Governance

Our strategic priorities to drive performance

On the following pages the symbols below indicate where the activity of the Board and its Committees related to the strategic priorities to drive performance set out on pages 12 and 13.

- Engaged associates
- Excellent service ethic
- Strong sales culture
- Organic expansion
- Bolt-on acquisitions
- Adjacent opportunities
- Operating model and e-commerce development
- Pricing discipline
- Own brand penetration
- Accelerate innovation across the Group

- All: All 10 of our priorities driving performance

Governance overview

Dear Shareholder

I am pleased to present the Company's Corporate Governance Report for the financial year ended 31 July 2019.

This has been a year of significant change for the business as we continue to increase our geographic focus on attractive North American markets and we have continued to make excellent progress implementing our succession plans and reshaping the Board to ensure we have the right balance of Executive and Non Executive skills and experience to support the business over the long term.

As ever, ensuring that Ferguson maintains a robust strategy to deliver profitable growth was an important area of focus for the Board this year. Details on how the Board has overseen the development and implementation of the Group's strategy is set out on page 61. Outside of the regular discussion of strategy at Board meetings, we have continued our programme of visits to the US business with Board and Committee meetings coupled with site visits in Atlanta and New York during the year. This has allowed the Board to meet directly with our associates and customers, and to experience the drive and passion that makes Ferguson a company that I am proud to have been a part of for the last 16 years.

As noted in my statement on pages 2 and 3, this year we have significantly reshaped the Board to support our strategy. In September, we announced that John Martin will step down as Group Chief Executive on 19 November 2019 and that he will be succeeded by Kevin Murphy, currently CEO of our US business. In May we announced the appointment of Geoff Drabble as a Non Executive Director. Geoff will, subject to shareholder approval, succeed me as Chairman of the Company and Chairman of the Nominations Committee after our 2019 AGM. On 1 October 2019, we announced that Darren Shapland would step down as a Non Executive Director and Chairman of the Audit Committee following the conclusion of the 2019 AGM and that he will be succeeded as Audit Committee Chairman by Alan Murray, our Senior Independent Director. Additionally, two new Non Executive Directors, Cathy Halligan and Tom Schmitt, joined the Board during the year. These changes have continued to strengthen the profile of the Board, further aligning it with the profile of the Company. I am also pleased to report that our new Non Executive Directors have integrated well, contributing fully to Board discussions and helping us to provide support and constructive challenge to management. Further information on succession and the Board appointments made during the year can be found in the Nominations Committee report on pages 72 to 75.

Diversity is a source of strength for our business, and I am pleased to report that we have continued our oversight of the Group's diversity initiatives and that management, led by the Group Chief Executive and Chief Human Resources Officer, is making progress in enhancing our diversity and inclusion programme. Further detail on the Board's approach to diversity, including the Board Diversity Policy and performance against its specified objectives, can be found on page 75 and further detail on how we have approached diversity across the Group, including our gender pay gap information, can be found on page 17.

The Board also continues to look for ways in which it can improve and develop and I am pleased to report that good progress has been made against the areas for improvement identified during the externally-facilitated effectiveness review conducted in 2017/18. This year we conducted an internally-facilitated review of Board and Committee effectiveness and further information on that review can be found on page 63. In addition to the priorities identified by the effectiveness review, ensuring smooth CEO succession and supporting Kevin as he settles into his new role will be a key priority for the Board next year.

I am proud of the work we have done during my tenure to foster an effective governance framework that supports the Group's core values and underpins our ability to set the overall strategic direction of the Group. It is my belief that corporate purpose and values properly embedded in a business and aligned with strategy create a culture that optimises performance. I am pleased that the Board approved a refreshed Group vision, mission and values statement during the year and you will find examples of how our fantastic associates, who are the heartbeat of this business, have lived these values throughout this report.

For the financial year ended 31 July 2019, we are reporting against the 2016 version of the UK Corporate Governance Code (the "Code") and confirm full compliance with its provisions. A copy of the Code can be found on the Financial Reporting Council website **www.frc.org.uk**. This section, together with the reports from the Nominations, Audit and Remuneration Committees provide a description of how the Company has applied the main principles and complied with the relevant provisions of the Code. In this report we have used its core principles as the framework to explain our governance practices and the boxes at the bottom of this page direct you to further detail.

The existing Code will be replaced by the 2018 UK Corporate Governance Code (the "2018 Code") as the standard against which the Company measures itself in 2019/20. During 2018/19, we reviewed our corporate governance processes against the requirements of the 2018 Code and agreed a number of enhancements to ensure that we are compliant with the 2018 Code. The steps we are taking include:

- Reviewing and approving refreshed Group vision, mission and values.
- Reviewing how the Board engages with key stakeholders and appointing Alan Murray as Employee Engagement Director.
- Reviewing and enhancing the process for Board members accepting external appointments.
- Reviewing and approving updated governance documents.
- Enhancing the way in which Board papers address issues relating to our stakeholders and alignment with the Group's values.

Finally, I would like to take this opportunity to thank our shareholders for their support over the past 16 years. I, along with the Board and my successor, will be available to respond to any questions on this report or any of the Board's activities at the 2019 AGM and I look forward to seeing you there.

Gareth Davis

Gareth Davis
Chairman

Core principles

Leadership
Continued close focus on strategy and its execution.
Pages 55 to 63, 65 and 72 to 75

Effectiveness
A strong, open and effective Board.
Pages 55 to 63, 65 and 72 to 75

Accountability
Close scrutiny of risks and controls.
Pages 66 to 71 and 76 to 79

Remuneration
Prudent oversight of executive remuneration.
Pages 80 to 106

Relations with shareholders
Open engagement with shareholders.
Page 64

Board of Directors

Gareth Davis
Chairman
(stepping down on 31 January 2020)

M N

Appointed Chairman: January 2011

Appointed to the Board: July 2003
(as a Non Executive Director)

Key strengths and experience:
– Extensive international board and general management experience
– Exceptional chairmanship experience

Gareth has served on and chaired various company boards for many years including eight years as Chairman of William Hill PLC. He spent 38 years in the tobacco industry in a variety of operational management and leadership roles and was Chief Executive of Imperial Tobacco Group plc from its incorporation in 1996 until May 2010.

Other principal appointments:
Chairman of DS Smith Plc.

Geoff Drabble
Independent Non Executive Director and Chairman designate

A N R

Appointed: May 2019

Key strengths and experience:
– Extensive leadership experience in the distribution, technology and manufacturing sectors
– Deep knowledge of US markets and operating conditions

Geoff served as Chief Executive of Ashtead Group plc, the FTSE 100 industrial equipment rental company, for 12 years during which he presided over a period of unprecedented growth in the business and was instrumental in creating a strong culture. He was previously an executive director of The Laird Group plc, where he was responsible for its Building Products division, and held a number of senior management positions at Black & Decker.

Other principal appointments:
Non Executive Director at Howden Joinery Group Plc.

John Martin
Group Chief Executive
(stepping down on 19 November 2019)

D E M

Appointed Group CEO: September 2016

Appointed to the Board: April 2010
(as Group Chief Financial Officer)

Key strengths and experience:
– Extensive operational and financial management experience running large international businesses
– Strong leadership capabilities and significant experience in strategic development and driving improvements in operational performance

John has a deep understanding of Ferguson having joined the Company as Group Chief Financial Officer in 2010 and he assumed management responsibility for the Group's Canadian business from 2013 until his appointment as Group Chief Executive in 2016. Prior to joining Ferguson, he was a partner at Alchemy Partners, the private equity group, and Chief Financial Officer of Travelex Group and Hays Plc.

Other principal appointments:
Non Executive Director at Ocado plc.

Cathy Halligan
Independent Non Executive Director

A N R

Appointed: January 2019

Key strengths and experience:
– Experienced senior executive with extensive board experience
– Extensive digital transformation, digital commerce, data analytics and marketing experience

Cathy has a strong track record in the retail, e-commerce and multi-channel arenas. She has served as the Chief Marketing Officer at Walmart.com, the SVP Sales and Marketing at PowerReviews and held senior marketing and internet roles at retailer Williams-Sonoma Inc., where she was responsible for leading efforts to launch its brands, such as Pottery Barn, on the web. She was an independent board director at Wilton Brands from 2016 to 2018.

Other principal appointments:
Non Executive Director at FLIR Systems, Inc. and Ulta Beauty, Inc.

Alan Murray
Independent Non Executive Director

A M N R S E

Appointed: January 2013

Key strengths and experience:
– Considerable international operational experience
– Extensive executive management experience within global businesses

Alan is a qualified chartered management accountant with extensive business leadership skills, executive and board experience and global business and financial reporting expertise. From 2002 to 2007, Alan served as Group Chief Executive of Hanson plc, where he had previously served as Finance Director and Chief Executive of Hanson Building Materials America. He served on the Management Board and Supervisory Board of HeidelbergCement AG and as a Non Executive Director of International Power plc.

Other principal appointments:
Non Executive Director of Owens-Illinois, Inc.

Tom Schmitt
Independent Non Executive Director

A N R

Appointed: February 2019

Key strengths and experience:
– Significant operational experience
– Extensive knowledge of US and international logistics and supply chain businesses

Tom is an experienced CEO with significant first-hand leadership experience of the markets in which the Group operates and a track record of driving accelerated profitable growth and promoting integrity, transparency and values-based leadership. His career started at BP and McKinsey and has encompassed leadership roles at FedEx, AquaTerra Corporation and Schenker AG. He served as a Non Executive Director of Zooplus AG from 2013 to 2016.

Other principal appointments:
Chairman and Chief Executive Officer of Forward Air Corporation, Inc.

Key to Board and Committee Membership

- A Audit
- D Disclosure
- E Executive
- N Nominations
- M Major Announcements
- R Remuneration
- T Treasury
- E Employee Engagement Director
- S Senior Independent Director
- ● Committee Chair

Appointments and other Board and Committee members

With the exception of Geoff Drabble, Cathy Halligan and Tom Schmitt, who were appointed on 22 May 2019, 1 January 2019 and 11 February 2019 respectively, each Board member listed on this and the following page served throughout the financial year ended 31 July 2019.

Graham Middlemiss
Company Secretary

Graham was appointed Company Secretary of Ferguson plc on 1 August 2015. He is Secretary to the Board and all of the Committees of the Board. Graham, a solicitor, joined the Group in August 2004 as the General Counsel of its UK business and was Group Deputy Company Secretary from November 2012 to July 2015.

Kevin Murphy
Chief Executive Officer, USA
(Group Chief Executive from 19 November 2019)

E M

Appointed: August 2017

Key strengths and experience:
– Strong leadership skills with a strong track record of driving profitable growth
– Deep company and industry knowledge

Kevin is responsible for all of the Group's businesses based in the USA. He joined Ferguson in 1999 as an operations manager following the acquisition of his family's business, Midwest Pipe and Supply. He held a number of leadership positions in the Company's Waterworks division and was Chief Operating Officer of Ferguson Enterprises from 2007 to 2017.

Other principal appointments:
None.

Mike Powell
Group Chief Financial Officer

D E M T

Appointed: June 2017

Key strengths and experience:
– Considerable financial management and operational experience
– Experience of running multi-national businesses with significant US operations

Mike is a chartered management accountant with significant experience leading finance teams at large listed companies. Prior to his appointment at Ferguson he was Group Finance Director of BBA Aviation plc, a leading provider of aviation support services with significant US operations, and CFO of AZ Electronic Materials plc and Nippon Sheet Glass as well as spending 15 years at Pilkington plc in a variety of operational and finance roles.

Other principal appointments:
Non Executive Director of Low & Bonar plc.

Tessa Bamford
Independent Non Executive Director

A N R

Appointed: March 2011

Key strengths and experience:
– Broad business knowledge
– Extensive boardroom and City experience

Tessa has held senior advisory roles in both the UK and USA across a range of sectors. She held a variety of roles, including corporate finance, at J Henry Schroder & Co and Barclays de Zoete Wedd. She was a founder and Director of Cantos Communications and a Non Executive Director of Barratt Developments plc.

Other principal appointments:
Consultant at Spencer Stuart.

Darren Shapland
Independent Non Executive Director
(stepping down on 21 November 2019)

A N R

Appointed: May 2014

Key strengths and experience:
– Considerable experience of commercial, operational and financial management
– Broad public company experience in major consumer businesses

Darren has significant corporate finance and accounting experience gained from a variety of senior finance and operational positions held at Carpetright plc, Superdrug Stores plc, the Burton Group and Arcadia. He held board level positions at J Sainsbury plc, Carpetright plc, Poundland Group plc and Ladbrokes plc. Darren is a chartered certified accountant.

Other principal appointments:
Chairman of Topps Tiles Plc.

Nadia Shouraboura
Independent Non Executive Director

A N R

Appointed: July 2017

Key strengths and experience:
– Considerable expertise in running complex logistics and supply chain activities
– Extensive experience of cutting edge technology and e-commerce

Nadia has substantial experience of the consumer and technology sectors. She was a Vice President at Amazon.com, Inc. and held management positions at Exelon Power Team, Diamond Management and Starlight Multimedia Inc. She held board level positions at Hointer Inc. and Cimpress N.V.

Other principal appointments:
Member of the Supervisory Board of X5 Retail Group N.V.

Jacky Simmonds
Independent Non Executive Director

A N R

Appointed: May 2014

Key strengths and experience:
– Extensive expertise in executive remuneration and human resources within large international businesses
– Significant knowledge of talent management and employee engagement

Jacky has experience across a number of sectors. She has worked as a HR Director in a number of different consumer facing businesses, including easyJet plc and TUI Travel plc. She was a member of the Supervisory Board of TUI Deutschland, GmbH and a Director of PEAK Adventure Travel Group Limited.

Other principal appointments:
Group Chief People Officer of VEON Ltd.

Why you should vote to elect your Board

In accordance with the Code, all Directors will stand for election at the 2019 Annual General Meeting ("AGM"), with the exception of John Martin and Darren Shapland who will step down from the Board on 19 November 2019 and 21 November 2019 respectively.

Further details on the AGM can be found on page 166 and at **www.fergusonplc.com**. Subject to their election, Gareth Davis will be replaced as Chairman by Geoff Drabble following the 2019 AGM. Mr Davis will remain on the Board until 31 January 2020 to provide support to Mr Drabble and complete a thorough handover.

In line with the findings of the internally-facilitated Board and Committee effectiveness review, further details of which can be found on page 63, and evidenced by their biographies, the Directors possess a broad range of experience and skills from a variety of industries and advisory roles, which fully complement each other. Appointments made during the year have continued to strengthen the profile of the Board with particular enhancements to the level of US, distribution, logistics and e-commerce experience helping to more closely align the Board's profile with that of the business. As such, the Board believes that the election of each Director is in the best interests of the Company.

Ferguson's governance structure

Ferguson plc has a premium listing on the London Stock Exchange, and is therefore subject to the Listing Rules of the UK Listing Authority. Although the Company (being Jersey incorporated) is not subject to the UK Companies Act, the Board retains its standards of governance and corporate responsibility as if it were subject to the Act, provides shareholder safeguards similar to those of a UK registered company, has regard to relevant institutional shareholder guidelines and complies with the dilution limits detailed in the Investment Association's Principles of Remuneration.

The table below describes the Company's governance structure, an overview of the roles and responsibilities of the key Committees of the Board and other administrative committees during the financial year ending 31 July 2019.

Further information on the Board, its Committees and our governance practices can be found at **www.fergusonplc.com**.

Shareholders

Board and Committees of the Board

Committees of the Board support the Board in the fulfilment of its duties. These take strategic decisions of a substantive nature.

The Board

- Responsible for establishing the Group's vision, mission and values and ensuring alignment with culture
- Collectively responsible for the long-term success of the Group
- Accountable to shareholders and responsible for the proper conduct of the business
- Setting the overall strategic direction of the Group
- Oversight of effective management of the Ferguson Group ensuring the appropriate leadership and resources are in place to meet its objectives
- Reviewing the performance of the Board and its Committees and ensuring effective succession planning
- Ensuring effective financial reporting
- Approval of key strategic projects in the best interests of the Group
- Maintaining a sound system of risk management and internal controls

Audit Committee

- Oversees, monitors and makes recommendations as appropriate in relation to the Group's financial statements, accounting processes, audit (internal and external), risk management and internal controls and matters relating to fraud and whistleblowing
- The Audit Committee is the body responsible for the functions specified by DTR 7.1.3R. The membership of the Audit Committee is detailed on page 66

+ Page 66

Nominations Committee

- Regularly reviews the structure, size and composition of the Board and its Committees
- Identifies and nominates suitable candidates to be appointed to the Board (subject to Board approval) and considers succession generally

+ Page 72

Remuneration Committee

- Reviews and recommends to the Board the framework and policy for the remuneration of the Chairman, the Executive Directors and the Executive Committee
- Takes into account the business strategy of the Group and how the Remuneration policy reflects and supports that strategy
- Reviews workforce remuneration and related policies throughout the Group and the alignment of incentives and rewards with culture

+ Page 80

Major Announcements Committee

- Meets as required in exceptional circumstances to consider disclosure obligations in relation to material information where the matter is unexpected and non-routine

Other Committees

Implementing strategic decisions and executive or administrative matters.

Executive Committee

- Ensures that the corporate culture and values set by the Board are implemented across the Group, that the behaviours expected from associates are clearly communicated and that actual behaviours are in line with the culture and values
- Develops and recommends to the Board the strategy for the Group and responsible for monitoring progress against the strategy
- Develops and recommends Group policies and standards to the Board and ensures that they are implemented, communicated and maintained

Committee membership and biographical details for each member: **www.fergusonplc.com**

Treasury Committee

- Considers treasury policy including financial structures and investments, tax and treasury strategy, policies and certain transactions of the Group
- Reviews performance and compliance of the tax and treasury function. Makes recommendations to the Board in matters such as overall financing and strategy, and currency exposure

Committee membership details: **www.fergusonplc.com**

Disclosure Committee

- Meets as required to deal with matters relating to public announcements of the Company and the Company's obligations under the Listing and Disclosure and Transparency Rules of the UK Listing Authority and EU Market Abuse Regulation
- Assists in the design, implementation and periodic evaluation of the Company's disclosure controls and procedures

Committee membership details: **www.fergusonplc.com**

Division of responsibilities

The effective working of the Board is crucial to the long-term prospects and strategic aims of the Company. This is achieved through strong and open working relationships between the Directors and, in particular, the Chairman, Group Chief Executive and Senior Independent Director, whose roles are agreed and set out in writing. A summary of their roles and division of responsibilities is set out below:

Chairman

- Overall leadership and governance of the Board (including induction, development and performance evaluation)
- Provides the Board with insight into the views of the Company's major shareholders
- Promotes a culture of challenge and debate at Board and Committee meetings

Group Chief Executive

- Effective leadership of the Company, implementing strategy and objectives agreed by the Board
- Management and development of the Group's operations and business models
- Working closely with the Group Chief Financial Officer to ensure prudent financial controls
- Developing and implementing policies integral to improving the business, including in relation to health and safety and sustainability

Senior Independent Director

- Available to investors and shareholders, where communications through the Chairman or Executive Directors may not seem appropriate
- A sounding board for the Chairman and an intermediary for the other Directors when necessary
- Chairs the Board in the absence of the Chairman
- Holds informal discussions with the Non Executive Directors

Change of corporate headquarters

Following a thorough review of the location of the Company's headquarters, the Board concluded that the interests of the business and shareholders would be best served by establishing a new corporate structure with the Group headquartered and tax-resident in the UK. On 26 March 2019, Ferguson announced a proposal to put these changes into effect. This proposal was approved by shareholders and became effective on 10 May 2019. Further information on the change of corporate headquarters is included on pages 3 and 25.

2018/19 scheduled Board and Committee meeting attendance (eligibility)[1]

		Committees		
	Board[2]	Audit	Rem	Nom
Chairman				
Gareth Davis	7 (7)			6 (6)
Executive Directors				
John Martin	7 (7)			
Kevin Murphy	7 (7)			
Mike Powell	7 (7)			
Non Executive Directors				
Tessa Bamford	7 (7)	5 (5)	7 (7)	6 (6)
Geoff Drabble[3]	2 (2)	1 (1)	2 (2)	1 (1)
Cathy Halligan[4]	5 (5)	3 (3)	5 (5)	4 (4)
Alan Murray	7 (7)	5 (5)	7 (7)	6 (6)
Darren Shapland	7 (7)	5 (5)	7 (7)	6 (6)
Tom Schmitt[5]	4 (4)	2 (2)	4 (4)	3 (3)
Nadia Shouraboura[6]	6 (7)	4 (5)	6 (7)	5 (6)
Jacky Simmonds[7]	7 (7)	4 (5)	7 (7)	6 (6)

The Major Announcements Committee meets as required and was not required to meet during the year. In addition to the members detailed on pages 56 and 57, Ian Graham, Group General Counsel, and Mark Fearon, Group Director of Communications and Investor Relations, are members of that Committee.

1. The details of meeting attendance and eligibility noted in this table and throughout this report include meetings of the Group's previous holding company Ferguson plc (now known as Ferguson Holdings Limited) prior to the re-domiciliation, which became effective on 10 May 2019, and all subsequent Board and Committee meetings of Ferguson plc, the Group's new holding company.
2. An additional, unscheduled, Board meeting was held on 12 July 2019 which was attended by all Board members.
3. Appointed as a Non Executive Director and Chairman Designate on 22 May 2019.
4. Appointed as a Non Executive Director on 1 January 2019.
5. Appointed as a Non Executive Director on 11 February 2019.
6. Dr. Shouraboura was unable to attend the November Board and Committee meetings due to an unavoidable scheduling conflict.
7. Ms Simmonds was unable to attend the July Audit Committee meeting due to an unavoidable scheduling conflict.

How the Board operates

Meetings and decision-making

The Board provides strong leadership to the Company and continues to benefit from a strong mix of complementary skills and experiences, as well as relationships and a dynamic that allows for open debate, challenge of existing assumptions and asking difficult questions. The Board's effectiveness has been enhanced during the year through the recruitment of three new Non Executive Directors who further align the Board's profile with the Group's strategic direction.

The Board held seven scheduled meetings, as well as one unscheduled meeting, during 2018/19. Board and Committee meetings were scheduled over two- or three-day periods with meetings structured to allow open discussion. Individual Director attendance at Board and Committee meetings during the year is set out in the table on page 59. To facilitate an efficient and effective Board, meetings follow an agreed format. A formal agenda is developed by the Chairman and Group Company Secretary, with relevant input from other Directors, in the weeks and months prior to a meeting that ensures that all relevant matters are prioritised, given sufficient time and focus and are put forward for discussion at the appropriate time. Each meeting agenda builds on the Board's long-term forward agenda plan and takes into account the financial and reporting cycle, the Group's strategy, relevant internal and external developments, the location of the meeting and stakeholder feedback.

