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.

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.

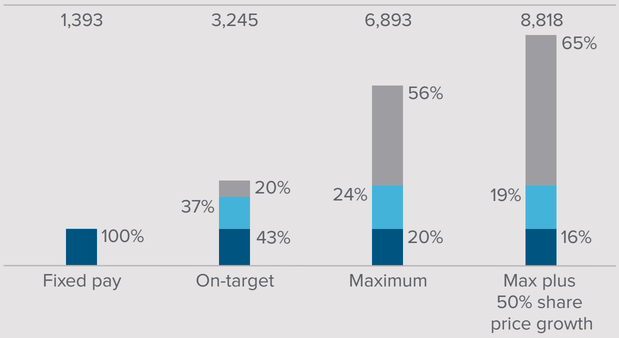
In this Report, the assumptions include an estimation of the amount attributable to share price appreciation (for the "Maximum plus 50 per cent share price appreciation" scenario only) but do not include any all-employee share plan awards for which an Executive Director may be eligible nor the dividend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

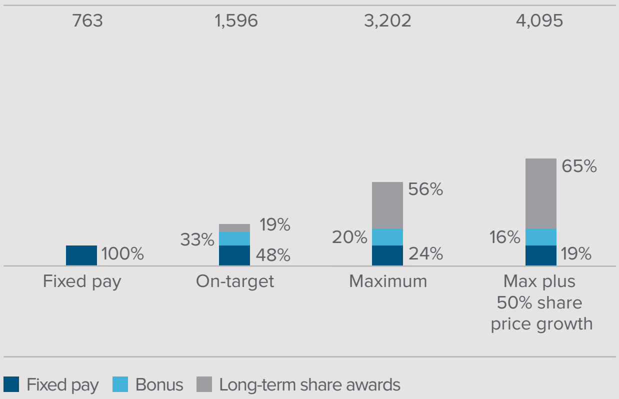
Kevin Murphy (as Group CEO)

$(000)



Mike Powell (Group CFO)

£(000)



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)	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

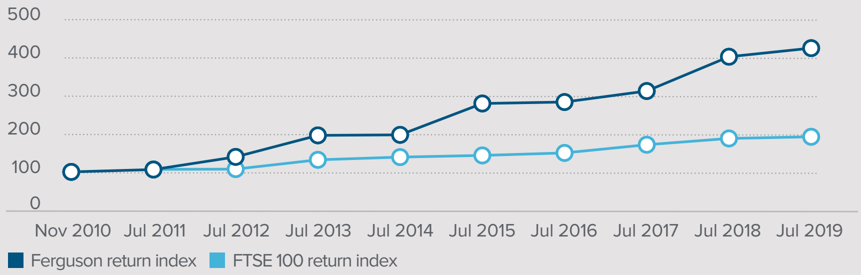
All Directors are required to hold shares equivalent in value to a minimum percentage of their salary or fees as set out in the table below. The Directors' interests in the Company's shares (both held individually and by their connected persons) as at 31 July 2019 are set out below and there has been 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.

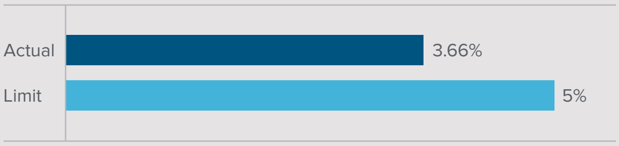
Dilution

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.

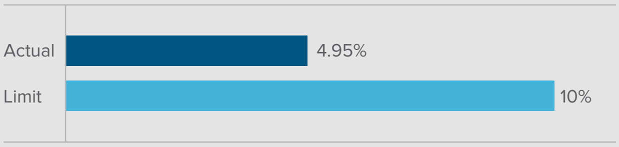
Executive share plans

%



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.