation	Principal activity	Ordinary shares held %
Ferguson Holdings Limited	Jersey	Investment	100

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed on pages 162 and 163 of the Ferguson plc Annual Report.

4 – Creditors: amounts falling due within one year

	2019 $m
Bank overdrafts	**1**
Other creditors	**159**
Amounts owed to Group companies	**140**
Total	**300**

Other creditors comprises $159 million payable in relation to the irrevocable and non-discretionary share buy back programme, as detailed in note 25 on pages 144 to 145 to the Ferguson plc consolidated financial statements.

The fair value of amounts included in creditors approximates to book value. Bank overdrafts are interest bearing, carrying an interest rate of 1.0 per cent and are payable on demand. Amounts owed to Group companies are interest bearing, carrying an interest rate of 2.7 per cent and are payable on demand.

5 – Share capital

Details of the Company's share capital are set out in note 25 on pages 144 to 145 to the Ferguson plc consolidated financial statements.

6 – Share premium account

Details of new share capital subscribed are set out in note 25 on pages 144 to 145 to the Ferguson plc consolidated financial statements.

7 – Treasury shares

Details of Treasury shares are set out in note 25 on pages 144 to 145 to the Ferguson plc consolidated financial statements.

8 – Share-based payments

The net profit and loss charge to the Company for equity-settled share-based payments was $nil. The Company charged the full amount incurred for equity-settled share-based payments of $9 million to its subsidiary undertakings.

9 – Contingent liabilities

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

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

The Company acts as a guarantor for the Group's UK defined benefit pension plan, which is disclosed in note 24 on pages 140 to 143 to the Ferguson plc consolidated financial statements.

10 – Employees, employee costs and auditor's remuneration

The average number of employees of the Company in the period ended 31 July 2019 was nil. 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 $nil.

Fees payable to the auditor for the audit of the Company's financial statements are set out in note 4 on page 123 to the Ferguson plc consolidated financial statements.

11 – Dividends

Details of the Company's dividends are set out in note 9 on page 126 to the Ferguson plc consolidated financial statements.

12 – Related party transactions

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

13 – Post-balance sheet events

Details of post-balance sheet events are given in note 33 on page 149 to the Ferguson plc consolidated financial statements.