Certain strategic decisions and authorities are reserved as matters for the Board with other matters, responsibilities and authorities delegated to its Committees as detailed in the Ferguson governance structure on page 58. The schedule of matters reserved for the Board, a summary of which can be found at **www.fergusonplc.com**, allows that decisions of a substantive nature may be delegated to such special purpose committees. Where action was required to facilitate the implementation of the Board's decisions or to consider specific matters in further detail between scheduled meetings, such committees were approved by the Board and convened.

Information and support

In advance of each set of meetings, papers and relevant information are delivered so that each Director is provided with the necessary resources to fulfil their duties. The information is published via a secure web portal which also provides access to a library of relevant information about the Company, the Group and Board procedures. Meeting support is provided by the Company Secretariat department. The Group Company Secretary is responsible for ensuring that all Directors have full and timely access to all relevant information.

The Board has an established procedure for Directors, if necessary, to take independent professional advice at the Company's expense in furtherance of their duties. This is in addition to the direct access that every Director has to the Group Company Secretary for his advice and services.

Values and culture

Culture and good governance are inherently linked and the Board recognises the fundamental importance of a corporate culture that is aligned with and supportive of the Group's long-term strategic objectives. However, culture is, ultimately, an output resulting from the individual and collective actions of the Group's associates.

During the year the Board approved a new Group vision, mission and values statement. You will find further information on our vision, mission and values on page 16 and examples of how our associates live these values every day are included throughout the strategic report. Our vision, mission and values are a reminder of the goals we are working towards and how we expect to get there. They apply to all of our operations and business units and are applicable to every role and function throughout the Group.

Whilst culture is woven into the fabric of Board discussions, specific sources of cultural indicators provided to the Board and Committees include business-specific reports from the Group Chief Executive and other senior management, feedback from employee engagement surveys, whistleblowing reports, the performance of the Group's health and safety programme, updates on the Company's compliance with relevant legal and regulatory requirements, Internal Audit reports and progress in the Group's diversity and inclusion programme.

Oversight of risk and internal controls

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control systems. During the year, the Board and its Committees carried out a robust assessment of the risks facing the business. This assessment included a review of environmental, social and governance risks as appropriate as well as considering emerging risks. The Directors' assessment of the Group's longer-term viability and the viability statement are set out on pages 48 and 49.

The principal risks which the Board has focused on are set out in the Principal risks and their management section on pages 47 to 53. Whilst risk can never be eliminated entirely, it is also vital that the Board ensures the Company maintains sound risk management and internal control systems in order to mitigate risks. The effectiveness of these systems is reviewed through the work of the Audit Committee, described on pages 66 to 71.

What the Board has done during the year

The Board has a rolling agenda programme which ensures that items relating to strategy, finance, operations, health and safety, product integrity, corporate governance and compliance are covered in its meetings.

The balance of time spent by the Board on strategic, performance-related and governance issues is considered as part of the annual effectiveness review process and, as a result, adjustments are made to the Board's agenda for the following year. The Board receives copies of the minutes of each Board Committee meeting and key issues covered by each Committee are reported to the subsequent Board meeting.

Principal areas of focus during 2018/19 All	Further information
Strategy	
– Reviewed and approved the Group's new vision, mission and values statement	See page 16
– Commenced a detailed review of the Group structure	See page 10
– Commenced a review of the Company's listing domicile	See page 2
– Received reports from the Group Chief Executive on progress with strategy at every meeting	See pages 6 to 13
– Regularly reviewed the Group's strategy and held in-depth discussions on the strategic plans of the Group's businesses and the Group's IT strategy	See pages 26 to 41
– Reviewed the Group's sustainability strategy and performance	See pages 42 to 46
– Approved the proposal to move the Group headquarters from Switzerland to the UK	See page 25
– Approved the $500 million share buy back programme	See page 76
– Reviewed and approved the $750 million bond offering	See page 133
– Reviewed and approved business acquisition and capital investment proposals and conducted regular post-investment reviews	See pages 146 and 147
– Annual budget reviewed and approved	
– Approved the disposal of the Group's business in the Netherlands	See page 23
– Reviewed and approved the Group's Modern Slavery Act Statement	See page 46
– Reviewed succession plans for the Executive Committee and other senior executives	See pages 72 to 75
– Reviewed and approved the Group's diversity and inclusion programme	See page 17
Performance	
– Received regular reports from the Group Chief Financial Officer on financial performance	See pages 22 to 25
– Received regular presentations from management on the performance of the Group and its business units	See pages 26 to 41
– Reports on health and safety performance reviewed at every meeting	See pages 42 and 43
– Reviewed and approved full year and half-year results and other announcements	See **www.fergusonplc.com**
– Regular updates on investor relations including detailed feedback from shareholders following investor meetings	See page 64
Governance	
– Reviewed the results of the Board and Committee effectiveness review	See page 63
– Received reports from the Nominations Committee on succession planning and approved the appointment of three new Non Executive Directors including the new Chairman	See pages 72 to 75
– Reviewed and approved changes to the Group's governance processes to ensure compliance with the 2018 Code, including the appointment of the Employee Engagement Director	See page 55
– Regularly reviewed the Group's principal risks and risk appetite	See pages 47 to 53

Board visit to Atlanta

In January 2019, the Board and Committee meetings were held in Atlanta. Atlanta is one of the largest markets in the USA and the Group is creating a technology centre and setting up the primary Ferguson Ventures Innovation Lab there. At their meetings the Board received presentations from US senior management on e-commerce and disruption and IT strategy implementation and development as well as an in-depth presentation from Build.com, the Group's California-based online business, on their strategy and plans to establish a second hub in Atlanta. Atlanta is also home to Supply.com, an online business acquired by the Group in 2017. As part of the trip, the Board visited Supply.com and its executive team introduced its business expansion and customer marketing plans and explained how customer service standards were maintained. Board members also met with Supply.com associates and were impressed by their passion and commitment to delivering excellent customer service and the excitement with which they viewed the business's expansion plans.

Board visit to New York

In July 2019, the Board and Committee meetings were held in New York. New York is one of the largest metro markets in the USA and an area of significant opportunity for the Group to build on its existing business there. Whilst there the Board met with associates and received in-depth presentations from US management on the US Commercial Business Group, its strategy, performance and market opportunities, and on the market opportunities in the New York Metro Area. During their visit the Directors were taken by one of the business's customers on a tour of One Vanderbilt, a $3.2 billion skyscraper combining office and retail space currently under construction in midtown Manhattan. The tour enabled Directors to meet with, and talk directly to, customers working at the site and to see first hand how Ferguson's service proposition is helping its customers meet the demands of a significant commercial construction project in a major metropolitan area.

Board composition and development

Board composition and independence

As at the date of this report, the Board consists of 12 members including the Chairman, three Executive Directors and eight Non Executive Directors. One-third of the Directors are female. The biographies of the Directors (set out on pages 56 and 57) demonstrate that the Board possesses strong and diverse experience that is relevant to the sector in which the Company operates and aligned with its strategy.

The Nominations Committee keeps Board composition under regular review to ensure that the Board maintains an appropriate balance of skills, experience, independence, knowledge and diversity to support the successful execution of the Group's long-term strategy. Further information on the Nominations Committee's work on Board succession planning and Non Executive Director recruitment is provided on pages 72 to 75.

The Board reviews the independence of the Non Executive Directors as part of the annual Board and Committee effectiveness review. Each of the Non Executive Directors and the Chairman are considered by the Board to be independent and free of any relationship which could materially interfere with the exercise of their independent judgement. The Code suggests several factors that should be considered when determining the independence, including length of tenure. Each Non Executive Director has served for six years or less with the exception of Tessa Bamford and Alan Murray. As required by the Code, Ms Bamford and Mr Murray's reappointments for a third three-year term, in March 2017 and January 2019 respectively, were subject to a particularly rigorous review, that carefully considered the need for progressive refreshing of the Board. The Board remains satisfied that each Non Executive Director continues to demonstrate independence of thought and expertise in meetings, and to support the senior management in an objective manner and offer appropriate levels of challenge.

Development of the Board

All Directors are provided opportunities for further development and training and, during the year, each Director discusses development with the Chairman. The Board receives regular updates on governance, legal and regulatory matters relevant to the Group's operating environment and receives detailed briefings from advisers on a variety of topics that are relevant to the Group and its strategy.

The annual Board and Committee effectiveness review provides the Directors with an opportunity to assess individual and collective effectiveness. During the 2017/18 effectiveness review the Board identified increased opportunities for Non Executive Directors to contribute to the Board's agenda planning and a continued increase in the Board's focus on innovation, disruption and digital transformation as areas for improvement. Draft agendas were shared with Board and Committee members in advance of meetings for any input they might have. Additionally, the Chairman met with Non Executive Directors periodically throughout the year to discuss the content of, and provide feedback on, Board meetings and the items considered by the Board. The Board received regular briefings and presentations throughout the year on the design and implementation of the Group's IT strategy as well as in-depth presentations on disruption, investment in innovation and e-commerce and brand strategy as well as visiting the offices of Supply.com, a US online business. Increased Board exposure to key stakeholders was also identified as an area for improvement during the 2017/18 effectiveness review. During the year careful consideration was given to the structure of Board meetings and site visits in order to provide further opportunities to meet with the Group's key stakeholders, such as customers and associates, and ensure that information relevant to stakeholder groups was provided to the Board as part of regular presentations. Additionally, Alan Murray was appointed Employee Engagement Director. A series of employee engagement meetings hosted by Mr Murray commenced during the year and Mr Murray will provide feedback from these discussions to the Board on a regular basis.

Induction

Upon appointment, all new Directors follow a comprehensive induction programme designed to ensure they develop an understanding and awareness of our businesses, people and processes, and of their roles and responsibilities as a director of a public company. The programme is structured to reflect best practice and includes the provision of current and historical information about the Company, visits to operations around the Group, induction briefings from function leaders and meetings with Directors, senior executives, the Group Company Secretary and the Company's advisers.

During the year, Cathy Halligan and Tom Schmitt undertook tailored induction programmes following their appointments as Non Executive Directors. Following his appointment as a Non Executive Director and Chairman-designate, on 22 May 2019, Geoff Drabble commenced a thorough induction programme which is ongoing at the date of this report. An example of how induction programmes are put together and the value of them to new Directors is set out below in Cathy Halligan's description of her induction experience.

Cathy Halligan's induction

"As a new Non Executive Director, it is important to me to gain an understanding of the people and business as soon as possible in order to fully engage and contribute to Board discussions. The induction programme I undertook following my appointment was thoughtfully structured and comprehensive, designed to provide information and insight on the Company's customers, competitors, value proposition, people, culture and operations across several markets. Throughout my induction, I was inspired by the commitment and passion our associates, from executive leadership to the shop floor, bring to their roles and their dedication to providing excellent service to our customers. It is this passion, dedication and focus that makes Ferguson a great business, and one to which I'm excited to be associated.

In addition to meetings with the Chairman, my Board colleagues, executive management from the Group and business units, along with the Company's advisers, the initial phase of my induction focused on detailed information on the history and dynamics of the Company and included briefings on investors, strategy, disruption and technology and the legal and regulatory framework within which the Company operates. The second phase immersed me in our core business and provided me with a good commercial feel for Ferguson. I visited several markets, and spent a few days in each, to tour branch and showroom locations and distribution centres, to experience competitors, to spend time with the consumer e-commerce business, with inside sales and on the road with a salesperson meeting customers, and to attend College of Ferguson sessions.

I will of course continue to learn and expand my knowledge of the people, business and its markets over the months and years to come but I feel that my induction is a solid foundation of the Company to contribute effectively to the Board as we continue to shape the future of this amazing Company."

Cathy Halligan
Independent Non Executive Director

Evaluating the performance of the Board of Directors

Board and Committee effectiveness review 2019

The Board undertakes a formal review of its performance and that of its Committees each year, with an external evaluation every three years. An externally-facilitated effectiveness review was conducted in 2017/18. This year's Board and Committee effectiveness review was facilitated internally. It is expected that the next externally-facilitated effectiveness review will be conducted during the year ending 31 July 2021.

During the year ended 31 July 2019, the Board and Committee effectiveness review was conducted using an online survey with follow-up discussions between the Chairman and individual Board members. The survey was structured around open questions that encouraged honest feedback. The main areas covered by these questions were Board composition, stakeholder oversight, Board dynamics, management of meetings, Board support, strategic oversight, risk management and internal controls and succession planning and human resource management. Overall the Board's performance was highly rated with particularly positive feedback given in relation to the composition of the Board and the atmosphere at meetings, which were felt to be open and transparent with candid discussion and equal contribution encouraged. The results of the effectiveness review were discussed by the Board and priority actions for further enhancements to the Board's effectiveness were identified. Overall, following consideration of the findings of the 2018/19 Board and Committee effectiveness review, the Directors remain satisfied that the Board and each of the Committees of the Board are operating effectively.

An overview of some of the areas of focus, key findings and improvement actions for the Board identified by the 2018/19 effectiveness review is detailed below. As noted in the Chairman's introduction on page 55, ensuring smooth succession of the Group CEO role and supporting Kevin Murphy as he settles into his new role will also be a key priority for the Board in 2019/20.[1]

Areas of focus and key findings	Improvement actions
Succession planning All Following the appointment of three new members during the year, making a successful transition of the changes in the Board, and particularly having a smooth Chairman transition, was identified as a top priority. The importance of managing and onboarding the new Non Executive Directors and creating an aligned team was emphasised and the increase in the number of Board members with less than three years' tenure was noted. Given the importance of the Chairman to facilitating the effective operation of the Board, ensuring the successful transition of responsibilities to the new Chairman was identified as a key priority for the Board in the coming year. Additionally, it was felt that although the Board regularly reviewed its composition and succession plans this could be further improved through enhancing the reviews of executive succession plans to ensure they are aligned with the strategy of the Group.	The Board to ensure sufficient time is allocated to implement a successful transition and handover of responsibilities to the new Chairman. The Chairman and the Chairman designate to work closely together both before and after the 2019 AGM.[1] The Chairman and Group Company Secretary to ensure more time is allocated to succession planning during the year.
Technology The review found that whilst the Board's understanding of technological opportunities and risks was improving, especially with the recruitment of new Board members with relevant experience in recent years, there was scope for further improvement, especially as the Group continued to advance its capabilities in this area. Enhancing the Board's understanding and oversight of the Group's information technology capabilities and projects was identified as a priority.	The Group Chief Information Officer to provide more regular briefings to the Board on the technology opportunities and risks and the Group's ongoing and planned technology projects.
Culture The review considered the effectiveness with which the Board monitors the culture and behaviours throughout the organisation. Though the Board's oversight of culture and behaviours was rated as satisfactory it was felt that the Senior Independent Director's appointment as Employee Engagement Director would lead to enhanced oversight. The importance of continuing to enhance the Board's oversight of culture and behaviours, including ensuring that they are fully aligned with the Group's values, was identified as a top priority for improving the Board's effectiveness.	The Chairman and Group Company Secretary to ensure that regular and sufficient time is allocated for the discussion of culture. Management to review how information relevant to the Group's culture is presented to the Board.

1. As at the date of this report, actions relating to Chairman and Group CEO succession have already commenced.

Chairman effectiveness review

During the year the Non Executive Directors, led by the Senior Independent Director, undertook the performance evaluation of the Chairman. The evaluation, which took into account the views of the Executive Directors, concluded that the Chairman continued to be highly effective in his role. Board meetings were well chaired, and open and constructive discussions were encouraged. The Chairman had continued to devote sufficient time and attention to his role and had made himself available to Directors whenever necessary outside of Board meetings. He was open to improvement suggestions and had taken on constructive ideas for improvements to the way in which the Board operated following the 2017/18 Board effectiveness review. Overall the Chairman continued to perform strongly, and the Board had no concerns regarding his performance. A review of the new Chairman's effectiveness will be undertaken during 2019/20.

Individual Non Executive Director effectiveness review

The Chairman maintains frequent contact with each Director throughout the year on an individual basis and provides feedback where relevant. The Chairman considers all Directors to have engaged fully throughout the year, openly sharing their views and experience at Board and Committee meetings and providing constructive challenge and support to management as required. The ability of Directors to devote sufficient time to their respective roles is also monitored by the Chairman on an ongoing basis and he continues to be satisfied that each Director has been able to do so during the year under review, with full attendance at all scheduled Board and Committee meetings with the exception of the November meetings which Nadia Shouraboura was unable to attend and the July Audit Committee meeting which Jacky Simmonds was unable to attend. The Chairman was consulted before these meetings by Dr Shouraboura and Ms Simmonds and was satisfied that they were unable to attend for valid scheduling conflict reasons and not as a result of an inability to devote sufficient time and attention to their duties. Dr Shouraboura and Ms Simmonds received and reviewed the packs for the meetings they were unable to attend. The Chairman and the Board continue to consider each of the Directors to be effective and to demonstrate commitment to his or her role.

Actions taken following the 2017/18 effectiveness review

Progress against the priorities and action points identified following the externally-facilitated review undertaken in 2017/18 is reflected in the principal areas of focus table on page 61 and outlined in the description of the Board's development activities on page 62.

Relations with shareholders and other stakeholders

Relations with stakeholders

Engaging effectively with our stakeholders is central to how we do business and the effective delivery of our strategy. Ferguson has 6,884 registered shareholders, 35,000 associates, 45,000 suppliers and more than a million customers who we serve through a network of 2,259 branches and 15 distribution centres. The individuals, businesses and communities that form our stakeholder groups are all integral to our business.

On this and the following page you will find examples of how we have engaged with our key stakeholders and considered them during the year. Under section 172 of the UK Companies Act 2006, boards have a duty to promote the success of their company for the benefit of their members whilst having regard for the interests of associates, the success of their relationships with suppliers and customers, the impact of their operations on the community and environment and maintaining a reputation for high standards of business conduct. As it is Jersey incorporated, the UK Companies Act 2006 has no legal effect on the Company. However, as a matter of good governance, stakeholder considerations are part of business as usual and are woven throughout all of the Board's discussions and decisions.

Further information on how the Directors have had regard to the provisions of section 172 of the UK Companies Act 2006 is available in the strategic report, on pages 14 to 19 and 42 to 53.

Shareholders

Board considerations

The Board is fully committed to engaging with all shareholders and maintains an active dialogue with shareholders throughout the year through a planned programme of communications and investor relations activities.

How we engaged during the year

- Regular, detailed feedback provided to the Board on the key issues raised during discussions with institutional shareholders by the Group Director of Communications and Investor Relations.
- All Directors then in office, with the exception of Nadia Shouraboura, attended the 2018 AGM in Zug, Switzerland where they answered a wide range of questions from shareholders.
- A regular programme of engagement with institutional investors and analysts involving the Group Chief Executive, Group Chief Financial Officer and Investor Relations team.
- Released regular updates on the financial performance of the Group incorporating revenue, profitability by region, net debt and appropriate commentary on key business trends.
- The Chairman engaged with larger institutional shareholders to discuss matters including the Board, strategy, remuneration and corporate governance.
- Consulted with shareholders representing approximately 64.5 per cent of the Company's issued share capital on proposed changes to the Company's Remuneration Policy. See pages 80 and 81 for further detail.
- Addressed the issue of listing structure through a consultation with shareholders representing approximately 60 per cent of the Company's issued share capital as a precursor to the assessment of the Company's listing structure. As announced on 3 September 2019, this assessment is currently ongoing.
- Met with the UK Shareholders' Association to enable individual shareholders to engage with the Group Chief Executive and Group Director of Investor Relations and Communications.
- All communications from individual shareholders reviewed by management and provided with a response.
- Ensured that all shareholders have equal access to information by making all documents presented at investor meetings available on **www.fergusonplc.com**.

2019 AGM

Following the re-domiciliation of the Company's headquarters from Switzerland to the UK, undertaken during the year, the 2019 AGM will be held at the Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED on 21 November 2019. Shareholders will be able to engage with the Board during the meeting. Further details of the 2019 AGM are contained in the Notice of AGM and are available on **www.fergusonplc.com**.

Associates

Board considerations

Our associates are our most important asset and having the best associates in our industry is a key part of Ferguson's culture. The Board is committed to supporting all the Group's businesses in attracting, developing and retaining the best available talent by promoting competitive compensation and benefits, an inclusive culture and fair labour practices.

How we engaged during the year

- Appointed Alan Murray as Employee Engagement Director and instituted employee engagement meeting series. See page 18 for further detail.
- The Board received regular reports from the Group Chief Executive which include details on customer satisfaction and net promoter scores.
- The Board engaged directly with the Group's associates during site visits and meetings with local management in an informal environment. See page 61 for further detail.
- The Board received reports on health and safety at every meeting, including from the Group Chief Executive and the Vice President of Health and Safety. See pages 42 and 43 for further detail.
- The Executive Directors regularly engaged with senior associates on performance and strategy.
- The Board discussed talent management and succession planning.
- The Board reviewed and discussed the Group's diversity and inclusion programme and, along with the Nominations Committee, continues to monitor progress in this area. See page 17 for further detail.

Suppliers

Board considerations

Having a great range of products that our customers value and our associates really believe in is central to the delivery of our strategic vision. The Board is mindful of the importance of ensuring that Ferguson is able to source a broad range of high-quality products from a base of well-respected suppliers and of being a trusted partner for our suppliers.

How we engaged during the year

- The Board received reports on the Group's Product Integrity programme.
- Regular management reports and presentations to the Board included information relevant to understanding the Company's suppliers.
- The Company sought input from its top 100 USA suppliers on the design of its sustainability programme. See pages 42 to 46 for further detail.
- Payment practices are monitored on a monthly basis and consistently show that 90 per cent of invoices are paid within agreed terms. Further information on the UK business's payment practices performance can be found at **www.gov.uk/check-when-businesses-pay-invoices**.
- The Board reviewed and approved the Company's Modern Slavery Act statement.

Customers

Board considerations

Ferguson's core vision is to be a trusted partner and deliver the best service to customers in our industry. Our excellent service ethic is underpinned by the way our associates create partnerships with our customers and understanding the wants and needs of our customers is a key part of the Board's role in setting the Group's strategic direction.

How we engaged during the year

- The Board engaged directly with customers by meeting them during site visits and undertook a tour of One Vanderbilt, a $3.2 billion building project with office and retail space that represents a major project for the US business. See page 61 for further detail.
- Regular management reports and presentations to the Board included information relevant to understanding the Company's customers and received a detailed report on the changing expectations of US commercial customers.
- The Board sought to further their understanding of the role of digital technology in the customer experience through regular discussion and management presentations and also received an in-depth presentation from US management on their omni-channel strategy.
- The Board received a detailed presentation from US management on the customer journey of a commercial contractor from initial project specification, design and tendering through to construction and completion.

Communities and environment

Board considerations

We operate our business responsibly and contribute actively to the communities in which we operate. The Board understands that our products and services help to build and maintain the fundamental infrastructure and safety systems essential for economic growth and development.

How we engaged during the year

- The Board reviewed and discussed enhancements to the Group's sustainability programme including the alignment of the programme with the Group's strategy. The enhancements were designed to raise the profile of the Group's work on sustainability and support the achievement of goals set by the Board and included initiatives to increase recycling rates, improve vehicle fuel efficiency and, in the US business, introduce solar power capabilities. See pages 42 to 46 for further detail.
- The Board reviewed and approved a new Group Sustainability Policy. See **www.fergusonplc.com** for the Group's newly published Sustainability Policy.
- The Board offered suggestions regarding reducing packaging waste, specifically in regard to own brand products, and discussed ways to enhance environmental efficiency.

Audit Committee

Committed to independent oversight

Darren Shapland
Audit Committee Chairman

Audit Committee members

Membership	Meetings attended (eligibility)
Darren Shapland[1] (Chairman)	5 (5)
Tessa Bamford	5 (5)
Geoff Drabble[1]	1 (1)
Cathy Halligan	3 (3)
Alan Murray[1]	5 (5)
Tom Schmitt	2 (2)
Nadia Shouraboura	4 (5)
Jacky Simmonds	4 (5)

1. Qualified accountant.

Audit Committee overview

– Darren Shapland has served on the Committee since May 2014 and as Chairman of the Committee since November 2014. Darren will step down on 21 November 2019 and will be succeeded as Audit Committee Chairman by Alan Murray at the conclusion of the Company's 2019 AGM.

– During the year, Geoff Drabble, Cathy Halligan and Tom Schmitt joined the Committee.

– As at the date of this report, the Committee is made up of eight independent Non Executive Directors. Details of membership and attendance are set out in the table above.

– The Committee met five times during the year, including an extra meeting added to allow additional time after the financial year-end for the Committee to review the effectiveness of the financial reporting and external audit processes.

– Other attendees at meetings included the Chairman, Group CEO, Group CFO, CEO USA, Group Head of Internal Audit, Group General Counsel and representatives from Deloitte LLP ("Deloitte").

– The Board has reviewed the composition of the Committee and is satisfied that the Committee as a whole meets the requirements for sectoral competence and recent and relevant financial experience.

– Private sessions for Committee members are held before each meeting to enable the Committee members to discuss agenda items and Audit Committee business without management present.

– Deloitte, the Group Head of Internal Audit and the Group CFO meet with the Committee without the presence of management on a periodic basis.

An overview of the Committee's areas of responsibility is set out on page 58 and the Committee's Terms of Reference are available at **www.fergusonplc.com**.

Dear Shareholder

I am pleased to present the report of the Audit Committee for the financial year ending 31 July 2019.

On 1 October 2019 we announced that Alan Murray would succeed me as Chairman of the Audit Committee following the Company's 2019 AGM. It has been a great privilege to serve as a Non Executive Director and Chairman of this Committee and I am pleased that I am able to hand over to a successor with both a deep knowledge of the Group and robust financial knowledge.

The Committee plays a vital role in the Company's governance framework. Our purpose is to provide oversight of the Group's financial reporting procedures and internal control framework and to represent the Company's key stakeholders, including shareholders, by acting as a source of independent challenge to management and overseeing the effectiveness and independence of Deloitte.

During the year the Committee's principal focus remained on its core areas of responsibility. We maintained oversight of the Group's financial reporting processes by reviewing the application of financial and accounting policies, challenging the judgements made by management and the assumptions and estimates that underpin those judgements. We gained assurance on the continued effectiveness of the internal control environment by reviewing the work undertaken by Internal Audit as well as the risk and finance functions and also considered all matters raised through the Group's whistleblowing hotline. We conducted detailed reviews of the Group's risk assurance framework and IT controls environment and agreed and approved enhancements in these areas that will be implemented over the course of the coming year. As well as performing a review function, it is important that the Committee keeps an eye on the future. During the year we considered in detail the potential impact of IFRS 16 "Leases" and we have reviewed, and will continue to keep under review, changes to the UK audit market consulted on and proposed in the wake of the Competition and Markets Authority and Kingman Reviews.

I am committed to fostering a culture of continuous improvement in the Committee and in the functions and processes of which we have oversight. This year's annual effectiveness review found that the Committee is highly effective and helped to identify the Committee's priorities for 2019/20, which are:

– Continued oversight of cyber security.
– Focus on oversight of the proposed demerger of the Group's UK business.
– Continued focus on the Group's control environment, including more extensive reporting to the Committee from business CFOs on the actions that are being taken to improve controls in each business.
– Reviewing audit committee best practice and identifying further opportunities to enhance the Audit Committee's performance.
– Overseeing the further enhancement of the capabilities of the Internal Audit function, particularly in the areas of information technology and controls environment reviews.

Both Alan Murray and I will attend the Company's 2019 AGM, where we will be happy to respond to any questions on this report or any of the Committee's activities.

Darren Shapland
Chairman of the Audit Committee

How the Committee operates

Committee meetings

Meetings are scheduled to coincide with key dates in the financial reporting cycle and a forward agenda plan is agreed by the Committee and reviewed on an ongoing basis to ensure that the Committee's agenda continues to optimise its time and impact.

In order to ensure that appropriate information is provided and that meetings have optimal focus, the Committee Chairman conducts pre-Audit Committee meetings with senior management, Internal Audit and Deloitte. Information is delivered to Committee members in accordance with the process detailed for the delivery of information to the Board described on page 60.

Committee composition

The Nominations Committee and the Board keep the composition of the Committee under regular review.

All members of the Committee are Independent Non Executive Directors whose independence, in line with the definition provided in the Code, is reviewed on an ongoing basis. Between them, the members of the Committee possess significant logistics, distribution, commercial (including e-commerce), financial, human resource and listed company skills and expertise gained in large international businesses, which are relevant to an international specialist distribution company listed on the London Stock Exchange. Recent and relevant financial knowledge is provided by Darren Shapland and Alan Murray.

Mr Shapland and Mr Murray both possess professional qualifications in accountancy and have previously served as the Chief Financial Officer or Finance Director of large international businesses. Additionally Geoff Drabble began his career as a qualified accountant and has spent the past 12 years as the CEO of a large UK-listed company.

This provides the Board with assurance that the Audit Committee meets the relevant regulatory requirements relating to independence, financial experience and sectoral competence. The key strengths and experience of each member of the Committee are summarised in their biographies on pages 56 and 57.

Committee effectiveness

This year, the Committee undertook an internally-facilitated effectiveness review. The review involved a survey of Committee members and attendees, follow-up discussions with the Committee Chairman and an in-depth review and discussion of the results by the Committee. Overall the review found that the Committee continued to be highly effective. The review also identified opportunities for further improvement and these are reflected in the Committee's 2019/20 priorities, which are outlined in the Committee Chairman's introduction on page 66.

Last year's effectiveness review highlighted three areas of focus for the Committee. Progress against the areas for improvement identified by last year's effectiveness review was actively monitored by the Committee throughout the year and progress was discussed at each meeting. Further information on the focus areas, along with the actions taken to address them, are detailed in the table below.

2018/19 area of focus	What the Committee has done
Continued review of cyber security, with a particular focus on prioritising areas of protection	– Thorough review of the Group's information security assurance strategy undertaken in September and areas of focus for the Committee identified. – Further reviews of the information security environment undertaken in January and July, including reviews of the Group's security incident response plan, escalation procedures and simulation testing.
Conduct a benchmarking exercise for Internal Audit and identify opportunities to enhance the performance of the function	– Group Internal Audit participated in an external benchmarking study that provided a comparison to internal audit departments with a similar revenue base, audit activities and industry. – Insights gained from the external benchmarking study were reviewed by the Committee and opportunities for improvement agreed and included in the three-year Group Internal Audit roadmap.
Review and assess the continued effectiveness of the Group's control framework, including enhancing the Committee's oversight of the IT control environment	– Review of the Group's IT control environment undertaken by the Group Chief Information Officer and Group Head of Internal Audit. – Regular reports received from the Group Head of Internal Audit on the testing of the Group IT control environment. – Group controls framework reviewed by the Committee on an ongoing basis. – Agreed an enhanced approach to the risk assurance reporting process, aligned to the three lines of defence methodology to be phased in and fully adopted by the end of 2019/20.

Audit Committee (continued)

Principal areas of focus

The Committee has a rolling programme of agenda items to ensure that relevant matters are properly considered. Some of the key items which were discussed by the Committee during 2018/19 are summarised below.

Principal areas of focus during 2018/19	Further information
Financial statements	
– Held in-depth reviews of the Group's full and half-year results prior to their announcement and reported back to the Board. Reviews included the receipt and discussion of detailed reports and presentations from management.	See **www.fergusonplc.com**
– Received and discussed reports from the Group CFO on any accounting issues relevant to the consideration of the Group's financial statements well in advance of announcements.	See page 69
– Reviewed management's work in conducting a robust assessment of such risks as would threaten the future performance or liquidity of the Company, including its resilience to the threats of viability posed by certain of those risks in severe but plausible scenarios.	See pages 48 and 49*
– Received a management presentation on the potential impacts of IFRS 16 and held a full review and discussion of the indicative impact on the Group, other related considerations and proposed next steps.	See page 69
– Conducted a fair, balanced and understandable review of the 2018 Annual Report.	See page 69**
Internal control environment	
– Received a report at each Committee meeting on the results of audits performed by Internal Audit, testing of the internal control environment and progress against improvement actions identified during prior audits.	See page 71
– Received regular reports detailing matters reported through the Group's international confidential telephone reporting lines and secure website reporting facility, including a summary of every investigation into matters raised and details of any corrective action taken.	See page 71
– Received half-yearly risk management reports that identified significant existing and emerging risks facing the Group and described mitigating controls in place for each risk and undertook a review of the effectiveness of the overall risk management framework.	See pages 47 to 53
– Received reports on the strength and performance of the Group's information security systems that included detail on the IT security risks facing the Group and progress on key initiatives.	See page 51
– Received reports on the Group's IT controls on a regular basis. Updates on the testing of these controls were regularly provided as part of Internal Audit reports.	
– Received presentations from the Chief Financial Officers of each of the Group's major businesses that included detail on the effectiveness of the financial control environment and implementation of major initiatives.	
– Received a detailed report on the Group-wide application of the Company's base financial control framework.	
Internal Audit	
– Reviewed and approved the Internal Audit Charter and the Internal Audit plan for the financial year ending 31 July 2020.	See page 71
– Received reports from the Group Head of Internal Audit on the function's work at every meeting.	See page 71
– Met with the Group Head of Internal Audit privately on a periodic basis.	
External audit	
– Reviewed and approved the plan for, and scope of. the external audit and agreed Deloitte's fees, undertook a formal annual review of Deloitte's effectiveness and reviewed and approved details of the engagement of Deloitte for non-audit work at each Committee meeting.	See page 70
– Received regular reports from Deloitte on the results of their work including detailed reports received ahead of the half and full-year results announcements.	See pages 150 to 155
– Met with senior representatives from Deloitte privately on a periodic basis.	
Audit Committee effectiveness	
– Held a private session for Audit Committee members before each meeting, conducted a formal annual review of the Committee's effectiveness and received regular updates on progress against actions identified during the 2017/18 effectiveness review.	See page 67

* The information provided on pages 48 and 49 relates to the 2019 viability statement, which was carried out after the end of the financial year ended 31 July 2019. For further information on the 2018 viability statement, which was reviewed by the Committee during the year, please see page 45 in the Ferguson plc Annual Report 2018.

** The information provided on page 69 relates to the Committee's fair, balanced and understandable review of this Annual Report which was undertaken after the end of the financial year ended 31 July 2019. For further information on the review of the 2018 Annual Report please see page 66 in the Ferguson plc Annual Report 2018.

Financial reporting and significant financial judgements

The Committee considered the issues summarised below as significant in the context of the 2018/19 financial statements. These were discussed and reviewed with management and the external auditors and the Committee challenged judgements and sought clarification where necessary. The Committee received a report from the external auditors on the work they had performed to arrive at their conclusions and discussed in detail all material findings contained within the report. The information contained in the table below should be considered together with the independent auditor's report on pages 150 to 155 and the accounting policies disclosed in the notes to the financial statements as referenced in the table.

Item	Description	Audit Committee review and conclusions
Completeness of supplier rebates (recurring item)	Supplier rebates are significant to the Group and are an area of inherent risk due to the number and complexity of the arrangements. In addition, the majority of the supplier rebate arrangements cover a calendar year and therefore do not end at the same time as the Group's accounting year-end. Where the rebate arrangements are calculated at a flat rate there is limited judgement. However, for tiered rebates, judgements are required to forecast the expected level of volumes purchased to determine the appropriate rate at which a rebate is earned. For further information please see note 1 of the consolidated financial statements on pages 113 to 117 and the independent auditor's report on pages 150 to 155.	The Committee review covered the processes and controls in place during the year and the level of adherence to the Group's accounting policies and procedures. As a result of the review process, which included consideration of the external audit findings, the Committee concluded that the level of rebate income and $321 million rebate receivable as at 31 July 2019 were prudent but appropriate and properly reflected in the consolidated financial statements.
Inventory valuation (recurring item)	Judgement is applied in determining the appropriate values for slow-moving or obsolete inventory. The provisions are predominantly system-generated calculations, comparing inventory on hand against expected future sales using historic experience as the basis for provisioning, along with the results of physical stock-counts. For further information please see note 1 of the consolidated financial statements on pages 113 to 117 and the independent auditor's report on pages 150 to 155.	The Committee considered the level of provisions and the appropriateness and application of the policy, ensuring consistency across the Group in the current and previous financial periods. The Committee also sought the views of the external auditors. Following their review, which included consideration of the external audit findings, the Committee concluded that $176 million provision for obsolete and slow-moving inventory was consistently calculated on a prudent basis, appropriate and fairly stated in the consolidated financial statements.
IFRS 16 (one-off item)	The adoption of IFRS 16 "Leases" is applicable to the Group from 1 August 2019. The impact of adoption is disclosed in the 2018/19 consolidated financial statements and is dependent on the judgements taken. The key judgements include the discount rate and the lease extension assumptions. For further information please see note 1 of the consolidated financial statements on pages 113 to 117.	The Committee reviewed the adoption process and the appropriateness of the key assumptions and judgements taken. Following the review, which included consideration of the external audit findings, the Committee concluded that the impact of adoption of IFRS 16 was fairly stated and properly disclosed in the consolidated financial statements. The impact of adoption includes the creation of a right of use asset of $1.2 billion and a lease liability of $1.5 billion on 1 August 2019 with an immaterial impact on profit for the year in 2019/20.

Fair, balanced and understandable assessment

Overview

At the request of the Board, the Committee assessed whether the content of the 2018/19 Annual Report, full-year results announcement and the full-year results presentation taken as a whole, were fair, balanced and understandable.

In its assessment, consideration was given as to whether key information and key messages were included consistently across the announcement, presentation and Annual Report.

Assessment process

A formal process ensured access to all relevant information. Drafts of the Annual Report were received by the relevant Board and Committee members during the drafting process in sufficient time to allow for challenge to the disclosures. A report from management was also provided describing the approach taken in the preparation of the Annual Report and highlighting:

- the key messages and information;
- whether each of the key messages and information was positive, neutral, mixed or negative; and
- the relative prominence given to each key message.

Conclusion

The Committee advised the Board it was satisfied that, taken as a whole, this Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Audit Committee (continued)

External audit

During the year, the lead audit partner, together with other relevant and appropriate Deloitte partners, attended all the Committee meetings. They provided the Committee with information and advice including detailed reports on the financial statements, critical accounting judgements and estimates and the internal control environment.

The terms, areas of responsibility and scope of Deloitte's 2018/19 audit were reviewed and approved by the Committee. During the year, Deloitte provided external audit services for regulatory and statutory reporting. They are expected to report material departures from Group accounting policies and procedures identified in the course of their work to the Committee. At the date of this report, Deloitte's 2018/19 external audit plan has been successfully completed and their independent auditor's report can be found on pages 150 to 155.

Effectiveness

Following the completion of the external audit plan, the Committee conducts an annual review of external auditor effectiveness. The review survey is completed by each operating business, the Committee Chairman, Group CFO, divisional CFOs and the Chief Information Officer as well as the Group Finance, Internal Audit, Treasury and Tax teams. The results of the survey are reported to the Committee and form the basis of a thorough review of the external auditor's effectiveness. The survey requires respondents to rate Deloitte against a range of measures including: adequacy of planning, sufficiency of resource and thoroughness of review and testing; thoroughness and robustness of audit challenge; adequacy and application of knowledge of the Group; usefulness of feedback; and quality of reporting.

Deloitte's performance in 2017/18 was highly rated, and opportunities to further enhance their service were discussed and agreed with the Committee. The Committee was satisfied that Deloitte continues to provide an effective audit service.

Independence and objectivity

The Company has policies and procedures in place to ensure that the independence and objectivity of the external auditor are not impaired. These include restrictions on the types of services which the external auditor can provide, in line with the Audit Practices Board Ethical Standards on Auditing ("Ethical Standard"). Details of the services that the external auditors cannot be engaged to perform are provided at **www.fergusonplc.com**.

Deloitte also provides specific assurance to the Committee on the arrangements and safeguards it has in place to maintain its independence and objectivity, including an internal process to pre-approve provision of non-audit services and the use of separate teams where non-audit services are being provided to the Group. This internal process requires all proposed audit and non-audit services to receive approval from the lead audit partner before commencing any work and includes assessment of the proposed services against the Ethical Standard.

The Committee believes that the safeguards in place are robust and continues to be satisfied with the independence and objectivity of Deloitte.

Non-audit services policy

The appointment of the external auditor for non-audit work is made on a case-by-case basis. Before Deloitte is appointed to undertake any non-audit work, an assessment is made to consider whether their appointment is appropriate and in the best interests of the Company. The prior consent of the Committee Chairman is required before Deloitte is appointed to undertake non-audit work where the fee is expected to exceed $65,000. Where the fee is expected to be less than $65,000, the Committee Chairman must be notified that the external auditors are to be engaged to provide a non-audit service but approval is not required in advance. The external auditor will not be appointed to provide non-audit services where the Chairman or the Committee considers it might impair their independence or objectivity in carrying out the audit. The Committee reviews any new non-audit engagement and the level of fees at each meeting.

Audit and non-audit fees

During the year, Deloitte was appointed to undertake non-audit services. Fees for non-audit work performed by Deloitte as a percentage of audit fees for the year ended 31 July 2019 were 42 per cent (2018: 13 per cent). Further disclosure of the non-audit fees incurred during the year ended 31 July 2019, can be found in note 4 to the consolidated financial statements on page 123. Non-audit services related mainly to the issuance of the Group's $750 million 4.5% senior unsecured notes in October 2018, the introduction of the new Group holding company and the half year review. The work relating to the introduction of the new Group holding company was the most significant of these and included a working capital report, profit forecast opinion and associated accounting and tax comfort letters. It was considered to be in the best interests of the Group to use Deloitte due to efficiencies gained from their existing knowledge of the Group. The Committee is satisfied that Deloitte's continued objectivity and independence was unaffected due to the nature and scale of the work undertaken.

Auditor reappointment

The lead audit partner, Ian Waller, has held the position for four years. Following the 2019/20 audit (his fifth year as lead audit partner), a new lead audit partner will be put in place.

The Committee reviews the external auditor appointment and the need to tender the audit annually. The Company confirms that it complied with the provisions of the Code, the Competition and Markets Authority Order and the Statutory Audit Services Order 2014 during the year under review.

Deloitte was appointed as the Company's external auditor for the 2015/16 audit following a formal tender process. Deloitte's reappointment was approved by shareholders at the 2018 AGM and the Committee and the Board recommend that Deloitte be reappointed as the external auditor for the financial year ending 31 July 2020 at the 2019 AGM.

Internal control environment and risk management

Whilst ultimate responsibility for maintaining a robust internal control environment and effective risk management processes sits with the Board, oversight of the effectiveness of these systems of internal control has been delegated to the Audit Committee. The main features of the Group's internal control and risk management systems, and the Committee's oversight of them, are summarised below.

Internal Audit

Internal Audit is an independent, objective assurance and consulting activity designed to add value to, and improve, Ferguson's operations. The scope of its audit activities include corporate, financial controls, branch and IT (including IT general controls) audits. In addition to reviewing the effectiveness of these areas and reporting on aspects of the Group's compliance with relevant policies and procedures, the Internal Audit function makes recommendations to address issues identified as requiring remedial action.

Internal Audit's annual plan and budget is reviewed and approved by the Committee ahead of the start of each financial year and the scope of its activity is reviewed at each Committee meeting. Internal Audit's findings, along with detail of any recommended remedial action agreed with management, are reported to the Committee and the Group Head of Internal Audit provides progress reports on actions taken to address previously identified issues on an ongoing basis. The Committee discusses the reports in detail and considers the matters raised and the adequacy of management's response to them, including the time taken to resolve any such matters.

As well as a formal annual review of Internal Audit's effectiveness, the Committee monitors the function's effectiveness on an ongoing basis, receiving regular updates on progress against opportunities for improvement identified during previous reviews. Additionally, during the year an independent third-party review of the effectiveness of the Internal Audit function was conducted. The independent review found that the function is in conformance with the institute for Internal Audit's International Standards for the Professional Practice of Internal Auditing. Following the annual effectiveness review, the Committee reviewed and discussed the Group Head of Internal Audit's plans for continuing to improve the effectiveness of the function. The Committee is satisfied with the effectiveness of the Internal Audit function.

Risk management

The Committee receives detailed risk management reports on a half-yearly basis. These reports summarise submissions from all areas of the business and include assessment of these risks from the Executive Committee and senior management. Risks relating to material joint ventures and associates are considered as part of this process. The reports identify the significant risks to the Group, review potentially significant emerging risks, provide an assessment of the controls in place and highlight the tolerance levels that the Executive Committee and, ultimately, the Board are prepared to accept.

During the year, the Committee reviewed the effectiveness of the Company's overall risk management framework, including the generic procedures for risk identification, assessment, mitigation, monitoring and reporting and was satisfied with their effectiveness. Potential enhancements to the risk assurance framework were identified and agreed by the Committee. The Committee will monitor the implementation of these enhancements across the coming year.

The Committee also reviewed management's work in preparing the Company's viability statement, which can be found on page 49, at its meeting in September 2019.

Internal controls

The Group's internal control systems are designed to manage rather than eliminate risk and can only provide reasonable, but not absolute, assurance that risks are managed to an acceptable level. Their effectiveness is dependent on regular evaluation of the extent of the risks to which the Company is exposed.

In relation to the financial reporting process, at the business level, line management is required to implement base financial and other controls in line with a clear set of detailed policies relating to financial reporting and other accounting matters and act in accordance with the Group Code of Conduct. At Group level, the Group finance function oversees the financial reporting process through setting the policies and requiring a bi-annual self-certification of implementation by the businesses. At a further level, assurance functions (Internal and External Audits) test various aspects of the processes and report to the Committee.

During the year, the Committee monitored and reviewed the effectiveness of the Group's internal control systems, accounting policies and practices, standards of risk management and risk management procedures and compliance controls, as well as the Company's statements on internal controls, before they were agreed by the Board for this Annual Report. The Committee receives regular reports throughout the year to assure itself that the Group's systems comply with the requirements of the Code. The Committee can confirm that the Group's systems have been in place for the full financial year and up to the date on which the financial statements were approved, that they are effective and regularly reviewed by the Committee on behalf of the Board. Whilst the Committee is of the view that the Group has a well-designed system of internal control, enhancements to the control environment have been identified as priorities for 2019/20, as detailed in the Committee Chairman's introduction on page 66. Some of these enhancements are expected to provide additional mitigation of the information technology principal risk detailed on page 51.

Whistleblowing, anti-fraud and anti-bribery and corruption programmes

In line with its whistleblowing policy, the Group operates international confidential telephone reporting lines and secure website reporting facility, which are operated on its behalf by an independent third party. The whistleblowing policy encourages associates to raise concerns confidentially and disclose information they believe shows malpractice or a breach of ethical conduct. All matters reported are investigated by the relevant operating company and reported to the Committee, together with details of any corrective action taken.

The Group has anti-fraud and anti-bribery and corruption policies and programmes in place. All Group companies are required to implement these policies and all associates are required to comply with them. Compliance with the Group's anti-fraud and anti-bribery and corruption policies is actively monitored by Internal Audit. The Committee received reports on compliance with these policies during the year along with details of fraud losses.

This report was approved by the Audit Committee and is signed on its behalf by the Chairman of the Audit Committee.

Darren Shapland
Chairman of the Audit Committee
30 September 2019

Nominations Committee

Committed to enhancing Board effectiveness

Gareth Davis
Nominations Committee Chairman

Nominations Committee members

Membership	Meetings attended (eligibility)
Gareth Davis (Chair)	6 (6)
Tessa Bamford	6 (6)
Geoff Drabble	1 (1)
Cathy Halligan	4 (4)
Alan Murray	6 (6)
Tom Schmitt	3 (3)
Darren Shapland	6 (6)
Nadia Shouraboura	5 (6)
Jacky Simmonds	6 (6)

Nominations Committee overview

- Gareth Davis has served as Chairman of the Committee since January 2011. Gareth will step down as Nominations Committee Chairman following the conclusion of the Company's 2019 AGM when he will be succeeded by Geoff Drabble.
- Geoff Drabble, Cathy Halligan and Tom Schmitt joined the Committee during the year.
- As at the date of this report, the Committee is made up of eight independent Non Executive Directors and the Chairman. Details of membership and attendance are set out in the table above.
- To facilitate the additional workload required for the Chairman succession process, the Committee met six times during the year. The Senior Independent Director chaired the Committee during discussions on Chairman succession.
- The Group CEO, Group General Counsel and Group Chief Human Resources Officer and representatives of external search consultants attended Committee meetings as required.

An overview of the Committee's areas of responsibility is set out on page 58 and the Committee's Terms of Reference are available at **www.fergusonplc.com**.

Dear Shareholder

As I have consistently highlighted in these reports, continued focus on Board and senior leadership succession is the key priority for the Committee. This year we have continued to strengthen the profile of the Board, further aligning its skillset with the Company's strategy through the appointments of Geoff Drabble, Cathy Halligan and Tom Schmitt as Directors. I am very pleased that all three agreed to serve on our Board and welcome them to the Company. Further information on their appointments is set out on page 74 and a description of the process that culminated in Geoff Drabble's appointment as Chairman designate is provided on the following page by Alan Murray, our Senior Independent Director, who led this process. On behalf of the Board I wish to record our thanks to Alan for conducting such a professional and thorough process to a successful conclusion. The biographies of all members of the Board, which outline the skills and experience they bring to their roles, are set out on pages 56 and 57.

After the year end we announced that Kevin Murphy would succeed John Martin as Group Chief Executive on 19 November 2019 and that Alan Murray would succeed Darren Shapland as Audit Committee Chairman following the conclusion of the Company's 2019 AGM on 21 November. Further information on CEO and Audit Committee Chairman succession is included on page 74.

Whilst the Committee keeps the composition of the Board under regular review, the annual review of Board and Committee effectiveness provides an opportunity for reflection on how we can continue to enhance the profile of the Board. A summary of the Board effectiveness review is set out on page 63. This year's Committee effectiveness review was internally facilitated using an online survey. The results of the survey were presented at the May Committee meeting, where I led a discussion of the results. Overall, the review rated the work of the Committee positively. It also identified priority areas of focus for the coming year, which are:

- continuing to focus on Board composition and succession planning;
- continuing to enhance Executive Director succession planning and the oversight of the talent pipeline below Board level, including identifying skills and competencies in the workforce that should be fostered and supplemented to support the Company's future development; and
- continuing to monitor progress on the Group's diversity and inclusion programme.

Chairman-designate appointment

On 22 May 2019, we announced that Geoff Drabble would succeed me as Chairman following our 2019 AGM, when he will also succeed me as Chairman of this Committee. Geoff joins us following a 12-year period as Chief Executive of Ashtead Group plc, the FTSE 100 industrial equipment rental company.

He previously served as an executive director of The Laird Group plc and held a number of senior management positions at Black & Decker. He has also garnered non-executive experience from four years as a Non Executive Director at Howden Joinery Group plc, where he also serves on the Audit, Remuneration and Nominations Committees.

I am delighted to welcome Geoff to the Board and agree wholeheartedly with the Senior Independent Director and Nominations Committee's conclusion that he is the ideal candidate to succeed me as Chairman of the Company.

Chairman succession

"During the year the Nominations Committee has continued to review and develop the composition of, and succession plans for, the Board. An important part of this planning has been to ensure that we had appropriate succession plans in place for the Chairman.

Gareth Davis has been an excellent Chairman and has been instrumental in the successful development of the business over his tenure. The Committee recognised the enormous contribution that Gareth has made and looked to build upon that contribution as it developed and ultimately implemented the succession plan for the role of Chairman. Both the Committee and Gareth recognised that it was the right time to actively implement succession planning well ahead of the conclusion of Gareth's third three-year term as Chairman.

The Chair succession planning was led by me, in my role as Senior Independent Director. In accordance with good governance, and in line with the Code, I chaired Committee meetings whenever Chairman succession was discussed. The Committee reviewed and agreed the skills, experiences and competencies that a successor to the role should have, and was also mindful of the requirements of the 2018 Code. I was authorised by the Committee to engage independent external search consultants to assist the Committee to conduct a thorough and robust search and assessment of potential candidates. Russell Reynolds was appointed to provide this assistance and to advise the Committee on the process.

A full brief was provided to Russell Reynolds setting out the requirements for potential candidates. A diverse long list of candidates was drawn up and reviewed by me, with the assistance of the Group Chief Human Resources Officer, before a shortlist of six potential candidates was presented to the Committee for review. Following preliminary interviews it was recommended that a small number of candidates be taken forward to the next phase of the process. Final shortlisted candidates were interviewed by Board members, who provided detailed feedback on the candidates. The Committee then held an in-depth discussion on each of the candidates, took account of the feedback from the interviews and assessed them against the skills, experience and competencies that had been identified by the Committee.

After a detailed and thorough process and a thoughtful and comprehensive evaluation and discussion, the Committee recommended to the Board that Geoff Drabble be appointed to the Board as Chairman-designate in succession to Gareth Davis. I am very pleased that the Board agreed with the Committee's recommendation and Geoff accepted the appointment which we announced in May this year."

Alan Murray
Senior Independent Director

Nominations Committee (continued)

CEO succession

On 3 September 2019, we announced that John Martin would step down as Group Chief Executive on 19 November 2019 and that he would be succeeded by Kevin Murphy, currently the CEO of the Group's US business. I am delighted that we are able to appoint such a talented executive with deep roots in the business. Kevin's appointment is entirely aligned with our long-term succession planning for the role of Group Chief Executive and is the culmination of a long-term process developed to ensure that the Company had in place a high-calibre internal successor for the role.

Kevin joined the Group in 1999 following the acquisition of his family's waterworks business, Midwest Pipe and Supply, and joined the Board in August 2017 when he was appointed CEO of the Group's US business. Under his leadership the US business has continued to gain market share and generate profitable growth. He has a wealth of operational experience gained in the plumbing and heating industry in the USA and a strong track record of delivery having previously served as Chief Operating Officer of the US business for 10 years.

I would again like to state my gratitude to John Martin for the exceptional service he has provided to both the Company and the Board over the past nine years. John joined the Board as Chief Financial Officer in 2010 before being appointed Group Chief Executive in 2016. During his tenure the Group has been significantly simplified, exiting less attractive markets and focusing resources on those markets where the Company is best equipped to win. John's contribution to Ferguson has been outstanding and he leaves the business in great shape and we wish him well for the future.

Board appointments and succession

In last year's report I noted that a detailed review of the Board's profile undertaken by the Committee had identified potential areas for enhancement that would further match the Board's skillset with the profile and strategy of the Group. The criteria identified by the Committee for the recruitment of additional Non Executive Directors included experience in innovation, distribution, data and technology, customer service, e-commerce and disruption gained in large US and international businesses as well as listed company experience.

Following a thorough recruitment process, that involved the use of external search consultants, the Committee agreed that the requirements of the Board would be best served through the appointment of two new Non Executive Directors. Cathy Halligan and Tom Schmitt were identified as outstanding candidates and recommended for appointment to the Board. Cathy and Tom were appointed with effect from 1 January 2019 and 11 February 2019 respectively and I am delighted to welcome them both to the Board. Cathy has a strong track record in the retail, multi-channel and digital commerce arenas that will undoubtedly benefit Ferguson. E-commerce remains an important part of the Group's strategy and I am confident that Cathy will help us recognise and benefit from any future opportunities in this space. Tom is a sitting CEO with significant operational and Board experience across US and international distribution companies which, coupled with his deep knowledge of running large international logistics and supply chain businesses, will be of great value to the Board. I am pleased to report that both Tom and Cathy have completed their inductions and settled in well, adding great value to Board discussions.

On 1 October 2019, we announced that Darren Shapland would step down as a Non Executive Director and Chairman of the Audit Committee following the conclusion of our 2019 AGM. Since he joined the Board, Darren has made a significant contribution both in his capacity as a Non Executive Director and Audit Committee Chairman. Following a review of our succession planning for the role that included confirmation of the desired skills, experience and qualities and a review of suitable candidates, the Nominations Committee was pleased to recommend that Alan Murray, our Senior Independent Director, succeed Darren as Audit Committee Chairman. Alan is a Chartered Management Accountant with considerable financial, operational and international experience within global businesses as well as a deep knowledge of the Group.

External search advisers

External search advisers Korn Ferry and Russell Reynolds Associates were engaged to assist the Nominations Committee with the recruitment of new Directors appointed in 2018/19. Korn Ferry were engaged in relation to the recruitment of Cathy Halligan and Tom Schmitt and Russell Reynolds Associates were engaged in relation to the recruitment of Geoff Drabble. Neither Korn Ferry nor Russell Reynolds Associates have any other connections with the Company except in relation to other senior executive search mandates. The Company does not use open advertising to search for suitable candidates for Director positions, as it remains our belief that the optimal way of recruiting for these positions is to use targeted recruitment based on the skills and experience required.

Diversity

Good business is about great people and our associates are the driving force behind our Company. They are consistently focused on delighting our customers and developing our business. It is the essence of Ferguson and it is why recruiting passionate people and providing excellent development opportunities is a core Group value.

We are committed to developing a diverse workforce and an inclusive working environment in all the global communities where the Group has a presence. We believe this will ensure that we attract the best talent. In addition we believe that the range of perspectives provided by a diverse and inclusive organisation that reflects our communities gives us a competitive advantage. People decisions at Ferguson are based on merit, where the best candidate is hired and promoted within the organisation and associates are encouraged to reach their full potential, irrespective of race, colour, religion, gender, age, sexual orientation, marital status, disability or any other characteristic that makes them unique. To ensure success we are committed to creating an environment free from discrimination and harassment, where all associates are treated with dignity and respect.

During the year the Board and the Committee continued to monitor and review the progress of the Group's diversity and inclusion programme. Further information on the Group's approach to diversity and details of our current gender diversity statistics are set out on page 17. At Board-level, we have, for the last six years, satisfied the gender diversity recommendations set out in Lord Davies' original report and re-affirmed by the Hampton-Alexander Review. The Committee is also cognisant of the benefit of promoting diversity in its widest sense when undertaking its work. Last year the Board adopted a formal Board Diversity Policy that reflects the Board's belief that diversity in the boardroom makes business sense as it allows the Board to harness the benefit of differences in skills, experience, background, personality, culture and work style. Progress against the measurable objectives set by the Board in support of the Board Diversity Policy is described in the table opposite.

The Board and the Committee will continue to monitor the Group's progress as it continues to deliver improvements in workforce diversity in the coming year.

Gareth Davis

Gareth Davis
on behalf of the Nominations Committee

Objective[1]	Status	Progress in 2018/19
To achieve a minimum 30 per cent female representation on the Board by 2020.	Achieved for 2018/19	33 per cent of the Board is female.
To achieve a minimum 30 per cent female representation amongst senior management.[2]	Ongoing	24 per cent of senior management are female (23 per cent in 2017/18). Our recruitment practices factor in under-represented groups and we insist on diverse candidate slates when using executive search firms, where permissible to do so. In addition, during the year both our UK business and Group Services Head Office improved its maternity leave policy with the aim of increasing female representation in senior management.
To only engage executive search firms that have signed up to the standard Voluntary Code of Conduct for executive search firms (or US equivalent).	Achieved for 2018/19	Korn Ferry and Russell Reynolds were engaged during the year to conduct searches for new Executive Committee members and Non Executive Directors. Both are signatories to the Voluntary Code of Conduct. No other executive search firms were used by the Nominations Committee during the year.

1. All targets detailed in these objectives are aspirational in nature. Recruitment decisions are based on merit with the best candidate hired or promoted irrespective of race, colour, religion, gender, age, sexual orientation, marital status, disability or any other characteristic that makes them unique.
2. Defined as the Executive Committee, their direct reports and other senior management included in the Company's report to the annual Hampton-Alexander Review.

Directors' Report – other disclosures

Articles of Association

The Company's Articles of Association may be amended by a special resolution of the shareholders.

Appointment and removal of Directors

The Board may exercise all powers of the Company, subject to the limitations of the law and the Company's Articles of Association. The Board may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director. Under the Articles of Association any such Director shall hold office only until the next Annual General Meeting ("AGM") and shall then be eligible for election. In addition, the Articles require that at each AGM at least one-third of the current Directors must retire as Directors by rotation. All those Directors who have been in office for three years or more since their last appointment shall retire at that AGM. Any Director may at any AGM retire from office and stand for re-election. However, in accordance with the provisions of the Code, the Board has agreed that all continuing Directors will stand for annual election at the 2019 AGM.

Authority to allot shares

In November 2018, shareholders of the then holding company, now known as Ferguson Holdings Limited ("Old Ferguson"), granted authority to the Directors to allot new ordinary shares. This authority was adopted by shareholders of the Company on 25 April 2019 and authority was also given to the Directors to allot new ordinary shares up to a nominal value of £17,625,576, in addition to up to £23,250,000 as required for the purpose of the Scheme of Arrangement. The Directors intend to propose at the 2019 AGM to seek authority to allot and grant rights to subscribe for or to convert securities into shares up to an aggregate nominal amount representing approximately two-thirds of the Company's issued share capital (excluding Treasury shares), calculated at the latest practicable date prior to publication of the Notice of AGM, but of that amount only one-third of the Company's issued share capital (excluding Treasury shares), calculated at the latest practicable date prior to publication of the Notice of AGM, may be allotted pursuant to a fully pre-emptive rights issue ("Allotment Authority"). If approved, the Allotment Authority will expire at the conclusion of the 2020 AGM or, if earlier, at the close of business on the date which is 15 months after the date of the 2019 AGM.

Subject to the terms of the authority noted above, the Directors will also recommend that they be empowered to allot equity securities for cash or to sell or transfer shares out of Treasury other than pro rata to existing shareholders, until the 2020 AGM or, if earlier, at the close of business on the date which is 15 months after the date of the 2019 AGM ("Authority to Disapply Pre-Emption"). This authority shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of no more than approximately 5 per cent of the issued ordinary share capital calculated at the latest practicable date prior to publication of the Notice of AGM as well as an additional 5 per cent, which may only be used for an acquisition or specified capital investment which is announced contemporaneously with the issue or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue (in accordance with the Pre-Emption Group's Statement of Principles).

Authority to purchase shares

At the 2018 AGM of Old Ferguson, authority was given to the Directors to purchase the Company's ordinary shares. This authority was adopted by shareholders of the Company on 25 April 2019 and the Directors were given authority to purchase up to 23,185,045 of the Company's ordinary shares of 10 pence each (with such purchases being subject to minimum and maximum price conditions). This authority to purchase the Company's shares will expire at the 2019 AGM.

On 10 June 2019, the Company announced a $500 million share repurchase programme (the "2019 Buy Back Programme"). The purpose of the 2019 Buy Back Programme was to reduce the issued capital of Ferguson plc. As at 31 July 2019, 2,090,371 ordinary shares of 10 pence each had been purchased for a consideration of $150 million representing 0.90 per cent of the issued share capital of the Company as at 31 July 2019. All shares purchased were held in Treasury. On 31 July 2019 the Company entered into an irrevocable and non-discretionary arrangement with its broker Barclays Capital Securities Limited ("Barclays"), to continue with the 2019 Buy Back Programme after the year end, which concluded on 24 September 2019. During this period, Barclays acted as principal and made trading decisions concerning the timing of the purchases of the Company's shares independently of the Company. Additional details concerning the 2019 Buy Back Programme can be found in note 25 to the consolidated financial statements. Details of shares that were acquired by the Company in previous financial years that were held or disposed of during the financial year ended 31 July 2019 are provided in note 25 to the consolidated financial statements on pages 144 and 145.

In certain circumstances, it may be advantageous for the Company to purchase its own ordinary shares and the Company seeks authority on an annual basis to renew the Directors' limited authority to purchase the Company's ordinary shares in the market pursuant to Article 57 of the Companies (Jersey) Law 1991. It is intended that a special resolution will be proposed at the 2019 AGM to grant authority for the Company to purchase up to approximately 10 per cent of the Company's issued share capital, calculated at the latest practicable date prior to the publication of the Notice of AGM. The special resolution will set the minimum and maximum prices which may be paid. The Directors intend to use this authority to make share repurchases pursuant to the 2019 Buy Back Programme. The Directors will use this authority only after careful consideration, taking into account market conditions, other investment opportunities, appropriate gearing levels and the overall financial position of the Company. The authority will enable the Directors to continue to be able to respond promptly should circumstances arise in which they consider that such a purchase would result in an increase in earnings per share and would be in the best interests of the Company. In accordance with the Company's Articles of Association, the Company is allowed to hold shares purchased by it as Treasury shares that may be cancelled, sold for cash or used for the purpose of employee share plans. The Allotment Authority and Authority to Disapply Pre-Emption apply equally to shares to be held by the Company as Treasury shares and to the sale of Treasury shares. The Directors consider it desirable for these general authorities to be available to provide flexibility in the management of the Company's capital resources.

Capitalised interest

The Group does not have capitalised interest of any significance on its balance sheet.

Change of control (significant agreements)

The Company is not party to any significant agreements that take effect, alter or terminate upon a change of control following a takeover except for the $750m US 144A bond issued in October 2018, the $450 million US Private Placement Bonds issued on 30 November 2017, $800 million US Private Placement Bonds issued on 1 September 2015, the £800 million multi-currency revolving credit facility agreement dated 3 June 2015, the amended $600 million receivables facility agreement originally entered into on 31 July 2013 and the $281 million US Private Placement Bonds issued on 16 November 2005 which could, under specific circumstances, become repayable following a relevant change of control. There are no agreements between the Company and any Director that would provide compensation for loss of office or employment resulting from a change of control following a takeover bid, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest in those circumstances. All of the Company's share plans contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable for a limited period of time upon a change of control following a takeover, reconstruction or winding up of the Company (not being an internal reorganisation), subject at that time to rules concerning the satisfaction of any performance conditions.

Conflicts of interest

Processes and procedures are in place which require the Directors to identify and declare actual or potential conflicts of interest, whether matter-specific or situational. These notifications are made by a Director prior to or at a Board meeting, or in writing. All Directors have a continuing duty to update any changes. The Board may authorise potential conflicts which can be limited in scope, in accordance with the Company's Articles of Association. These authorisations are regularly reviewed. During the year, all conflict management procedures were adhered to and operated efficiently.

Disclosures required by Listing Rule 9.8.4R

The relevant disclosures concerning capitalised interest; the allotments of equity securities for cash; and dividend waiver can be found on pages 76, 144 and 106 of this Annual Report and Accounts respectively. The disclosure relating to the reproduction of a profit forecast made during the year is covered below. The remaining disclosures required by the above Listing Rule are not applicable to the Company.

On 26 March 2019, the following statement, characterised as a profit forecast, was included in the Group's half year results for the financial year ending 31 July 2019. The same statement was subsequently included in the prospectus published by the Company on 26 April 2019 in relation to the introduction of the new Group holding company.

"After a strong revenue performance in the first half our growth rate has moderated recently in line with conditions in our markets. While we still expect to generate further revenue growth in the second half, we have revised our estimates of Group organic revenue growth to between 3-5%. Consequently, we expect trading profit for the full year to be towards the lower end of the range of analysts' expectations."

A footnote to the foregoing statement read: *"Current analysts' consensus for Group trading profit for 2019 is published on the Company's corporate website. The bottom of the range is $1,585 million and the average is $1,629 million."*

The actual Group trading profit figure for the period covered by the profit forecast is set out on page 119.

Employees

The Group actively encourages employee involvement in driving our current and future success and places particular importance on keeping employees regularly informed about the Group's activities and financial performance and on matters affecting them individually and the business generally. This can be through informal bulletins, in-house publications and briefings, as well as via the Group's intranet sites. Group companies regularly engage with employees through consultation forums and the annual engagement survey. Further information on how the Group engages with employees can be found on page 17. All employees are offered a range of benefits depending on their local environment. Where possible, they are encouraged to build a stake in the Company through the ownership of shares through participation in the Company's all-employee share plans.

Employment policies

Our employment policies aim to attract the very best people and we believe that a diverse and inclusive culture is a key factor in being a successful business. For more information on this, see pages 17 and 18. The Group also has policies in place relating to the continuation of employment of, and appropriate retraining for, employees who become disabled, for giving full and fair consideration to applications for employment by disabled persons, having regard to their particular attributes and abilities, and for the training, career development and promotion of disabled employees.

Going concern statement

The Group's principal objective when managing cash and debt is to safeguard the Group's ability to continue as a going concern for the foreseeable future. The Group retains sufficient resources to remain in compliance with the financial covenant of its bank facilities with substantial headroom. The Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Indemnities and insurance

The Company indemnifies the Directors and officers in respect of liabilities incurred in the course of acting as Directors and officers of the Company or of any associated company. These indemnities are provided in accordance with the Company's Articles of Association and to the maximum extent permitted by Jersey law. Qualifying third-party indemnity provisions were granted to all Directors and officers then in office by the then holding companies, now known as Wolseley Limited (to the maximum extent permitted by English law) and Ferguson Holdings Limited (to the maximum extent permitted by Jersey law) and these remain in force as at the date of this report. When Ferguson plc became the new holding company, additional third-party indemnity provisions were granted by the Company to the then current Directors and officers, and it has granted indemnities in accordance with Jersey law to all Directors and officers appointed since May 2019.

There is appropriate insurance coverage in respect of legal action against the Directors and officers. Neither the Company's indemnities nor insurance would provide any coverage to the extent that a Director or officer is proved to have acted fraudulently or dishonestly.

Directors' Report – other disclosures (continued)

Independent auditors and audit information

In respect of the consolidated financial statements for the financial year ended 31 July 2019, the Directors in office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which Deloitte LLP ("Deloitte") are unaware and each Director has taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that Deloitte are aware of that information.

Deloitte is willing to act as auditors of the Company, and resolutions concerning their appointment and the determination of their remuneration will be proposed at the 2019 Annual General Meeting.

Political donations

No political donations or contributions to political parties under the Companies Act 2006 have been made during the financial year. The year. The Group policy is that no political donations be made or political expenditure be incurred.

Restrictions on transfer of shares

There are no restrictions on the voting rights attached to the Company's ordinary shares or on the transfer of securities in the Company. No person holds securities in the Company carrying special rights with regard to control of the Company. During the financial year ended 31 July 2019 the Company was not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights with the exception of any awards granted under the Long Term Incentive Plan 2015 to Executive Directors. Such awards must be held for a two-year period following vesting. Persons discharging managerial responsibility and other associates designated as restricted employees by the Company require permission to deal prior to any dealing in the Company's shares or linked financial instruments in line with the Group Share Dealing Policy.

Share capital and voting rights

Details of the authorised and issued share capital, together with any movements in the issued share capital during the year, are shown in note 25 to the consolidated financial statements on pages 144 and 145.

Subject to the provisions of the Companies (Jersey) Law 1991 and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights and restrictions as the Company may by ordinary resolution determine or as the Board shall determine. Copies of the Company's Articles of Association can be obtained from Companies Registry, Jersey, or by writing to the Group Company Secretary.

The Company also has a Level 1 American Depositary Receipt ("ADR") programme in the USA managed by J.P. Morgan Chase Bank, N.A. The American Depositary Shares ("ADS"), which are evidenced by ADRs, are traded on the US over-the-counter market, where each ADS represents one-tenth of a Ferguson plc ordinary share.

Substantial shareholdings

As at 31 July 2019, the Company had received the following notifications (on the dates specified below) pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rule 5 (DTR 5) and the Company's Articles of Association.[1] No further notifications were received between 31 July 2019 and the date of this report.

Name of holder	Percentage of issued voting share capital[2]	Date notification received
BlackRock	9.64%	13 December 2013
Trian Fund Management, L.P.	5.14%	12 June 2019
FIL Limited	4.95%	15 February 2010
Norges Bank	3.61%	10 October 2017

1. Although the Company is a non-UK issuer, as a matter of good governance the Company's Articles of Association specify that the Company, for the purposes of the notification obligations set out in DTR 5, should be treated as if it were a UK-Issuer (and not a non-UK Issuer). Accordingly, shareholders are required to notify the Company when their holdings reach, exceed or fall below 3% and each 1% threshold thereafter up to 100%. The Company is reliant upon shareholders providing notification when they reach, exceed or fall below a given threshold.
2. As at the date of disclosure. Since the disclosure date, the shareholders' interests in the Company may have changed.

Further disclosures

Further disclosures required under the Companies Act 2006, Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules can be found on the following pages of this Annual Report and Accounts and are incorporated into the Directors' Report by reference:

	Page
Details of the Company's proposed final dividend payment for the year ended 31 July 2019	2
Disclosures relating to exposure to price, credit, liquidity and cash flow risks	134 to 138
Disclosures relating to financial risk management objectives and policies, including our policy for hedging	134 to 138
Viability statement	49
Disclosures concerning greenhouse gas emissions	44 and 45
The management report for the year	1 to 79
Information concerning post-balance sheet events	149
Future developments within the Group	1 to 53
Details of the Group's profit for the year ended 31 July 2019	22
Shares issued during the year	144

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of Ferguson plc as at the date of this Annual Report and Accounts are as follows:

Gareth Davis, Chairman
Geoffrey Drabble, Non Executive Director and Chairman designate
John Martin, Group Chief Executive
Michael Powell, Group Chief Financial Officer
Kevin Murphy, Chief Executive Officer, USA
Alan Murray, Senior Independent Director
Tessa Bamford, Non Executive Director
Catherine Halligan, Non Executive Director
Thomas Schmitt, Non Executive Director
Darren Shapland, Non Executive Director
Nadia Shouraboura, Non Executive Director
Jacqueline Simmonds, Non Executive Director

Each Director confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Directors' Report, comprising pages 2 to 106 was approved by the Board and signed on its behalf by:

Graham Middlemiss
Group Company Secretary

Directors' Remuneration Report

Committed to fairness and transparency

Jacky Simmonds
Remuneration Committee Chair

Remuneration Committee members

Membership	Meetings attended (eligibility)
Jacky Simmonds (Chair)	7 (7)
Tessa Bamford	7 (7)
Geoff Drabble	2 (2)
Cathy Halligan	5 (5)
Alan Murray	7 (7)
Tom Schmitt	4 (4)
Darren Shapland	7 (7)
Nadia Shouraboura	6 (7)

Remuneration Committee overview

- Jacky Simmonds has served as Chair of the Committee since 1 August 2014.
- During the year Geoff Drabble, Cathy Halligan and Tom Schmitt joined the Committee.
- As at the date of this report, the Committee is made up of eight independent Non Executive Directors. The Committee met seven times during the year. Details of membership and attendance are set out in the table above.
- Other attendees at meetings include Group Chief Executive, Chief Human Resources Officer, Group General Counsel, Group Company Secretary, Group Head of Reward and Mercer Kepler (Remuneration Consultant).
- Mercer Kepler meets with the Committee at meetings without the presence of management on a periodic basis.
- An overview of the Committee's area of responsibility is set out on page 58 and the Committee's Terms of Reference are available at **www.fergusonplc.com.**

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2019. This year has been a busy one for the Committee, with our activities covering a number of important areas (which are summarised below).

Remuneration Policy All

As I indicated last year, the Committee wished to undertake a further comprehensive review of the Remuneration Policy that was approved at the November 2018 AGM ("2018 Policy"). We reviewed the external landscape for executive remuneration in all our key talent markets (notably the USA, where we generate the majority of the Group's trading profit) and concluded that it is appropriate to propose some amendments to the Company's Remuneration Policy particularly for the North American markets.

This, together with updated best practice guidance and voting policies that were published around the time of our 2018 AGM (including the updated UK Corporate Governance Code ("Code")) has led us to update the Policy further and propose a number of amendments.

The proposed changes, which are consistent with the Company's reward principles, include:

- **Differentiating policy limits for the annual bonus and Long Term Incentive Plan ("LTIP") by geography, to reflect competitive market practices: UK/Rest of World ("RoW") limits are unchanged (150 per cent and 350 per cent of base salary for the bonus and LTIP, respectively) and USA policy limits for bonus and LTIP are increased to 200 per cent and 500 per cent of base salary, respectively:** Following a detailed benchmarking exercise across our geographical markets, the Committee believe the current annual bonus and LTIP award limits in the 2018 Policy are unlikely to be sufficient to recruit key talent in the USA (where we have the majority of our operations). A proposed increase in the USA headroom limits was considered appropriate.
- **Aligning the pension opportunity for new Executive Directors with that of the wider workforce, again differentiating between the USA and UK/RoW:** In support of widespread views that pension contributions should be no higher than that available to the wider workforce, we have changed our 2018 Policy accordingly and new Executive Directors will participate on consistent terms, which would on current levels equate to 16 per cent of base salary in the USA and 9 per cent of base salary in the UK/RoW. Due to contractual arrangements and in line with the relevant previous Policy, current Executive Directors' contributions are not proposed to be changed.
- **Increasing in-post shareholding guidelines:** The Committee supports the principle of the Code of encouraging meaningful share ownership by senior executives and proposes an increase to those currently in force by recalibrating the in-post shareholding guideline as 1x the annual LTIP award opportunity.
- **Paying dividend equivalents accruing on vested LTIP and Deferred Bonus Plan ("DBP") awards in shares:** In response to the preference expressed by some of our largest shareholders, dividend equivalents payable on LTIP and DBP awards that vest will be paid in shares, rather than cash.

The Committee also considered the appropriateness of extending the requirement for executives to maintain a material shareholding post-employment. The Committee concluded that introducing a post-exit shareholding requirement at this time would adversely impact the Group's ability to compete effectively for senior executive talent in the USA, where such requirements are not prevalent. Consequently, a formal post-exit holding requirement is not currently proposed, but the Committee will continue to monitor evolving market practice in this area and retains discretion to introduce at the appropriate time a post-employment shareholding policy for future years that is tailored to the Group's particular context.

During April 2019, the Committee consulted with our largest shareholders (representing approximately 64.5 per cent of Ferguson's issued share capital at that time) and their representative bodies on these proposed changes to the 2018 Policy. Meetings with myself and the Company Chairman were offered to those institutions consulted. The Committee received useful feedback during this process indicating support on the proposals. This feedback was reviewed, discussed and taken into account by the Committee before the proposed 2019 Policy set out in this report was finalised.

Remuneration in 2019: the performance context for remuneration outcomes and decisions All

As set out elsewhere in this Annual Report, Group performance for the year ended 31 July 2019 was strong though market conditions moderated in our key geographies. In particular, markets were more challenging in the USA in the second half; though good control of gross margins and costs ensured strong profit delivery. The UK business performance stabilised in FY2018/19 after its recent restructuring programme and it grew trading profits in constant currency in the year. Markets were weak in the Canadian business particularly arising from a slowdown in residential markets, though the business held trading profit flat in constant currency. During the year we also successfully completed the disposal of our Dutch business, Wasco, as well as a small business in the UK.

FY2018/19 trading profit performance was slightly ahead of analyst expectations, with growth of 7.5 per cent in constant currency compared to FY2017/18. This performance outcome was above the threshold performance level set for the annual bonus. We also exceeded the performance threshold set for the cash-to-cash days element of the bonus.

Longer-term, over the performance period for the 2016 LTIP award (2016-2019), our TSR of 46.3 per cent was ranked 28th against our comparator group. This level of performance warrants the vesting of 86.8 per cent of this element. Adjusted EPS growth was 33.2 per cent above UK RPI and exceeded the performance level set for full vesting of this element of the LTIP. Finally, our three-year cumulative adjusted Operating Cash Flow ("OpCF") was $4,703 billion, also exceeding the maximum performance target set.

Taking into account these performance outcomes, the Committee has confirmed:

- bonus payments for the Executive Directors for the year ended 31 July 2019 ranged from 75.9 per cent to 85.1 per cent, averaging 81.2 per cent of their maximum levels; and
- the LTIP granted for the performance period 2016-2019 will vest overall at 95.6 per cent of maximum.

The Committee considered appropriate adjustments to the bonus and LTIP outturns in light of budgeted rates, the Nordic business disposal, exceptional cash flow and a FY2017/18 funding contribution to the UK defined benefit pension plan. Further details can be found on pages 99 and 100.

Looking ahead to the year ending 31 July 2020

On 3 September 2019 it was announced that John Martin would step down as Group Chief Executive on 19 November 2019, and Kevin Murphy (currently Chief Executive Officer, USA) would succeed him. Details of the remuneration arrangements for the Executive Directors for the year ending 31 July 2020 are detailed below. These include arrangements as a result of the Group Chief Executive succession recently announced. The Committee believes these changes provide continued strong alignment of executive pay outcomes and Group performance, as well as an appropriate balance between fixed and variable, and short-term and long-term remuneration.

Kevin Murphy

Effective from 19 November 2019 (on his appointment as Group Chief Executive), Kevin's base salary will be increased to $1,100,000 per annum. The Committee concluded that this base salary, which is broadly in line with that of his predecessor, is positioned appropriately in the context of its competitiveness in relevant markets and Kevin's experience. His salary will be next reviewed in October 2020.

The Committee has also decided to increase slightly Kevin's maximum bonus opportunity on appointment to 150 per cent of base salary; the on-target opportunity remains unchanged (110 per cent of base salary), and the payout at threshold will be reduced from 80 per cent to 49 per cent of base salary. For Kevin's FY2019/20 LTIP award, the Committee has agreed to initially increase his maximum award opportunity to 350 per cent of salary, at the lower end of the competitive range in relevant markets (notably the USA) for a Group Chief Executive.

Although both of these increases are within existing 2018 Policy limits, the Committee has reflected the different market practice in the USA by awarding Kevin a higher LTIP than awards previously granted to John Martin as Group Chief Executive. The Committee will continue to keep Kevin's package under review for future years, in the context of his performance and development in the role in line with our previous practice.

Finally, the Committee decided to increase the notice period required from Kevin as Group Chief Executive to 12 months (from six months as Chief Executive Officer, USA). This change is within the limits of the 2018 and proposed 2019 Policies and also in line with market practice in the USA.

Directors' Remuneration Report (continued)

John Martin

The Committee awarded a salary increase of 2 per cent to John, effective from 1 August 2019 and in line with the overall level of increases awarded to other UK-based associates in the Group. Following the announcement that John will be stepping down as Group Chief Executive in November 2019, he will continue to be paid in line with the provisions of his service contract. The Committee resolved to treat him as a "good leaver" for his unvested executive share plan awards, further details can be found on page 96. John will be eligible for a bonus for the period 1 August to 19 November 2019 (subject to the achievement of the performance targets set), but will not be granted an LTIP award in FY2019/20.

Mike Powell

As set out in our last two Reports, we positioned Mike Powell's salary on appointment as Group Chief Financial Officer below the market.

Our stated intention has been to increase this on a phased basis over two years, subject to performance, by more than the average increase of the relevant general workforce. This approach is in line with the remuneration policies in force since 2015. The Committee determined that a salary increase of 8.2 per cent (to £595,000 per annum) is appropriate for the year ending 31 July 2020.

Taking into account Mike's valued contribution as Group Chief Financial Officer, the Committee has also decided to increase his maximum LTIP opportunity for awards to be granted in FY2019/20 to 300 per cent of salary (and keep this under review for future years).

Bonus and LTIP operation

The annual bonus will continue to operate along the same lines as for the year ended 31 July 2019, further details of which can be found on page 95.

The implementation of the LTIP for the coming year remains broadly unchanged, with awards subject to TSR, EPS and OpCF (weighted equally, as they have done for awards made since FY2015/16), further detail of which can be found on pages 95 and 96.

I started this letter by saying that this year has been a busy one for the Committee, and I would like to thank my colleagues for their invaluable contribution and counsel over the past 12 months. Finally, and on behalf of the Committee, I thank you for your continued support and trust you will find the Directors' Remuneration Report useful and informative. I look forward to receiving your support for the remuneration-related resolutions being put to shareholders at the 2019 AGM, where I will be available to respond to your questions on this Report.

Jacky Simmonds

Jacky Simmonds
Chair of the Remuneration Committee

Glossary of terms in Directors' Remuneration Report

AGM	Annual General Meeting
Code	UK Corporate Governance Code
DBP	Deferred Bonus Plan 2015 or Deferred Bonus Plan 2019
EPS	Headline Earnings Per Share
ESPP	Employee Share Purchase Plan 2011 or Employee Share Purchase Plan 2019
ISP	International Sharesave Plan 2011 or International Sharesave Plan 2019
LTIP	Long Term Incentive Plan 2015 or Long Term Incentive Plan 2019
LTI plans	Ordinary Share Plan 2011, Revised Ordinary Share Plan 2016, Performance Ordinary Share Plan 2016, Performance Based Buy Out Award, Restricted Share Buy Out Awards, Ordinary Share Plan 2019 and Performance Ordinary Share Plan 2019
OpCF	Operating cash flow
Policy	Directors' Remuneration Policy
PBBO	Performance Based Buy Out Award granted to Mike Powell in June 2017
RSBO	Restricted Share Buy Out Awards granted to Mike Powell in June 2017
Remuneration Reporting Regulations or Regulations	The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended
Report	Directors' Remuneration Report
TSR	Total Shareholder Return

Remuneration at a glance

Ferguson remuneration principles

To provide remuneration packages that fairly reward Executive Directors and senior executives for the contribution they make to the business, having regard to the size and complexity of the Group's operations as well as the need to attract, retain and motivate executives of the highest quality;

To have remuneration packages which comprise salary, short-term bonuses, long-term incentives, benefits-in-kind and pension provision; and

To aim to provide a total cash award of base salary and bonus around the median of the market, with the opportunity to earn a higher reward for sustained superior financial and individual performance.

Remuneration structure

Fixed
- Base salary
- Pension
- Benefits

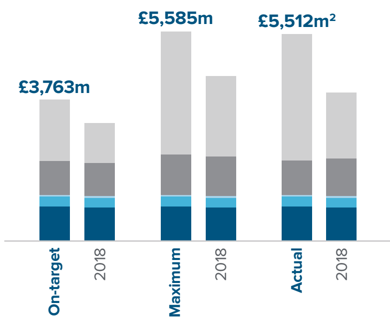
Variable

Short-term
- Annual bonus

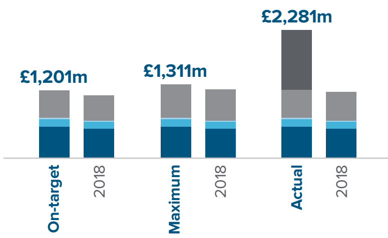
Long-term
- Long term incentive plan with two year post-vesting holding period

Remuneration for Executive Directors 2018/19

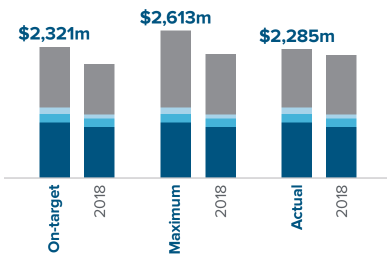
John Martin
Group Chief Executive ("CEO")



Mike Powell
Group Chief Financial Officer ("CFO")



Kevin Murphy
Chief Executive Officer, USA



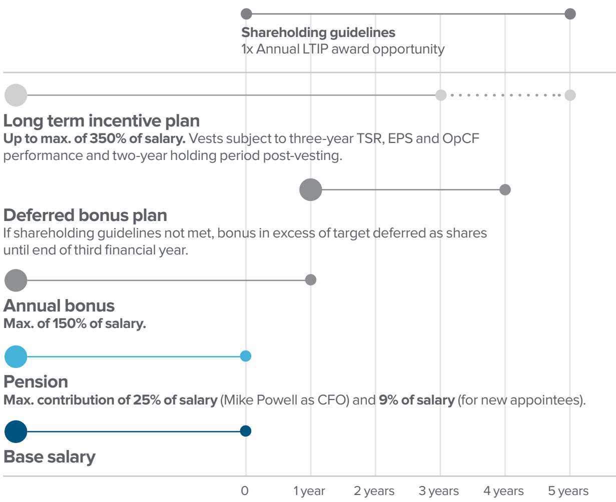
2018/19 breakdown

Key	Percentage of maximum achieved (%)	Maximum potential (£000)	Actuals (£000)	Percentage of maximum achieved (%)	Maximum potential (£000)	Actuals (£000)	Percentage of maximum achieved (%)	Maximum potential ($000)	Actuals ($000)
	N/A	899	899	N/A	550	550	N/A	975	975
	N/A	270	270	N/A	138	138	N/A	156	156
	N/A	52	52	N/A	19	19	N/A	118	118
	85.1	1,079	918	82.7	605	500	75.9	1,365	1,036
[1]	95.6	3,285	3,373[2]	N/A	N/A	N/A	N/A	N/A	N/A
	Other remuneration			N/A	N/A	1,074[3]	N/A	N/A	1[3]

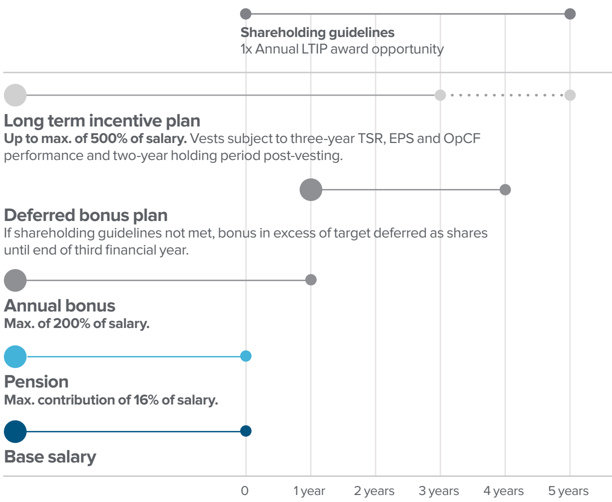
1. LTIP awards are only shown for John Martin. At the date of grant Mike Powell was not an employee of the Group and Kevin Murphy was not an Executive Committee member.
2. The actuals figure for John Martin for long term incentive plan award and his total remuneration figures include the value of dividend equivalents which are not included in the on-target or maximum charts.
3. The actuals figures for Mike Powell and Kevin Murphy above include the "other" remuneration relating to the vesting of a PBBO award and the grant of an ESPP award respectively detailed in the single figure table on page 98 and are included in the charts above.

Remuneration Policy applicable to Executive Directors following the 2019 AGM*

UK/RoW Executive Directors (including Mike Powell as CFO)



US Executive Directors (including Kevin Murphy as CEO)



* Subject to shareholder approval of the 2019 Remuneration Policy.
\+ All figures are maximum, actual figures applicable for FY2019/20 for current Executive Directors can be found in the Implementation of Policy for the year ending 31 July 2020 section on page 95.

2019 Remuneration Policy

1. Introduction

This section of the Directors' Remuneration Report has been prepared in accordance with the Remuneration Reporting Regulations, and sets out details of the proposed 2019 Policy. The proposed Policy will govern future payments that will be made to Directors, subject to shareholder approval at the AGM on 21 November 2019 ("2019 AGM"). If approved, the 2019 Policy will take effect immediately following the 2019 AGM. All remuneration and loss of office payments will only be made if they are consistent with the approved Policy in force at the time of payment or otherwise approved by ordinary resolution.

Details of how the Company implemented the 2018 Policy for the year ended 31 July 2019 are provided in the Annual report on remuneration section starting on page 97, and how the Company will implement the 2019 Policy for the year ending 31 July 2020 are provided on pages 95 and 96.

The 2018 Policy can be found on the Ferguson plc website at **www.fergusonplc.com**.

2. Remuneration Policy tables

Future policy table: **Executive Directors**

Base salary

Purpose and link to strategy

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

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

Operation and opportunity

– Base salary is normally set taking into account prevailing market and economic factors, individual and corporate performance, experience in the role, pay conditions across the general workforce, the location of the role holder and the market for talent, with the opportunity to exceed this level to reward sustained individual high performance. It is normally set at or around the mid-market level of other companies comparable on the basis of size, internationality and complexity.

– Base salary is paid monthly in cash in the currency specified in the employment contract.

– Base salary will be reviewed (but not necessarily increased) each year, with any increases typically in line with the general level of increase awarded to other employees in the Group.

– There is an annual review of base salary by the Committee although an out-of-cycle review may be conducted if the Committee determines it appropriate. The review will take into account the same items as discussed above as well as percentage increases awarded to the general workforce, and governance practices.

– The Committee retains the flexibility to award larger increases than those awarded to the general workforce where it considers it appropriate and/or necessary (such as in exceptional circumstances or if an individual assumes a new or expanded role with further scope and responsibility). If it is considered appropriate, larger increases may be phased over more than one year.

– The Committee retains the flexibility to review and decide on a case-by-case basis whether it is appropriate to award increases to allow a newly appointed Executive Director whose base salary has been set below the mid-market level to progress quickly to or around that mid-market level once expertise and performance has been proven.

– The base salaries for the Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

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

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

Future policy table: **Executive Directors**

Taxable benefits

Purpose and link to strategy

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

Operation and opportunity

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

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

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

Future policy table: **Executive Directors**

Pension

Purpose and link to strategy

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

Operation and opportunity

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

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

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

2019 Remuneration Policy (continued)

2. Remuneration Policy tables continued

Future policy table: **Executive Directors**

Annual bonus

Purpose and link to strategy

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

Operation and opportunity

- Executive Directors are eligible (subject to invitation at the discretion of the Committee in consultation with the Group Chief Executive, other than in relation to his or her own arrangements) to receive an annual bonus which is based on an assessment of financial and personal performance in the relevant financial year.
- The annual bonus earned up to the target level of payout by an Executive Director shall be paid in cash and, if shareholding guidelines have been met at the time the bonus is awarded, any amounts of annual bonus earned in excess of target will also be paid in cash. If shareholding guidelines have not been met, the Deferred Bonus Plan policy on page 87 will apply.
- The annual bonus is not pensionable.
- The annual bonus is normally reviewed annually and the opportunity available may be adjusted each year.
- The maximum annual bonus opportunity for an Executive Director who is recruited from or based in the USA is up to 200 per cent of base salary; and for an Executive Director who is recruited from and based in any other geography is up to 150 per cent of base salary. The annual bonus opportunities for each of the Executive Directors for the year under review and the coming year are set out in the Annual report on remuneration. Threshold, on-target and maximum performance levels are also set as a percentage of base salary.
- All bonus payments are determined by the Committee.
- Details of the actual vesting, as well as the threshold, on-target and maximum performance percentages for each Executive Director for the current year, as well as details of performance criteria set for the year under review and performance against them, are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

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

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

Future policy table: **Executive Directors**

Deferred Bonus Plan

Purpose and link to strategy

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

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

Operation and opportunity

– Executive Directors who have not met their shareholding guidelines requirement in any financial year in which an annual bonus is paid will be granted an award under the DBP as set out below.

– In any given year, the annual bonus earned up to the target level of payout by an Executive Director shall be paid in cash. If shareholding guidelines have not been met at the time the bonus is awarded, amounts earned in excess of target by an Executive Director will be deferred into shares and held subject to the terms of the DBP ("DBP shares") and subject to forfeiture for three years (or such other period as the Committee considers appropriate) from the date the bonus is awarded.

– Awards of DBP shares will normally be made in the form of nil-cost options but may be awarded in other forms allowed under the DBP rules (if appropriate).

– For awards from the date of this Policy, dividend equivalent payments will normally be satisfied in shares (in accordance with the DBP rules) on the shares which are the subject of the award (to the extent they vest) with a value equal to the value of dividends that would have been payable on the DBP shares during the period between grant and vesting of an award.

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

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

2019 Remuneration Policy (continued)

2. Remuneration Policy tables continued

Future policy table: **Executive Directors**

LTIP

Purpose and link to strategy

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

To facilitate share ownership to provide further alignment with shareholders.

Operation and opportunity

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

Framework to assess performance measures and for recovery of sums paid

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

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

Future policy table: **Executive Directors**

All-employee share plans

Purpose and link to strategy

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

Operation and opportunity

– Executive Directors are entitled to participate in any Company all-employee share plan applicable to the jurisdiction in which they are based on the same terms as other eligible employees.

– The Company currently operates all-employee share purchase arrangements taking advantage of certain tax favourable regimes that are available in the USA and the UK. For the USA, grants are currently made under the ESPP and in the UK, under a tax favoured schedule to the ISP.

Framework to assess performance measures and for recovery of sums paid

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

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

Future policy table: **Executive Directors**

Shareholding guidelines

Purpose and link to strategy

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

Operation and opportunity

– Executive Directors are expected to hold over time and maintain an individual shareholding in the Company.

– During the life of this Policy, the guideline level of shareholding will be set in line with the Executive Director's annual LTIP award opportunity.

– The shareholding guideline may be achieved by (i) beneficially owning shares, and (ii) retaining shares received as a result of participating in a Company share plan (including any vested awards that remain subject to a post-vesting holding period) after taking into account any shares sold to finance option exercises and/or to pay tax, social security and similar liabilities.

– Further details of the shareholding guideline levels set for each Executive Director in the year under review will be disclosed in the relevant Annual Report on remuneration.

Framework to assess performance measures and for recovery of sums paid

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

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

2019 Remuneration Policy (continued)

2. Remuneration Policy tables continued

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

Future policy table: **Non Executive Directors**

Fees

Purpose and link to strategy

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

Operation and opportunity

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

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

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

Future policy table: **Non Executive Directors**

Benefits

Purpose and link to strategy

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

Operation and opportunity

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

Framework to assess performance measures and for recovery of sums paid

Assessment of performance measures: not applicable.

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

Future policy table: **Non Executive Directors**

Shareholding guidelines

Purpose and link to strategy

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

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

Operation and opportunity

– All Non Executive Directors are required to hold shares equivalent in value to a prescribed percentage of their fees.

– All Non Executive Directors are advised of the required target percentage, a timeline to achieve the target and requirements for maintaining the shareholding in line with salary or fees increases.

– Details of the actual guidelines that apply to each Non Executive Director and their current shareholdings are set out in the Annual report on remuneration.

Framework to assess performance measures and for recovery of sums paid

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

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

Notes to the policy table

Summary of changes made

Following the review of the 2018 Policy, the following revisions are proposed to the annual bonus and DBP, LTIP, pension and executive shareholding guidelines. The aim of the proposed changes is to ensure the Policy remains sufficiently flexible to attract, retain and motivate executives of the highest quality in all relevant markets, to ensure appropriate alignment of Executive Director and shareholder interests and to reflect the continued evolution of UK remuneration governance since the 2018 AGM. If the 2019 Policy is approved at the 2019 AGM, the components of remuneration that will change are as follows:

Annual bonus and DBP

– Differentiated award opportunities by geography, to reflect competitive local practices in our key talent markets.
  – US award limit increased to 200 per cent of base salary (previously 150 per cent of base salary).
  – UK/RoW award limit remains unchanged (150 per cent of base salary).

– Paying dividend equivalents on vested DBP awards in shares (previously these could be paid in cash or shares).

LTIP opportunities

– Differentiated award opportunities by geography, to reflect competitive local practices in our key talent markets.
  – US award limit increased to 500 per cent of base salary (previously 350 per cent of base salary).
  – UK/RoW award limit remains unchanged (350 per cent of base salary).

– Paying dividend equivalents accruing on vested LTIP awards in shares (previously these could be paid in cash or shares).

Pension

– Aligning pension opportunity for new Executive Director appointments with those of the wider workforce in the relevant market differentiating between the USA and UK/RoW (previously up to 30 per cent of base salary).

Shareholding guidelines

– Redefined for Executive Directors as 1x their LTIP award opportunity (an increase to existing guidelines) .

2019 Remuneration Policy (continued)

3. Legacy arrangements

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

For the avoidance of doubt, this includes: (1) all awards granted under the LTIP 2015, LTIP 2019, DBP 2016 and DBP 2019; (2) all awards granted under the Ordinary Share Plan 2011 and Performance Ordinary Share Plan 2016 to employees of the Company who were not Directors at the date of grant; and (3) all awards granted to Mike Powell upon joining Ferguson of either the Restricted Share Buy Out Awards or Performance Based Buy Out Award, as well as Deferred Bonus Plan Awards granted to him in November 2017 and October 2018. The 2018 Policy approved by shareholders at the 2018 AGM will continue to apply until this proposed 2019 Policy is approved at the 2019 AGM. If this proposed 2019 Policy is not approved at the 2019 AGM, the 2018 Policy will continue to apply in accordance with its terms.

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

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

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

5. Recruitment policy

Executive Directors

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

Fixed pay (base salary, benefits, pension)

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

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

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

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

One-off "buy out" cash or share award

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

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

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

Non Executive Directors

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

6. Policy on loss of office

All Directors

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

6. Policy on loss of office continued

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

Details of provision	Executive Directors	Chairman and Non Executive Directors
Notice period	– 12 months' notice from the Company. – For any new Executive Directors and the new Group Chief Executive, up to 12 months' notice from the Executive. – For the current Group Chief Financial Officer, six months' notice from the Executive.[1]	Up to six months' notice by either party.
Termination payment	– If an Executive Directors' services are not required during the notice period, the Company may terminate an Executive Director's service contract by making a payment in lieu of notice equal to base salary and the value of benefits (excluding bonus) in respect of the period covered by the payment in lieu of notice. – Any such payment in lieu of notice will be made in monthly instalments subject to mitigation. – No payment will be made to Executive Directors in the event of gross misconduct.	Fees and expenses accrued up to the termination date only.
Post-termination covenants	– Non-compete and non-solicitation covenants apply after the termination date.	Not applicable.

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

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

Executive Directors

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

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

Under the LTIP or any other awards under LTI plans, any unvested awards will lapse at cessation unless the individual has "good leaver" status (namely for reasons of death, redundancy, injury, disability, ill-health, employing business or company sold out of the Group and any other reason at the discretion of the Committee). The Committee retains the discretion to determine when the awards should vest and performance conditions be tested; although this would normally be at the usual vesting date, the Committee may determine in certain circumstances to bring forward the performance test and date of vesting to the date of cessation, e.g. in circumstances such as death in service. In the event of a change of control or takeover, all long term incentive awards will vest subject to performance conditions being met. In relation to the LTIP, awards would generally be pro rated to reflect the period of service of the Executive Director; although, if the Committee considers it appropriate, the Committee has the discretion set out in the plan rules not to pro rate.

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

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

7. Discretion, flexibility and judgement of the Committee

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

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

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

2019 Remuneration Policy (continued)

8. Matters considered when determining the Policy

Shareholder views

The Committee's aim is to have an ongoing and open dialogue with major shareholders. The Chair of the Committee will usually consult with major institutional shareholders and shareholder representative bodies, when required and as appropriate, to discuss the business and executive remuneration more widely. The Committee recognises the importance of understanding shareholders' views and ensuring that they are considered when making decisions regarding the Remuneration Policy for Directors. Therefore, when any material changes are proposed to a policy, the Chair of the Committee will inform major shareholders in advance and offer a meeting to discuss the proposed changes. As part of this year's review of the Remuneration Policy, a consultation was undertaken with shareholder views given due consideration when finalising the 2019 Policy. The Committee also considers shareholder feedback received in relation to the AGM each year and at other times, as appropriate.

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

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

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

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

9. Illustrations of the Remuneration Policy (2019/20)

The following charts give an illustrative value of the remuneration package each of the Executive Directors would receive in accordance with the 2019 Policy based on:

- **Fixed Pay**: (1) 2019/20 base salaries (for Kevin Murphy, his annualised salary as Group Chief Executive), (2) 2018/19 benefits (as set out in the Remuneration table on page 98), (3) pension using the 2019 Policy and applied to 2019/20 base salary; and
- **Variable Pay**: (1) 2019/20 LTI awards in respect of minimum (fixed pay), on-target and maximum performance using the 2019 Policy and (2) 2019/20 Bonus awards using the 2019 Policy (for Kevin Murphy, based on his annualised bonus opportunity as Group Chief Executive).

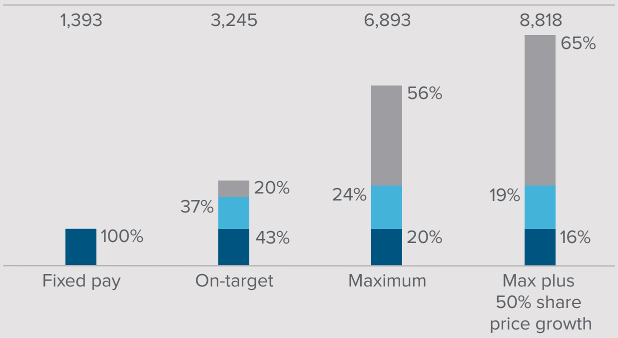
No illustration of Remuneration Policy is shown for John Martin (current Group Chief Executive) who is stepping down from the Board in advance of the 2019 AGM at which the proposed Remuneration Policy is being put to shareholders.

In this Report, the assumptions include an estimation of the amount attributable to share price appreciation (for the "Maximum plus 50 per cent share price appreciation" scenario only) but do not include any all-employee share plan awards for which an Executive Director may be eligible nor the dividend equivalent amount payable on the LTIP as shares.

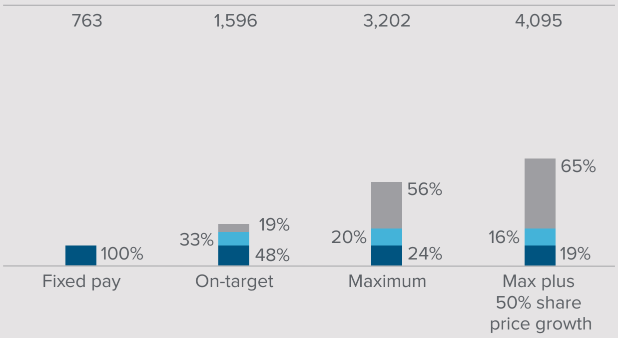
Annual bonus	LTIP
On-target	
Paid at (as a percentage of base salary): – 110 per cent for Kevin Murphy – 90 per cent for Mike Powell	Vesting at 17 per cent of an award[1] expressed as a percentage of the base salary[2] used for calculating the award: – 58 per cent for Kevin Murphy – 50 per cent for Mike Powell
Maximum	
Paid at (as a percentage of base salary): – 150 per cent for Kevin Murphy – 110 per cent for Mike Powell	Full vesting at 100 per cent of the award expressed as a percentage of the base salary[2] used for calculating the award: – 350 per cent for Kevin Murphy – 300 per cent for Mike Powell

1. The payment level for performance in line with threshold for the FY2019/20 LTIP. Further details are set out on pages 95 and 96.
2. Awards will be granted by reference to a percentage of the Executive Directors' 2019/20 base salary and this table calculates the value of the awards on that basis. These values are used in the scenarios.

Kevin Murphy (as Group CEO) $(000)



Mike Powell (Group CFO) £(000)



Fixed pay Bonus Long-term share awards

Implementation of Policy for the year ending 31 July 2020

Executive Directors

Base salary

In line with the Policy, the Remuneration Committee undertook an annual review of the Executive Directors' base salaries during the year. The Committee agreed to an increase to the base salary level of John Martin and Mike Powell from 1 August 2019, and no increase for Kevin Murphy as Chief Executive Officer, USA. Details of Kevin's new salary upon appointment as Group Chief Executive and revised base salary levels for each Executive Director, and those which applied during the year ended 31 July 2019, are set out below.

	Annualised base salary		
	2019/20[3] (000)	Effective date of salary change	2018/19 (000)
K Murphy[1]	**$975.0** **(no increase)**	1 August 2019	$975.0
	$1,100.0 **(+12.8% increase)**	19 November 2019	$975.0
M Powell[2]	**£595.0** **(+8.2% increase)**	1 August 2019	£550.0
J Martin	**£917.2** **(+2.0% increase)**	1 August 2019	£899.2

1. During 2019/20, Kevin Murphy will receive a salary of $975,000 per annum from 1 August to 19 November 2019. His salary will increase to $1.1 million per annum upon appointment as Group Chief Executive on 19 November 2019.
2. As noted in the Remuneration Committee Chair's statement, the Committee awarded a salary increase to Mike Powell that is above the average salary increase for the relevant general workforce in order to move his salary closer to the market median. This approach was highlighted in last year's Directors' Remuneration Report and is consistent with both the 2018 Policy and the 2019 Policy.
3. For context, the Group-wide average salary increase was 1.54 per cent.

Pension and benefits

UK-based Executive Directors receive a salary supplement in lieu of membership of the Group pension scheme, being 30 per cent of base salary for John Martin and 25 per cent for Mike Powell. USA-based Executive Director Kevin Murphy participates in the Ferguson defined contribution pension arrangement and receives a Company contribution of 16 per cent of base salary, in line with the pensions policy for the wider workforce in the USA. This includes a 401k plan and Ferguson Executive Retirement Plan arrangements. These plans have normal retirement ages of 59½ and 55 respectively. Only base salary is included in the calculation of the Company pension contributions. Benefits provided to Executive Directors are detailed in the notes to the Remuneration table on page 98.

Annual bonus All

When considering the objectives for the Executive Directors and other members of the Executive Committee, the Remuneration Committee assesses whether incentives are designed to promote the right behaviours and takes into account whether specific attention should be given to environmental, social and governance matters. Directors take such matters into account when considering any investment proposal or operational matters, and management is expected to meet performance targets which include compliance with any environmental, social or governance-related standards that have been set. The overall performance of the businesses and of management is reviewed at the end of the year when considering the award of bonuses and whether operational and personal objectives have been met.

The threshold, target and maximum bonus opportunities for each of the Executive Directors are set out in the following table:

	Threshold	Target	Maximum
			As % salary
K Murphy[1] (1 Aug – 18 Nov 2019)	56%	110%	140%
K Murphy[1] (19 Nov 2019 – 31 July 2020)	49%	110%	150%
M Powell	49%	90%	110%
J Martin[2]	56%	100%	120%

1. Kevin Murphy's bonus opportunity will be measured on Group and USA business targets and the salary for the relevant period whilst he is Chief Executive Officer, USA and will be measured on Group targets and the salary for the relevant period whilst he is Group Chief Executive.
2. John Martin will receive a pro rated bonus payment for the period 1 August – 19 November 2019.

80 per cent of the bonus opportunity will be linked to the achievement of financial performance targets (20 per cent is based on cash-to-cash days and 60 per cent on trading profit) and the remaining 20 per cent of the bonus opportunity is linked to personal strategic objectives.

Specific individual objectives were set at the beginning of the 2019/20 financial year.

The Board considers that the performance targets for FY2019/20 are commercially sensitive and they are not disclosed in this Report for this reason. The Committee intends to disclose the targets and performance against them in the Annual report on remuneration next year depending on considerations of commercial sensitivity at that time.

Long term incentives

LTIP awards will be made during FY2019/20 at the levels set out in the table below:

	LTIP (award value as % of salary)
K Murphy	350%
M Powell	300%

The extent to which the LTIP awards (proposed to be granted during FY2019/20) vest will be dependent on the following performance targets over a three-year performance period, each with a weighting of one-third of award opportunity: comparative TSR, EPS growth and OpCF.

Comparative TSR All

The TSR element of the award will vest as set out in the table below (comprising one-third of the total award opportunity):

Ferguson's TSR position in comparator group[1]	Percentage of award subject to TSR which will vest[2]
Upper quartile	100%
Between median and upper quartile	25%-100%
At median	25%
Below median	0%

1. Full constituent members of the FTSE 100 Index at the beginning of the performance period, with no additions or exclusions.
2. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.

The TSR measure is considered appropriate as it closely aligns the interests of the Executive Directors with those of the Company's shareholders over the long term and incentivises outperformance of the Company relative to its peers. The TSR performance condition supports the achievement of profit growth, cash generation, maximising shareholder value and relative outperformance of its peer group.

2019 Remuneration Policy (continued)

EPS growth All

The EPS[1] element of the award will vest as set out in the table below (comprising one-third of the total award opportunity):

Total margin of EPS growth over US inflation ("CPI") after three years	Percentage of award subject to EPS which will vest[2]
30% and above	100%
Between 3% and 30%	0%-100%
At or below 3%	0%

1. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
2. Awards will vest on a straight-line basis between 0 per cent and 100 per cent.

For EPS growth targets, the Committee sets the EPS growth range having due regard to the Group's budget and strategic business plan every year as well as market expectations, the Group's trading environment and the consensus of analysts' forecast trading profit.

Having considered these reference points in the round, the Committee has decided to extend the EPS performance range slightly for the FY2019/20 LTIP awards, and lower the payout at threshold from 25% to 0% of maximum. The revised performance range is considered by the Committee to continue to represent an appropriate degree of stretch for the award opportunities granted, in particular the level required for full vesting (US CPI +30% over the period), and which remains unchanged from previous grants.

OpCF All

The OpCF element of the award will vest as set out in the table below (comprising one-third of the total award opportunity):

OpCF[1,2]	Percentage of award subject to OpCF which will vest[3]
$4.832 billion	100%
Between $4.292 billion and $4.832 billion	25%-100%
$4.292 billion	25%
Below $4.292 billion	0%

1. Cash generated from operations (before interest and tax) as presented in the audited Group cash flow statement in the Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
2. The cumulative three-year figure for adjusted OpCF for the last three years equals $4.703 billion, as set out on page 100.
3. Awards will vest on a straight-line basis between 0 per cent and 100 per cent.

For OpCF generation, the Committee sets the cumulative OpCF target having due regard to the Group's budget and strategic plan every year as well as market expectations and the Group's trading environment.

The OpCF measure is considered appropriate as it encourages long-term generation of cash to fund investment and returns to shareholders.

John Martin departure arrangements

John Martin will not receive any payment for loss of office. He will step down as Group Chief Executive and as a Director on 19 November 2019 but continue to be an employee of the Group until 3 September 2020 (or such earlier date as agreed between John and Ferguson plc).

During that period the following arrangements will apply:

- John will continue to receive salary, benefits and pension payments.
- John will be entitled to be considered for bonus for FY2019/20 but any bonus for that financial year will be pro rated to 19 November 2019 and subject to an assessment of the relevant measures. The bonus would be determined and paid in accordance with the usual timetable for the Annual Bonus Plan following the end of FY2019/20.
- John will not receive a grant under the LTIP for the FY2019/20 financial year.
- John will be treated as a good leaver under the Ferguson Group Long Term Incentive Plan 2015. His 2017 and 2018 awards will be time pro rated to reflect his employment during the vesting period. The awards remain subject to the performance measures which apply to the relevant awards and will continue to vest and become exercisable on their scheduled vesting dates, subject to the relevant terms (including malus and where applicable clawback).
- John will not be treated as a good leaver under the Ferguson Group International Sharesave Plan 2011. He will be entitled to cancel his savings contract at any time or continue to save until 3 September 2020. Upon cessation of employment or cancellation of his savings contract, whichever is the earlier, his options will lapse.

Non Executive Directors and Chairman

The Company's policy on Non Executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the Chairmanship of Board Committees.

A summary of annualised fees for 2019/20 (and those applied for 2018/19) is set out below:

	2019/20 (£000)[1,2]	2018/19 (£000)[2]
Chairman's fee	**402.0**	393.0
Non Executive Director base fee	**70.0**	68.5
Additional fees:		
Senior Independent Director	**20.5**	14.0
Chairman of Audit Committee	**20.5**	20.0
Chair of Remuneration Committee	**20.5**	20.0
Employee Engagement Director	**10.0**	10.0[3]

1. All increases to Non Executive Director/Chairman fees were broadly in line with the average salary increase awarded to the general workforce, except for the Senior Independent Director whose fee was increased at above this rate in order to reflect the significant increase in workload and responsibilities associated with the role.
2. The Non Executive Directors (including the Chairman) also have the benefit of a travel allowance of £2,500 (each way), where there would be a need for intercontinental flight in excess of five hours (one way) based on the home location of the Non Executive Director or Chairman and the location of the Board (or Committee) meeting, up to a maximum of £30,000 per annum.
3. Alan Murray was appointed as Employee Engagement Director from July 2019, in connection with this role he received the additional annual fee commencing from that date, pro rated for the year ended 31 July 2019.

Annual report on remuneration

Report for the year ended 31 July 2019

Information

For the purposes of this Annual report on remuneration:

(1) any estimated share values are determined using a share price of 5,581.6 pence, being the average closing mid-market quotation for Ferguson plc shares for the three-month period ended 31 July 2019.

(2) the remuneration of Kevin Murphy is shown in USD and any sterling payments have been converted to USD based on a 12-month average exchange rate for the year ended 31 July 2019 of $1.2878:£1. (2018: $1.3308:£1).

Remuneration Committee

The Committee met regularly during the year. Details of meetings and attendance are shown in the table on page 80.

Principal areas of focus in 2018/19

Governance

- 2019 Remuneration Policy Review including consultation of shareholders and reviewing their feedback in the context of finalising the proposed 2019 Policy.
- Review and approval of the 2018/19 Directors' Remuneration Report.
- Annual governance and compliance review including reviewing pay practices and methods for gathering the views of the workforce.
- Gender pay gap review.
- Annual review of remuneration adviser performance.
- Annual review of terms of reference.
- Annual review of effectiveness of the Committee.
- Annual review of Directors' shareholdings against applicable shareholding guidelines.
- Review and approval of arrangements required due to the redomiciliation of the Company.

Reward including salary and fees review

- Analysis of key reward and US compensation practices.
- Review of executive pay levels.
- Review and approval of remuneration proposals for existing Executive Directors and new and existing Executive Committee members (including review and approval of remuneration package for new Group General Counsel).
- Review of the Chairman's fees.

Incentives

- Review and approval of 2017/18 annual bonus and long term incentive outcomes.
- Review and approval of LTIP structure and targets for 2018/19 awards.
- Confirmation of vesting of LTIP and other discretionary share plan awards that vested in 2018/19.
- Regular assessment of performance against 2018/19 annual bonus targets and objectives.
- Regular review of performance against targets for outstanding LTIP and other discretionary share awards.
- Review and approval of process for 2018/19 grants under all-employee share plans.
- Regular review of use and operation of discretionary share plans and all-employee share plans.
- Review and approval of annual bonus structure and targets for 2019/20.
- Review and approval of grant of LTIP and other discretionary share plan awards to senior executives, including those below Board level for 2019/20.

Remuneration Committee effectiveness review

The annual review of the effectiveness of the Committee was conducted during the year and considered at the July 2019 meeting. The review concluded the Committee was working effectively and minor recommendations to improve effectiveness, including continuing to develop its understanding of the global compensation landscape, were identified.

Advisers to the Committee

During the year, the Committee received advice and/or services from various parties. Details are set out below.

Mercer Kepler (which is part of the MMC group of companies) was appointed as the Committee's independent remuneration consultant in 2017 following a competitive tender process led by the Chair of the Committee. Mercer Kepler is a founding member and signatory to the UK Remuneration Consultants Group Code of Conduct which governs standards in the areas of transparency, integrity, objectivity, confidentiality, competence and due care. Mercer Kepler adheres to this Code of Conduct. The Committee has established arrangements to ensure that the advice received from Mercer Kepler is independent of the advice provided to the Company. The Chair of the Committee has direct contact with the lead Mercer Kepler partner to discuss performance. Mercer Kepler is appointed by the Committee and its performance, along with the quality and objectivity of its advice, is reviewed on an annual basis.

The Committee reviewed the performance of, and advice provided by, Mercer Kepler in November 2018. Mercer Kepler also provided remuneration consultancy services to the Company during the year. Fees are charged predominantly on a "time spent" basis and the total fees (including expenses) paid to Mercer Kepler for the advice provided to the Committee during the year was £134,417. Fees (including expenses) paid to Mercer Kepler for other remuneration-related services to the Company during the year were £36,289.

Freshfields Bruckhaus Deringer LLP ("Freshfields") provided legal advice to the Committee during the year in connection with the Remuneration Policy and the Company's Remuneration Report. Fees are charged predominantly on a "time spent" basis and the total fees paid to Freshfields for the advice provided to the Committee during the year were £28,033. Freshfields was appointed by the Company. Freshfields also provided other services to the Company during the year. The Committee is satisfied that the services provided to it by Freshfields are of a technical nature and did not create any conflict of interest and therefore the advice received from them was objective and independent. If a conflict of interest were to arise, the Committee would appoint separate legal advisers from those used by the Company.

The Committee also seeks internal support from the Group Chief Human Resources Officer, the Group Chief Executive, the Group General Counsel and the Group Company Secretary, together with other senior Group employees as necessary. Those who attend by invitation do not participate in discussions that relate to the details of their own remuneration.

Annual report on remuneration (continued)

Single total figure of remuneration for Executive Directors (Audited)

The table below sets out in a single figure the total amount of remuneration, including each element, earned by each of the Executive Directors for the year ended 31 July 2019.

		Fixed remuneration				Variable remuneration				
	Year	Salary (000)	Taxable benefits[3] (000)	Pension benefits[4] (000)	Sub total (000)	Bonuses (000)	Value of LTI vesting[5,6,7] (000)	Sub total (000)	Other[8,9] (000)	**Total remuneration (000)**
Executive Directors										
J Martin	**2018/19**	**£899.2**	**£52.0**	**£269.7**	**£1,220.9**	**£918.0**	**£3,373.2**	**£4,291.2**	**–**	**£5,512.1**
	2017/18	£877.2	£48.2	£263.2	£1,188.6	£1,003.5	£1,756.4	£2,759.9	£3.7	£3,952.2
M Powell[1]	**2018/19**	**£550.0**	**£18.8**	**£137.5**	**£706.3**	**£500.5**	**–**	**£500.5**	**£1,074.2**	**£2,281.0**
	2017/18	£510.0	£17.7	£127.5	£655.2	£521.2	–	£521.2	£2.2	£1,178.7
K Murphy	**2018/19**	**$975.0**	**$117.5**	**$156.0**	**$1,248.5**	**$1,035.8**	**–**	**$1,035.8**	**$0.7**	**$2,285.0**
	2017/18	$900.0	$108.2	$144.0	$1,152.2	$1,060.2	–	$1,060.2	$0.7	$2,213.1
Total[2]	**2018/19**	**£2,206.3**	**£162.0**	**£528.4**	**£2,896.7**	**£2,222.8**	**£3,373.2**	**£5,596.0**	**£1,074.7**	**£9,567.4**
	2017/18	£2,063.5	£147.2	£498.9	£2,709.6	£2,321.4	£1,756.4	£4,077.8	£6.5	£6,793.9
Total in USD (for information)	**2018/19**	**$2,841.2**	**$208.7**	**$680.5**	**$3,730.4**	**$2,862.5**	**$4,344.0**	**$7,206.5**	**$1,384.0**	**$12,320.9**

1. Mike Powell's annual bonus payments for both 2017/18 and 2018/19 are shown as gross amounts due to him. For 2017/18, amounts in excess of target were deferred into a nil cost option award of 1,095 shares in accordance with the terms of the DBP as he had not met his shareholding guideline target. Deferral is expected to apply if he has not met his shareholding guideline target prior to payment of his 2018/19 bonus.
2. For the purposes of the total remuneration figures shown for 2018/19 and 2017/18, payments made to Kevin Murphy shown in USD have been converted back into pounds sterling using the 12-month average exchange rate for the year ended 31 July 2019 ($1.2878:£1) and a three-month average exchange rate for the period ended 31 July 2018 ($1.3308: £1).
3. Benefits comprise private health insurance, car benefit (car allowance, car, driver), tax and financial advice and tax gross up arrangements. For Kevin Murphy, this also includes life insurance premium. The omission of $34,200 in his taxable benefits figure for 2017/18 was an administrative oversight and has now been included.
4. Kevin Murphy participates in the defined contribution pension arrangements of Ferguson Enterprises, LLC. receiving contributions of 16 per cent of base salary from Ferguson Enterprises LLC. The cost of employer's contributions during the year was $156,000. During the year ended 31 July 2019, John Martin and Mike Powell received salary supplements in lieu of Group pension scheme membership.
5. The LTIP grant made to John Martin in December 2016 will vest overall at 95.6 per cent in November 2019. The performance based buy out award ("PBBO") granted to Mike Powell in June 2017 is reported in the "Other" column. An OSP award and POSP award made to Kevin Murphy in 2016 (before he was appointed as an Executive Director and which are therefore not required to be included in the table above) are summarised on page 101.
6. The figure for total remuneration includes share price appreciation for the value of LTI vesting and the value of dividend equivalents on vested LTI awards.
7. Value shown for 2018/19 represents estimated value of LTIP awards granted in 2016 that will vest in November 2019. The estimate assumes 95.6 per cent overall vesting of LTIP awards using the three-month average share price for the period ended 31 July 2019 of 5,581.6 pence. Value shown for 2017/18 represents the actual vesting of the LTIP awards which vested in January 2019, using the share price of 5,337 pence on the date of vesting (21 January 2019).
8. The PBBO award performance conditions and vesting date are the same as those for the LTIP grant made in November 2016 to other senior executives. The PBBO award will vest overall at 95.6 per cent in November 2019.
9. In April 2019 Kevin Murphy was granted share options when he entered into a one-year ESPP savings contract. The values shown for 2019/20 and 2018/19 represents the gain, calculated as being the difference between the option price and the share price at the date the option price was set, on the maximum number of shares granted.

Payments for loss of office and to past Directors (Audited)

No payments for loss of office were made during the financial year.

No payments have been made to past Directors other than a payment made to Frank Roach, a former Executive Director, in relation to his LTIP award granted on 1 November 2016 which is disclosed on page 100.

External Directorships

Executive Directors are permitted to take on external Non Executive Directorships. In order to avoid any conflicts of interest, all such appointments are subject to the approval of the Board. The Board believes that taking up an external non executive appointment helps bring a wider perspective to the Company and also assists in the development of business skills and experience.

During the year, John Martin was a Non Executive Director of Ocado plc (following his appointment on 1 June 2019) and Mike Powell was a Non Executive Director and Audit Committee Chairman of Low & Bonar plc. For the year ended 31 July 2019, John Martin and Mike Powell received fees of £10,833 and £49,500 respectively for their services. The Company allowed them to retain the fees paid to them during the year.

Additional disclosures in respect of the Remuneration table (Audited)

Annual bonus All

The annual bonuses awarded to Executive Directors for the year ended 31 July 2019 are shown in the Remuneration table opposite and the bonuses are calculated as follows:

Director	Measure[1]	Target Performance: Threshold	Target Performance: Target	Target Performance: Maximum	Target Performance: Actual Performance	Actual performance (as % of salary) (Threshold – Target – Maximum)	Maximum opportunity (% of salary)
J Martin	Group ongoing trading profit	$1,527.9m	$1,625.4m	$1,722.9m	$1,603.4m[2]	57.3%	72.0%
	Group ongoing average cash-to-cash days[3]	57.0	56.0	55.0	55.8	20.8%	24.0%
	Personal objectives[4,7]	1/20	–	20/20	20/20	24.0%	24.0%
					Total Achieved	**102.1%**	120.0%
M Powell	Group ongoing trading profit	$1,527.9m	$1,625.4m	$1,722.9m	$1,603.4m[2]	51.3%	66.0%
	Group ongoing average cash-to-cash days[3]	57.0	56.0	55.0	55.8	18.8%	22.0%
	Personal objectives[5,7]	1/20	–	20/20	19/20	20.9%	22.0%
					Total Achieved	**91.0%**	110.0%
K Murphy	Group ongoing trading profit	$1,527.9m	$1,625.4m	$1,722.9m	$1,603.4m[2]	12.4%	16.8%
	USA ongoing trading profit	$1,459.0m	$1,552.1m	$1,645.3m	$1,508.2m	46.0%	67.2%
	Group ongoing average cash-to-cash days[3]	57.0	56.0	55.0	55.8	4.6%	5.6%
	USA ongoing average cash-to-cash days	56.9	55.9	54.9	56.4	15.2%	22.4%
	Personal objectives[6,7]	1/20	–	20/20	20/20	28.0%	28.0%
					Total Achieved	**106.2%**	140.0%

1. Details of the performance measures and how they were set were disclosed in the Company's 2018 Annual Report and Accounts on page 86.
2. Actual Group ongoing trading profit of $1,601.0 million (see note 2 to the consolidated financial statements on page 119) adjusted for the retranslation at Company budgeted foreign exchange rates for the year ended 31 July 2019.
3. Actual Group ongoing average cash-to-cash days defined as the 12-month average number of days from payment for items of inventory to receipt of cash from customers for the ongoing business adjusted for the retranslation at Company budgeted foreign exchange rates for the year ended 31 July 2019.
4. John Martin's personal objectives were based on IT transformation, growing organic own brand sales and UK business transformation.
5. Mike Powell's personal objectives were based on review of corporate headquarters of Ferguson plc, execute the Group's funding plan, ensure the UK business has strong and decisive financial leadership, preparation for UK exit and ongoing assessment of the listing structure.
6. Kevin Murphy's personal objectives were based on review of Ferguson Enterprises B2C e-commerce strategy, develop and deliver implementation plan for IT transformation, growing organic own brand sales, and hosting US-based shareholder meetings.
7. The specific targets set for personal objectives are considered to be commercially sensitive as they relate to internal operational and strategic measures which could be used by competitors to gain an advantage if disclosed. The Committee intends to disclose further details of these targets in next year's Annual Report.

Following a review, the Committee considers that Executive Directors' personal objectives for 2017/18 are no longer commercially sensitive and has approved the following disclosure:

Executive Director	Objective	Assessment	Payout of element
John Martin	– Support Kevin Murphy as the new CEO, USA	– Provided strong and clear support	20%
	– Reshape UK business leadership team to execute the turnaround strategy	– UK leadership team identified and appointed and key elements of turnaround plan executed	40%
	– Review Executive Committee composition, recruit and appoint individuals	– Review completed and new CHRO, CIO and Group General Counsel appointed	20%
	– Review the US business disruption team to complement the acceleration of innovation in the Group	– Review completed and team in place	20%
			Total: 100%
Mike Powell	– Recruit and appoint new Group Head of Internal Audit	– New Group Head of Internal Audit appointed	15%
	– Review and support financial leadership for the UK business	– Good progress made and support provided to UK business	20%
	– Execute the Group Services Office relocation	– Group Services office relocated December 2017	15%
	– Enhancing financial reporting to the Board	– Improved reporting in place	20%
	– Assess the most appropriate listing structure and valuation against comparable peers	– Initial assessment undertaken and further work ongoing	20%
			Total: 90%
Kevin Murphy	– Improve the Ferguson associate engagement score	– Improved engagement score	30.5%
	– Launch and embed US business disruption team	– Team in place	35.0%
	– Recruit and appoint individuals to US leadership team	– New CHRO, CIO and Group General Counsel appointed	30.0%
			Total: 95.5%

Annual report on remuneration (continued)

Long term incentives All

Long term incentives awarded to Executive Directors under the LTIP in November 2016 will vest in November 2019. The vesting of those awards is subject to the performance conditions shown in the tables that follow. In relation to those awards, the Committee reviewed the EPS and OpCF measures and considered it appropriate to adjust for the impact of the Nordic business disposal (EPS and OpCF), for exceptional cash flow (OpCF only) and for the impact of a special pension funding contribution to the UK defined benefit pension plan (OpCF only). Further details and reconciliation to the consolidated financial statements are set out in the footnotes to the 2016/17 Awards table below.

Vested awards

LTIP

The performance conditions which applied to the awards made in November 2016 have been measured following the year-end and actual performance achieved is detailed below.

2016/17 Awards[1,2]

		Performance required		
Performance level	% of award vesting	TSR relative to FTSE 100 at date of grant	Total margin of adjusted EPS growth over UK inflation after three years ("RPI")[3]	Adjusted OpCF[4]
Below threshold	0%	Below median	Below 9%	Below $3.875 billion
Threshold	25%	At median	9%	$3.875 billion
Between threshold and maximum	25% – 100%	Between median and upper quartile	Between 9% and 30%	Between $3.875 billion and $4.495 billion
Maximum or above	100%	Upper quartile	30% and above	$4.495 billion
Actual performance achieved		71st percentile	33.2%	$4.703 billion
% of award subject to each performance condition vesting		86.8%	100.0%	100.0%
				Total percentage vesting: 95.6%

1. Details of the performance measures and how they were set were disclosed in the Company's 2016 Annual Report and Accounts on pages 60 and 61.
2. As described on page 79 of the Company's 2017 Annual Report and Accounts, these targets have been restated into US dollars using a £1:$1.55 exchange rate, being the average exchange rate for the three-year period preceding the grant of the 2016/17 award.
3. Headline earnings per share of 342.7 cents per share in 2016 and 517.4 cents per share in 2019 adjusted to include 19.0 cents in 2016 relating to the disposed Nordic business. The growth in adjusted headline earnings per share from 361.7 cents in 2016 to 517.4 cents in 2019 in excess of UK inflation ("RPI") for the same period of 9.9 per cent.
4. Cash generated from operations, before interest and tax of $1.609 billion (2017/18: $1.323 billion and 2016/17: $1.410 billion) adjusted for items which are not considered part of the underlying business performance as agreed by the Remuneration Committee. These adjustments were to add back $94 million (2017/18: $31 million and 2016/17: nil) in relation to the cash flow lost due to the Nordic business being disposed of in 2017/18; $53 million (2017/18: $59 million and 2016/17: $25 million) of cash flow on exceptional items; and $nil (2017/18: $99 million and 2016/17: nil) in relation to a special funding contribution to the UK defined benefit pension plan.

Accordingly, the total percentage of shares vesting is set out below:

	Total number of shares granted	Percentage of award vesting	Number of shares vesting	Value of shares vesting (£000)[3,4]
J Martin[1]	58,858	95.6%	56,268	3,373.2
Past Director				
F Roach	17,164[2]	95.6%	16,408	1,005.1

1. In accordance with shareholding guideline requirements, John Martin will, whilst still a Group employee, retain vested shares or hold vested but unexercised nil cost options for a holding period of two years from the vesting date.
2. As detailed on page 78 of the Company's 2017 Annual Report and Accounts, Frank Roach's award reflects the completed financial years served prior to his retirement on 31 July 2017, in line with the Committee's exercise of discretion. His original award was 51,493 conditional shares.
3. Value determined using the share price noted on page 97 under the heading "Information".
4. Dividend equivalents have accrued on the 2016 share awards and will be paid out in cash after vesting of the awards. The value above includes an approximate value of the cash payment estimated to be 413.30 pence per share.

Performance Based Buy Out Award and Restricted Share Buy Out Award

The Performance Based Buy Out Award of 18,859 Conditional Shares granted to Mike Powell in June 2017 will vest in November 2019. The performance conditions that apply to the Performance Based Buy Out Award are the same as those applied to the LTIP award made in 2016/17, detailed above.

Accordingly, the total percentage of shares vesting is set out below:

	Total number of shares granted	Percentage of award vesting	Number of shares vesting	Value of shares vesting (£000)[1,2]
M Powell	18,859	95.6%	18,029	1,074.2

1. Value determined using the share price noted on page 97 under the heading "Information".
2. Dividend equivalents have accrued on this award and will be paid out in cash after vesting. The value above includes an approximate value of the cash payment estimated to be 376.63 pence per share.

The Restricted Share Buy Out Award of 5,695 Conditional Shares granted to Mike Powell in June 2017 vested in full on 28 March 2019. The award was not subject to performance conditions. The shares comprising this award are included in the Share awards exercised in the year table opposite and the face value of this award at the date of grant was included in the "Other" column for 2016/17 in the Remuneration table on page 90 of the 2018 Annual Report and Accounts.

Ordinary Share Plan and Performance Ordinary Share Plan

The Ordinary Share Plan Award of 5,574 Conditional Shares and Performance Ordinary Share Plan Award of 13,936 Conditional Shares granted to Kevin Murphy (before he was appointed to the Board) in November 2016 will normally vest in November 2019.

The Ordinary Share Plan Award is not subject to performance conditions and will vest in full subject to continued employment. The Performance Ordinary Share Plan Award is subject to a performance condition which is based on trading profit growth of the Group's USA business over a three-year period ended 31 July 2019. This award will vest at 92.4 per cent.

Unvested awards

LTIP

The following tables set out the performance conditions and indicative vesting percentages for the relative TSR, EPS and OpCF elements of unvested awards under the LTIP made in 2017/18 and 2018/19 respectively. Calculations for TSR are independently carried out and verified before being approved by the Committee. Calculations for EPS and OpCF are performed and verified internally.

2017/18 Awards

	Performance required			
Performance level	% of award that would vest[1]	TSR relative to FTSE 100 at date of grant	Total margin of adjusted EPS growth over UK inflation after three years ("CPI")[2]	Adjusted OpCF[3]
Below threshold	0%	Below median	Below 9%	Below $4.400 billion
Threshold	25%	At median	9%	$4.400 billion
Between threshold and maximum	25% – 100%	Between median and upper quartile	Between 9% and 30%	Between $4.400 billion and $4.900 billion
Maximum or above	100%	Upper quartile	30% and above	$4.900 billion
Indicative vesting % based on performance as at 31 July 2019		66.4%	70.2%	100.0%

1. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.
2. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
3. Cash generated from operations (before interest and tax) as presented in the audited annual Group cash flow statement in the Company's Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance, and would be adjusted to reflect the impact on OpCF following the disposal of the Nordic business).

2018/19 Awards

	Performance required			
Performance level	% of award that would vest[1]	TSR relative to FTSE 100 at date of grant	Total margin of adjusted EPS growth over UK inflation after three years ("CPI")[2]	Adjusted OpCF[3]
Below threshold	0%	Below median	Below 9%	Below $4.423 billion
Threshold	25%	At median	9%	$4.423 billion
Between threshold and maximum	25% – 100%	Between median and upper quartile	Between 9% and 30%	Between $4.423 billion and $4.983 billion
Maximum or above	100%	Upper quartile	30% and above	$4.983 billion
Indicative vesting % based on performance as at 31 July 2019		0.0%	20.2%	88.3%

1. Awards will vest on a straight-line basis between 25 per cent and 100 per cent.
2. Headline EPS as presented in the audited Ferguson plc Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).
3. Cash generated from operations (before interest and tax) as presented in the audited annual Group cash flow statement in the Company's Annual Report and Accounts (subject to such adjustments as the Committee deems appropriate to ensure it reflects underlying business performance).

Restricted Share Buy Out Award

A Restricted Share Buy Out Awards of 2,439 Conditional Shares granted to Mike Powell in June 2017 will normally vest in April 2020. The award is not subject to performance conditions and will vest in full subject to continued employment. The number of shares comprising this award is included in the Share awards exercised in the year table below and the face value of this award at the date of grant was included in the "Other" column for 2016/17 in the Remuneration table on page 90 of the 2018 Annual Report and Accounts.

Deferred Bonus Plan

The Deferred Bonus Plan Awards of 284 and 1,095 nil cost options granted to Mike Powell on 30 October 2017 and 18 October 2018 will normally vest in August 2020 and August 2021, respectively. These awards are not subject to performance conditions and will vest in full subject to continued employment.

Share awards exercised during the year

Details of the share awards exercised during the year are set out below:

Director	All-employee	LTIP	OSP	RSBO	Total[1,2]
J Martin	–	30,870	–	–	30,870
M Powell	–	–	–	5,695	5,695
K Murphy	64	–	8,234	–	8,298

1. The aggregate gain made on the exercise of options during the year by John Martin and Kevin Murphy was £1,647,575 and £266 respectively.
2. The aggregate value of assets received or receivable by Mike Powell and Kevin Murphy during the year was £277,688 and £425,711 respectively.

Annual report on remuneration (continued)

Scheme interests awarded during the financial year (Audited) All

Awards under the LTIP were made on 18 October 2018. Awards are based on a percentage of salary determined by the Committee. The Committee considers annually the size of each grant, determined by individual performance, the ability of each individual to contribute to the achievement of the performance conditions, and market levels of remuneration. The maximum vesting is 100 per cent of the award granted. Details of performance conditions for awards which were granted during the year are set out on page 101.

The scheme interests awarded during 2018/19 are summarised below:

Director	Award	Type of award	Number of shares[1]	Face value[2,3] of award (£000)	Performance criteria period	Threshold performance	Performance conditions
J Martin	LTIP	Nil cost options	47,499	2,697.5	1 August 2018 – 31 July 2021	25% of award vesting	EPS, TSR, Cumulative OpCF
M Powell	LTIP	Nil cost options	23,243	1,320.0			
K Murphy	LTIP	Conditional shares	32,658	1,854.6			
M Powell	DBP	Nil cost options	1,095	62.2	N/A[4]	N/A	N/A

1. John Martin, Mike Powell and Kevin Murphy's LTIP awards granted during the financial year were based on a percentage of salary as follows: John Martin (300 per cent); Mike Powell (240 per cent); and Kevin Murphy (250 per cent). The DBP award granted to Mike Powell during the year was based on the amount of annual bonus earned in 2017/18 that exceeded target.
2. The share price used to calculate the face value of the LTIP share awards granted on 18 October 2018 was 5,679 pence which was the average share price over a 10 dealing day period immediately preceding the date of grant. The LTIP awards made to John Martin and Mike Powell were in the form of nil cost options. At vesting, the exercise price per share will be nil. The LTIP award made to Kevin Murphy was a conditional share award and there is no exercise price. The share price used to calculate the face value of the DBP share award granted on 18 October 2018 was 5,679 pence which was the average share price over a 10 dealing day period preceding the date of grant. The DBP award made to Mike Powell was in the form of nil cost options. At vesting, the exercise price per share will be nil. Face value is calculated as required by the Regulations as the maximum number of shares at full vesting multiplied by either the share price at date of grant or the average share price used to determine the number of shares awarded. Dividend equivalents also accrue on the LTIP and DBP awards and the amount which may be due to an Executive Director is not included in the calculation of face value.
3. The maximum dilution which may arise through issue of shares to satisfy the entitlement to these LTIP and DBP scheme interests would be 0.045 per cent calculated as at 31 July 2019.
4. Mike Powell's DBP award will normally vest in August 2021 subject to his continued employment with the Company.

Single total figure of remuneration for Non Executive Directors (Audited)

The table below sets out in a single figure the total amount of remuneration received by each of the Chairman and the Non Executive Directors who served during the year ended 31 July 2019.

Chairman and Non Executive Directors	**Fees (£000) 2018/19**	Fees (£000) 2017/18	**Taxable benefits[1] (£000) 2018/19**	Taxable benefits[1] (£000) 2017/18	**Total remuneration (£000) 2018/19**	Total remuneration (£000) 2017/18
Chairman						
G Davis	**393.0**	383.0	**10.0**	–	**403.0**	383.0
Non Executive Directors						
T Bamford	**68.5**	66.7	**10.0**	–	**78.5**	66.7
G Drabble	**13.3**	–	**5.0**	–	**18.3**	–
C Halligan	**40.0**	–	**10.0**	–	**50.0**	–
A Murray	**83.3**	79.8	**12.5**	–	**95.8**	79.8
T Schmitt	**32.2**	–	**10.0**	–	**42.2**	–
D Shapland	**88.5**	86.0	**10.0**	–	**98.5**	86.0
N Shouraboura	**68.5**	66.7	**10.0**	–	**78.5**	66.7
J Simmonds	**88.5**	83.0	**5.0**	–	**93.5**	83.0
Total remuneration	**875.8**	765.2[2]	**82.5**	–	**958.3**	765.2[2]

1. The taxable benefits for the Non Executive Directors (including the Chairman) relate to a travel allowance of £2,500 (each way), where there is a need for intercontinental flight in excess of five hours (one way) based on the home location of the Non Executive Director or Chairman and the location of the Board (or Committee) meeting, up to a maximum of £30,000 per individual per annum. This allowance was introduced in November 2018.
2. This figure does not include remuneration paid to John Daly (£55,600) and Pilar López (£66,700) who stepped down from the Board during the year ended 31 July 2018. The total remuneration reported in the Annual Report and Accounts for the year ended 31 July 2018 for the Chairman and Non Executive Directors was £887,500.

Statement of shareholder voting

The following table shows the results of the full details of the voting outcomes in relation to Directors' remuneration at the AGM on 29 November 2018:

	Votes for	For %	Votes against	Against %	Total	Votes withheld (abstentions)
Remuneration Report	174,595,185	98.30	3,024,785	1.70	177,619,970	411,001
Remuneration Policy	169,851,331	96.39	6,370,179	3.61	176,221,510	1,809,461

Board appointments and service agreements/letters of appointment

All Executive Directors are appointed to the Board from the relevant effective date of appointment set out in their service agreements. Appointment dates for all of the Non Executive Directors are set out in their letters of appointment. Further details are shown in the table below.

Board appointments

Director[1,2]	Effective date of appointment	Expiry of current term
Executive Directors		
J Martin	1 April 2010 and 1 September 2016 (as Group CEO)	19 November 2019
K Murphy	1 August 2017 and 19 November 2019 (as Group CEO)	
M Powell	1 June 2017	
Chairman		
G Davis	1 July 2003 and 20 January 2011 (as Chairman)	20 January 2020[3]
Non Executive Directors		
T Bamford	22 March 2011	22 March 2020
G Drabble	22 May 2019	22 May 2022
C Halligan	1 January 2019	1 January 2022
A Murray	1 January 2013	1 January 2022
T Schmitt	11 February 2019	11 February 2022
D Shapland	1 May 2014	1 May 2020
N Shouraboura	1 July 2017	1 July 2020
J Simmonds	21 May 2014	21 May 2020

1. Details of all Directors can be found on pages 56 and 57. It remains the Board's policy that Non Executive Directors are appointed for an initial term of three years and extended for subsequent three-year periods following appropriate reviews. All Directors are proposed for re-election annually in accordance with the Code.
2. With the introduction of a new holding company in May 2019, new letters of appointment were entered into by the Directors. For the purposes of tenure, their original appointment timings continue to be applied as the effective date of appointment.
3. To allow for a smooth transition of duties to Geoff Drabble, Gareth Davis will step down from the Board on 31 January 2020, subject to shareholder approval of his election at the 2019 AGM.

Availability of documents

Copies of service agreements and letters of appointment are available for review upon request at the Company's registered office in Jersey. They are also available at the Company's corporate headquarters at Winnersh Triangle, UK and will be available for inspection at the 2019 AGM.

Annual report on remuneration (continued)

Directors' shareholdings (Audited) All

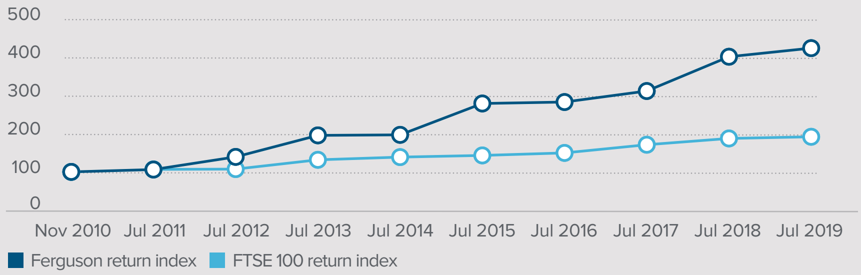
All Directors are required to hold shares equivalent in value to a minimum percentage of their salary or fees as set out in the table below. The Directors' interests in the Company's shares (both held individually and by their connected persons) as at 31 July 2019 are set out below and there has been no change in interests since that date and up to the date of this Report.

	Shares beneficially owned as at 31 July 2019	Shareholding guideline (as a multiple of salary/fees)[1,2]	Vested (unexercised) share awards[3,4]	Unvested share awards						
				With performance conditions			Without performance conditions			
				LTIP[5]	PBBO[5]	POSP[5]	RSBO[5]	DBP[5]	OSP[5]	All-employee[5]
Executive Directors										
J Martin	**133,537**	2.5	–	156,354	–	–	–	–	–	344
M Powell	**10,028**	2	–	46,497	18,859	–	2,439	1,379	–	206
K Murphy	**30,081**	2	–	65,573	–	13,936	–	–	5,574	65
Chairman and Non Executive Directors										
G Davis	**14,538**	1	–	–	–	–	–	–	–	–
T Bamford	**1,940**	1	–	–	–	–	–	–	–	–
G Drabble	**–**	–	–	–	–	–	–	–	–	–
C Halligan	**–**	–	–	–	–	–	–	–	–	–
A Murray	**2,368**	1	–	–	–	–	–	–	–	–
T Schmitt	**–**	–	–	–	–	–	–	–	–	–
D Shapland	**1,989**	1	–	–	–	–	–	–	–	–
N Shouraboura	**–**	1	–	–	–	–	–	–	–	–
J Simmonds	**1,894**	1	–	–	–	–	–	–	–	–

1. All Directors have a five-year time period from the date of appointment or promotion to meet the shareholding target. If not met within that timeframe the individual Director would discuss plans with the Committee to ensure that the target is met over an acceptable timeframe. Under the Policy, Executive Directors would defer amounts in excess of target bonus into shares under the DBP if on the date a relevant bonus was paid the guideline target had not been met. Beneficially owned shares count towards the guideline whilst unvested awards of shares or share options do not. Vested share awards do not count towards the guideline until exercised.
2. As at 31 July 2019, Mike Powell and Nadia Shouraboura had not met their shareholding guideline targets set for 2018/19. Shareholding guideline targets for Mike Powell and Nadia Shouraboura were set on 1 August 2017 and they have until 1 June 2022 and 1 July 2022 respectively to meet their shareholding target. Following their appointment during the year, shareholding guideline targets for Geoff Drabble, Cathy Halligan and Tom Schmitt were set on 1 August 2019 and as such they had no targets to meet as at the end of the 2018/19 financial year. Shareholding guideline targets are first set by reference to the salary or fees of a Director as at 1 August in the financial year following appointment to the Board and calculated using the average share price for the two months ended 31 July of the financial year in which the appointment was made and are re-tested annually until met. Once met, the target is re-tested at least annually on the same basis and set at the number of shares resulting from the re-test or, if lower, the existing target increased in line with any base salary or fee increases.
3. There were no vested but unexercised awards held by Executive Directors under any of the share plans.
4. Details of share awards exercised in the year are detailed in the Share awards exercised during the year table on page 101.
5. LTIP, PBBO and POSP awards are subject to performance conditions but RSBO, DBP, OSP and All-employee awards are not. LTIP awards were awarded in the form of nil cost options to John Martin and Mike Powell and in the form of conditional share awards to Kevin Murphy. PBBO and RSBO awards were awarded to Mike Powell in the form of conditional share awards. DBP awards were awarded to Mike Powell in the form of nil cost options and the OSP award was awarded to Kevin Murphy in the form of conditional share awards. Further details of the performance conditions which apply to the LTIP, POSP and PBBO awards are set out on pages 100 and 101.

Ferguson TSR performance and Group CEO remuneration comparison

The graph opposite shows Ferguson's TSR performance against the performance of the FTSE 100 Index from the creation of the holding company at the time of the redomiciliation to Switzerland in November 2010, to 31 July 2019. The FTSE 100 Index has been chosen as being a broad equity market index consisting of companies comparable in size and complexity to Ferguson.



The table below shows the total remuneration of the Group Chief Executive[1] for the 10-year period from 1 August 2009 to 31 July 2019.

	Group CEO[1]		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Single figure of total remuneration (£000)[2]	I Meakins		1,943	2,011	5,603	5,109	5,890	3,901	3,375	1,768	–	–
	J Martin		–	–	–	–	–	–	–	3,746	3,952[3]	5,512
Annual bonus award rates against maximum opportunity	I Meakins		96%	98%	85%	84%	97%	86%	55%	–	–	–
	J Martin		–	–	–	–	–	–	–	97%	95%	85%
Long term incentive vesting rates against maximum opportunity	I Meakins	LTIP	0%	0%	76%	100%	88%	75%	47%	72%	–	–
		ESOP	0%	0%	100%	100%	100%	100%	100%	100%	–	–
	J Martin	LTIP	–	–	–	–	–	–	–	72%	82%	96%
		ESOP	–	–	–	–	–	–	–	100%	–	–

1. During the 10-year period, Ian Meakins was the Group Chief Executive until his retirement on 31 August 2016. Since 1 September 2016, John Martin has served as Group Chief Executive. The single figure total shown for Mr Martin in the 2016/17 financial year includes one month's pay as Group Chief Financial Officer.
2. The single figure for all 10 years is calculated on the same basis as that used in the Remuneration table on page 98.
3. The single figure of total remuneration for John Martin for the year ended 31 July 2018 has been adjusted respectively from the value of £4.138 million estimated in that year's report to reflect the actual value of LTI at the date of vesting in January 2019.

Relative importance of spend on pay

The following table sets out the amounts and percentage change in total employee remuneration costs, dividends and returns of capital for the year ended 31 July 2019 compared to the year ended 31 July 2018.

	Year ended 31 July 2019 $m	Year ended 31 July 2018 $m	Percentage change
Total employee remuneration costs[1]	**3,163**	2,913	8.6%
Ordinary dividends paid[1]	**449**	390	15.1%
Special dividends paid[1]	**–**	974	N/A
Share buy back[1]	**150[2]**	675	(77.8)%

1. Further details on employee remuneration, dividends paid and the share buy back programme can be found in note 11, note 9 and note 25 of the consolidated financial statements on pages 127, 126 and 145 respectively.
2. This figure shows actual expenditure in the year ended 31 July 2019 in relation to a $500 million share buy back programme announced by the Company in June 2019. As noted on page 76 and in note 25 on page 145 on 31 July 2019 the Company entered into an irrevocable and non-discretionary arrangement with Barclays, an amount of $159 million was committed for the purchase of shares.

Change in Group Chief Executive pay for the year compared to that of Ferguson employees

The table below shows the percentage year-on-year change in base salary, benefits and annual bonus between the year ended 31 July 2019 and the previous financial year for the Group Chief Executive compared to the average for UK-based employees[1].

	% change in salary	% change in benefits	% change in annual bonus[2]
Group Chief Executive	2.5	7.9	-8.5
Average for all UK-based employees	4.0	18.6	15.9

1. Although the Group Chief Executive has a global role and responsibilities, UK-based employees were chosen as a suitable comparator group as he is based in the UK (except to attend certain Board and Committee meetings in other worldwide locations). Also pay structures and changes to pay vary widely across the Group, depending on the local market conditions.
2. The Group Chief Executive's bonus is determined by both his performance and the performance of the whole of the Ferguson Group, whereas employees' bonuses are based on their performance and the performance of the businesses in the countries in which they work. The percentage change in annual bonus for UK-based employees is based on the best available estimates at time of publication.

Annual report on remuneration (continued)

Further information

Detail of Employee Benefit Trusts

Ferguson has established a Jersey Trust and a US Trust (together, "the Trusts") in connection with the obligation to satisfy historical and future share awards under the LTI plans and any other employee incentive plans ("Share Awards").

The trustees of each of the Trusts have waived their rights to receive dividends on any shares held by them. As at 31 July 2019, the Jersey Trust held 218,496 ordinary shares of 10 pence and £6,940 in cash; and the US Trust held 1,345,282 ordinary shares of 10 pence. The number of shares held by the Trusts represented 0.68 per cent of the Company's issued share capital at 31 July 2019.

During the year, shares were purchased by the Trusts to ensure that they continue to have sufficient shares to satisfy share awards. The Jersey Trust acquired 122 shares by gift for nil consideration and the US Trust purchased 540,000 ordinary shares and paid £28.8 million. The Company provided funds to the Trusts to enable them to make the purchases. The number of shares purchased represented 0.23 per cent of the Company's issued share capital.

Further details of shares held by the Trusts can be found at note 25 of the consolidated financial statements.

Detail of all-employee share plans

The Company operates two all-employee share plans in which Executive Directors can participate. In the USA and Canada, the ESPP operates as a one-year savings contract plan. In the UK, employees may participate in the ISP for a savings period of three or five years.

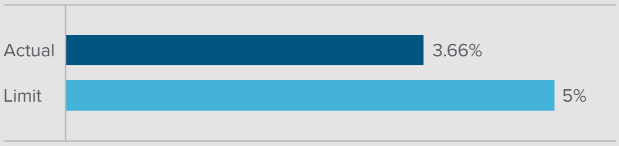
Dilution

Awards under the LTIP, historical executive share option plans and all-employee plans may be met by the issue of new shares when options are exercised, by the use of Treasury Shares or by shares purchased in the market. Awards under the LTI plans are met by market purchases of shares or from the Trusts. The Company monitors the number of shares issued under the Plans and any impact on dilution limits.

Compared to the limits set by the Investment Association in respect of new share issues to satisfy options granted for executive share plans (5 per cent in any rolling 10-year period) and all share plans (10 per cent in any rolling 10-year period) as at 31 July 2019, the Company's headroom was 1.34 per cent and 5.05 per cent respectively.

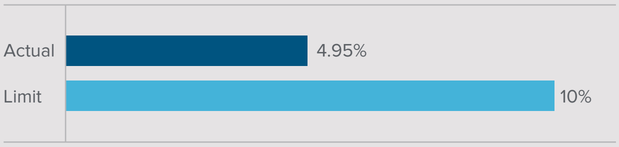
Executive share plans

%



All share plans

%



This Report has been approved by the Board and is signed on its behalf by the Chair of the Remuneration Committee.

On behalf of the Board

Jacky Simmonds
Chair of the Remuneration Committee
30 September 2019

This Report, approved by the Board, has been prepared in accordance with the requirements of the Listing Rules of the Financial Conduct Authority and the Remuneration Reporting Regulations. Furthermore, the Board has also applied the principles of good governance relating to Directors' remuneration contained within the 2016 UK Corporate Governance Code. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules.