Directors' Remuneration Report

The Remuneration Committee operates the remuneration policy for executive directors, with a focus on fair reward for performance.

Jacky Simmonds
Remuneration Committee Chair

Remuneration Committee members

Membership	Year of appointment	Meetings attended
Jacky Simmonds (Chair)	2014	5 (5)
Tessa Bamford	2011	5 (5)
Alan Murray	2013	5 (5)
Darren Shapland	2014	5 (5)
Nadia Shouraboura	2017	5 (5)
Members who left during the year		
John Daly	2014	4 (4)
Pilar López	2013	4 (5)

2018 focus All

– Full review of the Remuneration Policy and consultation with major shareholders

– Executive remuneration awards and outcomes

– Review of incentive plans for senior executives below Board level

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 July 2018.

Remuneration Policy All

The current Directors' Remuneration Policy ("2015 Policy") was approved at the AGM in December 2015. In line with the requirement to obtain shareholders' approval at least every three years, I am pleased to present details of a revised Directors' Remuneration Policy ("2018 Policy") that will be submitted to shareholders for approval at the AGM in November 2018.

The proposed amendments to the 2015 Policy and the other major decisions taken by the Committee during the year are consistent with the Company's reward principles.

Over the last 12 months, the Committee has conducted a thorough review of the 2015 Policy to ensure it remains fit for purpose, while appropriately reflecting shareholder feedback since the Policy was last approved, market trends and developments in remuneration governance best practice.

The Committee concluded from its review that the 2015 Policy continues to be aligned with the Company's strategy and appropriate for Ferguson; the annual bonus captures appropriate short-term financial and personal objectives, while the LTIP continues to reinforce long-term decision making through a balanced focus on sustainable earnings growth, cumulative cash flow and total shareholder return outperformance of the FTSE 100. The result is that pay outcomes have been closely aligned with Company performance, and over the last three years have underpinned sustained long-term business performance; we have generated $4.443 billion of adjusted OpCF over that period, the Group's TSR (50.4 per cent) has outperformed the FTSE 100 (27.1 per cent), and adjusted EPS has increased by 26.6 per cent.

It is therefore proposed that the 2018 Policy be broadly unchanged from the 2015 Policy, save for a small number of revisions to help ensure that the Policy appropriately reflects the latest investor thinking on remuneration governance. These changes are:

– pension contributions will be reduced for future Executive Director appointments;
– clarifying our policy on tax equalisation;
– aligning the maximum aggregate fees for all Non Executive Directors (including the Chairman) with the limit provided for under the Company's Articles of Association (and for which an increase is being proposed by separate ordinary resolution at the 2018 AGM); and
– the introduction of an Intercontinental Allowance for all Non Executive Directors (including the Chairman) reflecting the international composition of our Board and the significant travel that some of them have to undertake to attend Ferguson Board meetings, which are generally held in Switzerland or the US.

When undertaking the review, the Committee also took the opportunity to review the incentive opportunity limits contained in the 2015 Policy to ensure they provide sufficient headroom to compete effectively in the US for the best talent. Whilst currently not an issue, the Committee concluded that there are significant differences between senior executive pay levels and practices in the USA and the UK, and that the 2018 Policy limits may not be sufficiently flexible enough to enable Ferguson to offer a competitive package, in the event we needed to recruit senior US talent to the Board in the future. Therefore, it is our intention to undertake further work to understand the differences in local market practices and the implications for remuneration at Ferguson. If this results in a need to review our 2018 Policy further, then we will return to consult with shareholders and seek approval for any proposed changes at a future AGM.

The Committee consulted with and received helpful feedback from those of our largest shareholders who responded on these proposed revisions (further detail on the consultation is set out below).

2018 Remuneration Policy – engagement with shareholders

– During the year, the Committee consulted Ferguson's largest shareholders on proposed changes to the 2015 Policy.
– The Committee contacted the Company's 22 largest shareholders (representing 57.3 per cent of Ferguson's issued share capital) as well as shareholder representative bodies. Meetings with the Remuneration Committee Chair and other Company representatives to discuss the proposed changes to the 2015 Policy were also offered to all those contacted.
– The Committee received feedback from four shareholders and two shareholder representative bodies. Overall the feedback received was positive and supportive of the proposed changes.
– Feedback was reviewed and discussed by the Committee and the proposed 2018 Policy was refined as appropriate.

Ferguson's Remuneration Principles

– To provide remuneration packages that fairly reward Executive Directors and senior executives for the contribution they make to the business, having regard to the size and complexity of the Group's business operations and the need to attract, retain and motivate executives of the highest quality;
– to have remuneration packages which comprise salary, short-term bonuses, long-term incentives, benefits-in-kind and pension provision; and
– to aim to provide a total cash award of base salary and bonus around the median of the market, with the opportunity to earn a higher reward for sustained superior financial and individual performance.

Company performance All

Company performance for the year ended 31 July 2018 again saw strong trading performance in the USA and Canada and, on 29 March 2018, we successfully completed the sale of our Nordic business, Stark Group, to Lone Star Funds, whilst the UK business continues its restructuring programme. Specifically:

– the strong US and Canadian trading performance translated into strong profit performance for the Group with both the gross profit and trading profit bonus targets being achieved at maximum level, whilst cash-to-cash days performance was above threshold for the year;
– over the performance period 2015-2018 for the LTIP, TSR was 50.4 per cent and as a result the Company achieved a ranking of 28th against our FTSE 100 comparator group;
– adjusted EPS growth was 17.7 per cent above UK RPI, and above the threshold level set by the Committee; and
– three-year cumulative adjusted OpCF was $4.443 billion, above maximum.

Taking account of this strong performance, the Committee has confirmed:

– bonus payments to the Executive Directors for the year ended 31 July 2018 ranging from 93 per cent to 98 per cent, averaging 95 per cent of their maximum levels; and
– the LTIP granted for the performance period 2015-2018 will vest overall at 81.57 per cent of maximum.

Looking ahead to the year ending 31 July 2019

In accordance with our Policy, the Committee undertook an annual review of the Executive Directors' base salaries for the coming year. The Committee awarded a salary increase of 2.5 per cent to the Group Chief Executive ("Group CEO"), John Martin, in line with the general level of increases awarded to other associates in the Group. As set out in my report last year, the Committee's intention (consistent with our 2015 Policy) is to appoint Executive Directors on below-market salaries, and increase these on a phased basis over two years subject to their performance, by more than the average salary increase for the relevant general workforce. This policy applies both to our Group Chief Financial Officer ("Group CFO"), Mike Powell, and our Chief Executive Officer, USA, ("CEO, USA") Kevin Murphy, who were appointed in 2017 on salaries below the market median and those of their predecessors.

Reflecting their strong individual performances, as well as their significant contributions to overall Company performance over the last year, the base salaries for Mike Powell and Kevin Murphy have been increased by 7.8 per cent and 8.3 per cent respectively.

In addition, and as permitted under the 2015 Policy, the Committee believes it is appropriate to increase the maximum annual bonus opportunity for Kevin Murphy to 140 per cent of base salary, consistent with his predecessor and to bring his package more into line with competitive practices in the USA, where we compete for the highest calibre of senior talent for this role.

The annual bonus will operate along similar lines as for the year ended 31 July 2018, except that the bonus scorecard of measures will be simplified by removing gross profit and upweighting trading profit. Further details can be found on page 86. The implementation of the LTIP for the coming year remains unchanged, with TSR, EPS and OpCF continuing to apply in equal proportions (as they have done since awards made in 2015/16).

Finally, and on behalf of the Committee, I thank you for your continued support and trust you will find the Directors' Remuneration Report useful and informative, and I look forward to receiving your support at the 2018 AGM, where I will be available to respond to your questions on this report.

Jacky Simmonds

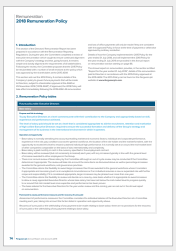
Jacky Simmonds
Chair of the Remuneration Committee

Glossary of terms in Directors' Remuneration Report 2018

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

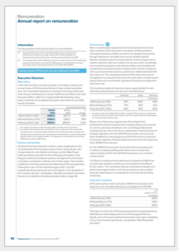
Key elements of this report

2018 Remuneration Policy



Pages 74 to 85

Annual report on remuneration



Pages 86 to 96

At a glance

2017/18 performance summary

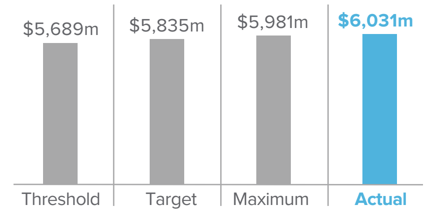
The performance numbers shown here are those used for remuneration purposes only and are defined and reconciled to the financial statements below.

Adjusted Group ongoing gross profit

Performance

$6,031m
(+10.2%)

All



Definition and reconciliation

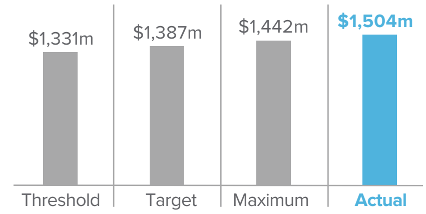
Ongoing Group gross profit of $6,063 million (see note 2 to the consolidated financial statements on page 108) retranslated at Company budgeted foreign exchange rates for the year ended 31 July 2018.

Adjusted Group ongoing trading profit

Performance

$1,504m
(+14.9%)

All



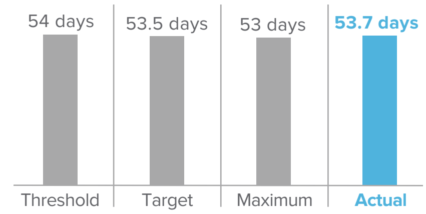
Definition and reconciliation

Ongoing Group trading profit of $1,507 million (see note 2 to the consolidated financial statements on page 108) retranslated at Company budgeted foreign exchange rates for the year ended 31 July 2018.

Adjusted Group ongoing average cash-to-cash days

Performance

53.7 days
(0.3 days improvement)



Definition and reconciliation

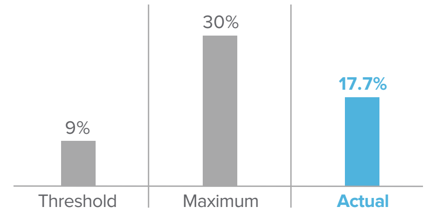
The 12-month average number of days from payment for items of inventory to receipt of cash from customers for the ongoing business at Company budgeted foreign exchange rates for the year ended 31 July 2018.

Adjusted EPS growth over UK inflation (3 years)

Performance

17.7%

All



Definition and reconciliation

Headline earnings per share of 322.4 cents in 2015 and 444.4 cents in 2018 adjusted to include 36.7 cents in 2015 and 10.2 cents in 2018 relating to the disposed Nordic business.

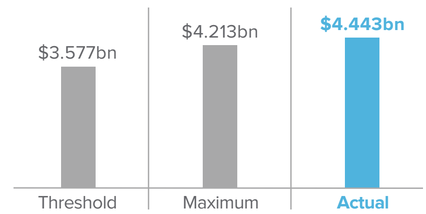
The growth in adjusted headline earnings per share from 359.1 cents in 2015 to 454.6 cents in 2018 in excess of UK inflation ("RPI") for the same period of 8.9 per cent.

Adjusted OpCF (3 years)

Performance

$4.443bn

All



Definition and reconciliation

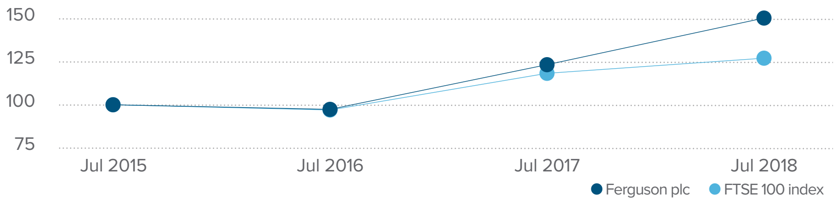
Cash generated from operations, before interest and tax, of $1,323 million (2016/17: $1,410 million; 2015/16: $1,488 million) adjusted for items which are not considered part of the underlying business performance as agreed by the Remuneration Committee. These adjustments were to add back $31 million (2016/17 and 2015/16: $nil) in relation to the cash flow lost due to the Nordic business being disposed of during the year; $59 million (2016/17: $25 million; 2015/16: $8 million) of cash flow on exceptional items; and $99 million (2016/17 and 2015/16: $nil) in relation to a special funding contribution to the UK defined benefit pension plan.

3-year TSR performance vs FTSE 100

Performance

28th
against FTSE 100

All

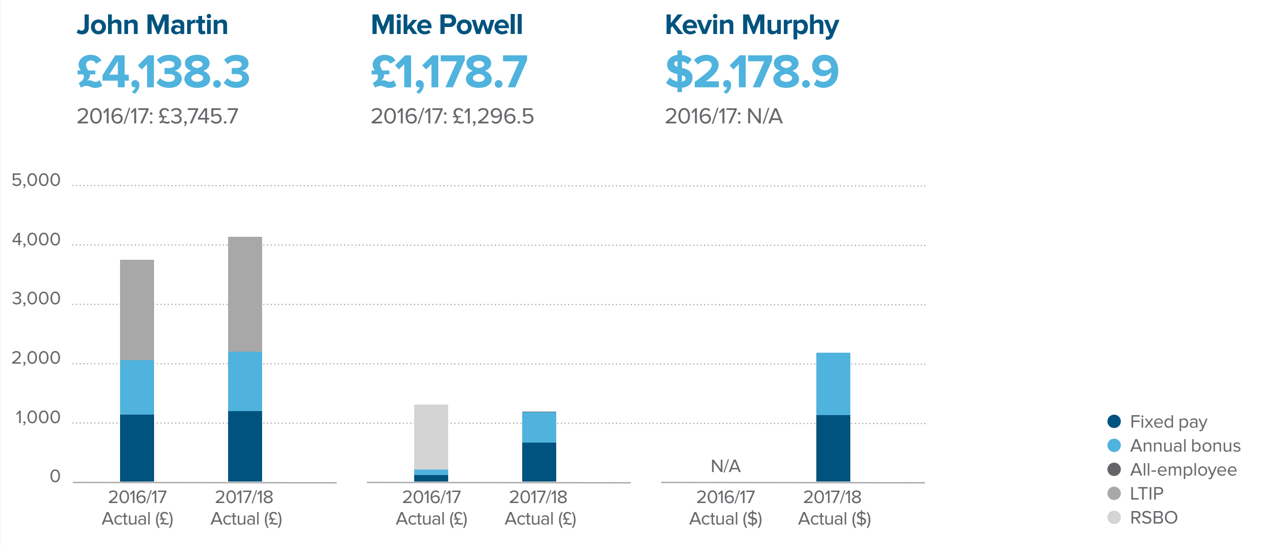


Rewarding 2017/18 performance

The graphs below show total remuneration for Executive Directors in post during 2017/18, as well as amounts received in fixed pay, annual bonus, long-term incentive and other awards.

The "single figure" of total remuneration for each Executive Director who served during the year is set out in the Remuneration table on page 90.

Total remuneration 2017/18 (£000/ $000)



For John Martin, following his promotion to Group Chief Executive on 1 September 2016 total remuneration for the year ended 31 July 2017 reflects: (1) one month's salary at an annualised level of £531,000 and pension contributions of 25 per cent base salary for his services as Group Chief Financial Officer; (2) 11 months' salary at an annualised level of £860,000 with pension contributions of 30 per cent base salary for his services as Group Chief Executive; and (3) an adjusted value for the LTI vesting in November 2017 to reflect the actual value on vesting of £1,699,700.

For Mike Powell, following his appointment as Group Chief Financial Officer on 1 June 2017, total remuneration for the year ended 31 July 2017 reflects the two months' salary, taxable benefits, pension benefits, annual bonus payment and the grant of three Restricted Share Buy Out ("RSBO") awards. The RSBO awards were previously detailed on page 80 of the 2017 Annual Report and Accounts and the face value of those RSBO awards is now shown in the 2016/17 figures for Mr Powell in the Remuneration table on page 90.

For Kevin Murphy, the remuneration (including any vested share plan awards) he received relating to his service in 2016/17, prior to his promotion to Chief Executive Officer, USA and appointment to the Board as an Executive Director on 1 August 2017, is not required to be included in the Remuneration table on page 90 and is therefore not included in the graph above.

2018 Remuneration Policy

1. Introduction

This section of the Directors' Remuneration Report has been prepared in accordance with the Remuneration Reporting Regulations. During the year, the Committee completed a review of executive remuneration which sought to ensure continued alignment with the Company's strategy and that, going forward, it remains simple and closely aligned to the requirements of all stakeholders. Following the review, the Committee proposes that the 2015 Policy be resubmitted with a number of small revisions to the policy which was approved by the shareholders at the 2015 AGM.

This section sets out the 2018 Policy. It contains details of the Company's policy to govern future payments that will be made to Directors, subject to shareholder approval at the AGM on 29 November 2018 ("2018 AGM"). If approved, the 2018 Policy will take effect immediately following the 2018 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 2015 Policy for the year ended 31 July 2018, and will implement the 2018 Policy for the year ending 31 July 2019 are provided in the Annual report on remuneration section starting on page 86.

The Annual report on remuneration provides, in the section entitled "Report for the year ended 31 July 2018", details of the remuneration paid to Directors in accordance with the 2015 Policy approved at the 2015 AGM. The 2015 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 Company and appropriately based on skill, 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 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.

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

– Executive Directors are eligible to participate in the relevant pension arrangements offered by the Group or to receive a cash salary supplement in lieu of pension entitlement.
– Pension contribution or cash salary supplement is paid monthly.
– The entitlement is fixed as a percentage of base salary.
– 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. The maximum opportunity for any new Executive Director who is first appointed as a Director on or after the date of the 2018 AGM is 25% 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.

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 77 will apply.
- The annual bonus is not pensionable.
- The annual bonus is normally reviewed annually and the opportunity available may be adjusted each year up to a maximum opportunity of 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 Company'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: for bonuses paid for the 2015/16 financial year, and subsequently, 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 ("DBP")

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).
– Dividend equivalent payments may be made in relation to the DBP shares in cash or shares equal in value 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 for the 2015/16 financial year, 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.

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 Company 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 which is 350 per cent of base salary (in shares valued on or around the date of grant), although 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, 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.
- The shareholding guidelines require Executive Directors 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 on or after 1 December 2015 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.
- Dividend equivalent payments may be made in accordance with the LTIP rules on the shares which are the subject of the award (to the extent they vest) in cash or shares 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 page 87 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 the Company's all-employee share plan applicable to the jurisdiction in which they are based on the same terms as other eligible employees.
– A North America-based Executive Director may make monthly savings over a period of one year linked to the grant of an option over Ferguson plc shares with an option price at a discount of up to 15 per cent of the market value of the shares at grant. Grants are currently made under the ESPP. A UK or Europe-based Executive Director may make monthly savings over a period of three or five years or other period set by any relevant tax authority linked to the grant of an option over Ferguson plc shares with an option price at a discount of up to 20 per cent of the market value of the shares at grant. Grants are currently made under the ISP.
– The maximum opportunity under the rules of both plans is £500 (or local currency equivalent) per month (being the current maximum permitted by the UK tax authority for UK all-employee share plans) or such other maximum monthly payment mandated by the UK tax authority in respect of UK all-employee share plans. At the time of this Policy, the Board has currently set the savings limit at £250 per month for both ISP and ESPP plans. The savings limit used each year will be reviewed by the Board and set annually at an amount up to, but not exceeding, the maximum opportunity.

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 employees.

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.

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 required to hold shares equivalent in value to a prescribed percentage of their base salary.
– 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 increases.
– Share ownership may be achieved by retaining shares received as a result of participating in a Company share plan (after taking into account any shares sold to finance option exercises and/or to pay tax, social security and similar liabilities).
– Executive Directors are also required to retain vested shares (after taking into account any shares sold to pay tax, social security and 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) and while employed by the Group. For awards granted as options, it will be sufficient to hold the vested but unexercised options for this period.
– Details of the actual guidelines that apply to each 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.

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, Chairman of the Audit Committee and Chairman of the Remuneration Committee.
– Fees for Non Executive Directors, other than the Chairman, are determined by the Chairman and the Executive Directors at a Board meeting. 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, if applicable, are normally effective from 1 August each year.
– 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.

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 the Company's tax residence in Switzerland;
  - 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 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.

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 2015 Policy, some minor changes have been proposed to base salary, fees, benefits and pension. The aim and basis of the rationale for those changes is to provide greater transparency on how the Company sets pay and on the benefits offered. If the 2018 Policy is approved at the 2018 AGM, the components of remuneration that will change are as follows:

Base Salary

– The market context for Executive Director pay decisions will be defined by reference to the relevant market for talent, taking into account the residence and location of the role holder;

Fees

– Subject to the approval of a separate ordinary resolution at the 2018 AGM, an increase in the maximum aggregate fees under the Company's Articles of Association for all Non Executive Directors from £1.0 million to £1.5 million per annum to ensure that any future annual increases, in the ordinary course, can be made and to allow for the appointment of additional Non Executive Directors;

Benefits

– Clarity that, in relation to tax equalisation arrangements, an Executive Director should not be better off from an individual tax perspective;

– Introduction of an intercontinental allowance for all Non Executive Directors (including the Chairman) 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; and

Pensions

– Maintain current levels of pension contributions for current Executive Directors, but set a maximum pension contribution of 25 per cent of base salary for Executive Directors appointed on or after the date of the 2018 AGM.

1. Legacy arrangements

In approving this 2018 Policy, authority is given to the Company for the duration of the 2018 Policy to honour commitments paid, promised to be paid or awarded to: (i) current or former Directors prior to the date of this 2018 Policy being approved (provided that such payments or promises 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 2018 Policy.

For the avoidance of doubt, this includes: (1) 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 (2) 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 a Deferred Bonus Plan Award granted to him in November 2017. The 2015 Policy approved by shareholders at the 2015 AGM will continue to apply until this proposed 2018 Policy is approved at the 2018 AGM. If this proposed 2018 Policy is not approved at the 2018 AGM, the 2015 Policy will continue to apply in accordance with its terms.

2. 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 would have arrangements to reflect both Group and regional performance), whilst those 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.

3. 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 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 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 500 per cent 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.

4. 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 2018 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 outplacement counselling costs and disbursements (such as legal costs) if considered to be appropriate and dependent on the circumstances of departure.

It is the Company's policy for the period of notice from the Company to the Executive Directors not to exceed 12 months and for Non Executive Directors to the Company not to exceed six months.

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. – Six months' notice from the Executive.	Six months' notice by either party.
Termination payment	– The Company may terminate an Executive Director's service contract by making a payment in lieu of notice equal to 12 months' 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 for a period of six months after the termination date.	Not applicable.

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 treatment of leavers under the LTIP or any other awards under LTI plans, together with awards under all-employee plans and, if applicable the DBP, 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 SAYE appendix of the relevant 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, the award shall vest in full at the date of death or cessation of employment.

5. 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 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.

6. 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 remuneration arrangements, a consultation was undertaken with shareholder views given due consideration when finalising the 2018 Policy. The Committee also considers shareholder feedback received in relation to the AGM each year.

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

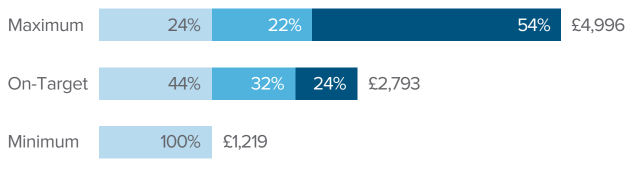
Our policy for all Directors and employees across the Group is to provide remuneration at mid-market levels. On promotion or appointment, senior executives may be initially remunerated below market levels and then increased to mid-market levels over time, once performance has been established. The emphasis on the various elements of pay within the 2018 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 does not currently consult with employees when determining the policy. 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.

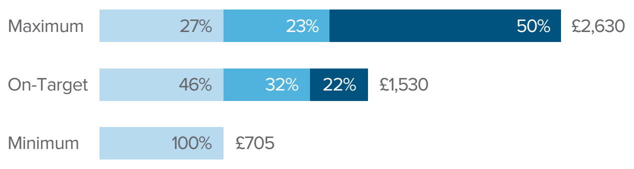
7. Illustrations of the Remuneration Policy (2018/19)

The charts give an indication of the level of remuneration that would be received by each Executive Director in accordance with the 2018 Policy in respect of minimum (fixed pay), on-target and maximum performance. These pay scenario charts are based on the assumptions set out on this page and are presented for illustrative purposes only. In this Report, the assumptions do not incorporate any share price appreciation nor do the illustrations include any all-employee share plan awards for which an Executive Director may be eligible.

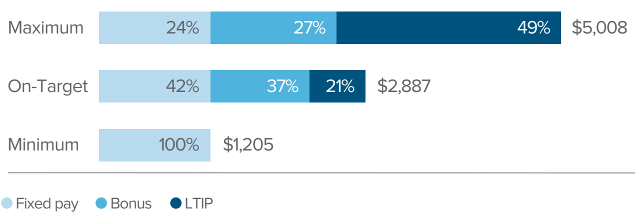
Group CEO (£000)



Group CFO (£000)



CEO, USA ($000)



Scenario assumptions

In arriving at the pay scenarios, the following assumptions have been made in relation to the fixed elements of remuneration:

- Base salary for 2018/19.
- Benefits received for 2017/18 (as set out in the Remuneration table on page 90).
- Pension using the 2018 Policy (as set out in the Remuneration Policy table on page 75) and applied to 2018/19 base salary.

For the non-fixed elements of remuneration:

- In relation to the annual bonus, the scenarios are based on bonus opportunity to be made in accordance with implementation of the Policy for 2018/19.
- In relation to long-term incentive awards, the scenarios are based on the awards to be made in accordance with implementation of the Policy for 2018/19.

In each case the assumptions for on-target and maximum performance are applied in the table below.

Annual bonus	LTIP
On-target	
Paid at (as a percentage of base salary): – 100 per cent for John Martin – 90 per cent for Mike Powell – 110 per cent for Kevin Murphy	Threshold vesting, at 25 per cent of an award expressed as a percentage of the base salary[1] used for calculating the award: – 75.0 per cent for John Martin – 60.0 per cent for Mike Powell – 62.5 per cent for Kevin Murphy
Maximum	
Paid at (as a percentage of base salary): – 120 per cent for John Martin – 110 per cent for Mike Powell – 140 per cent for Kevin Murphy	Full vesting at 100 per cent of the award expressed as a percentage of the base salary[1] used for calculating the award: – 300 per cent for John Martin – 240 per cent for Mike Powell – 250 per cent for Kevin Murphy

1. Awards will be granted by reference to a percentage of the Executive Directors' 2018/19 base salary and this table calculates the value of the awards on that basis. These values are used in the scenarios.

Annual report on remuneration

Information

For the purposes of this Annual report on remuneration:

(1) any estimated share values are determined using a share price of 5,941 pence, being the average closing mid-market quotation for Ferguson plc shares for the three-month period ended 31 July 2018.

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

Implementation of Policy for the year ending 31 July 2019

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 the Group Chief Executive, Group Chief Financial Officer and Chief Executive Officer, USA from 1 August 2018. Revised base salary levels, and those which applied during the year ended 31 July 2018, are set out below.

	Annualised base salary		
	2018/19 (000)	2017/18 (000)	% change
J Martin (Group CEO)	**£899.2**	£877.2	2.5%[1]
M Powell (Group CFO)	**£550.0**	£510.0	7.8%[2]
K Murphy (CEO, USA)	**$975.0**	$900.0	8.3%[2]

1. For context, the Group-wide average salary increase was 2.7 per cent.
2. As noted in the Remuneration Committee Chair's statement, the Committee awarded salary increases to Mike Powell and Kevin Murphy that are above the average salary increase for the relevant general workforce in order to move their salaries closer to the market median. This approach is consistent with both the 2015 Policy and the 2018 Policy.

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. This includes a 401k plan and Ferguson Executive Retirement Plan arrangements. These plans have normal retirement ages of 59 ½ and 55 respectively. Bonus payments are not included in the calculation of the Company pension contributions. Benefits provided to Executive Directors are detailed in the Remuneration table on page 90.

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 table below:

	Threshold	Target	Maximum
			As % salary
J Martin (Group CEO)	80%	100%	120%
M Powell (Group CFO)	70%	90%	110%
K Murphy (CEO, USA)[1]	80%	110%	140%

1. As noted in the Committee Chair's letter on page 71 the maximum award level for Kevin Murphy has been increased to a level consistent with his predecessor as Chief Executive Officer, USA.

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. For the 2018/19 financial year, the bonus has been simplified by removing gross profit from the bonus scorecard of measures. Specific individual objectives were set at the beginning of the 2018/19 financial year.

For the 2018/19 financial year, the threshold for bonus payments in relation to ongoing trading profit will be set at or above the outturn trading profit for the 2017/18 financial year on a constant currency basis.

The Board considers that the performance targets for 2018/19 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 the 2018/19 financial year at the levels set out in the table below (and unchanged from 2017/18):

	LTIP (award value as % of salary)
J Martin (Group CEO)	300%
M Powell (Group CFO)	240%
K Murphy (CEO, USA)	250%

The extent to which the LTIP awards (proposed to be granted during 2018/19) 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.

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 9% and 30%	25%-100%
9%	25%
Below 9%	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 25 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.

The EPS targets are considered appropriate as they require substantial improvement in the Group's financial performance and EPS is a key metric used by investors to assess the Group's performance.

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]
$4.983 billion	100%
Between $4.423 billion and $4.983 billion	25%–100%
$4.423 billion	25%
Below $4.423 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 $4.443 billion, as set out on page 72.
3. Awards will vest on a straight-line basis between 25 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.

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 current fees is as follows:

	2018/19 (£000)[1,2]	2017/18 (£000
Chairman's fee	**393.0**	383.0
Non Executive Director base fee	**68.5**	66.7
Additional fees:		
Senior Independent Director	**14.0**	13.1
Chairman of Audit Committee	**20.0**	19.3
Chair of Remuneration Committee	**20.0**	16.3

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 Chair of the Remuneration Committee whose fee was increased at above this rate in order to reflect the significant increase in workload and responsibilities associated with the role in recent years.
2. As noted in the 2018 Policy, the Non Executive Directors (including the Chairman) will 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.

Report for the year ended 31 July 2018

Remuneration Committee

The Committee met regularly during the year. There were five meetings in total and details of attendance are shown in the table on page 70.

The activities of the Committee are governed by its terms of reference which were reviewed in July 2018 and can be found on the Ferguson plc website at **www.fergusonplc.com**.

During the year, the members of the Remuneration Committee were Jacky Simmonds (Chair), Tessa Bamford, Alan Murray, Darren Shapland and Nadia Shouraboura. John Daly and Pilar López were also members of the Committee until they stepped down from the Board on 31 May 2018 and 31 July 2018 respectively.

The annual review of the effectiveness of the Committee was conducted during the year and considered at the July 2018 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.

Allocation of time spent during the year All

During 2017/18, the Committee considered the items detailed below at its meetings, as well as other issues as required.

Governance
- 2018 Remuneration Policy Review
- Approval of Directors' Remuneration Report 2017/18
- Annual governance and compliance review
- Review of UK gender pay gap performance

Salary and fees review
- Review of executive pay levels
- Remuneration proposals for existing Executive Directors and new and existing Executive Committee members
- Approval of remuneration packages for senior executives, below Board level
- Review of the Chairman's fees

Incentives
- Assessment of performance against 2017/18 targets and objectives for 2018/19 targets
- Review of bonus structure for financial year 2018/19
- Discretionary share plans and all-employee share plans
- Agree discretionary share plan awards for 2018/19
- Confirmation of vesting of discretionary share plan awards granted in 2014
- Agree process for 2017/18 grants under all-employee share plans

Annual reviews
- Remuneration adviser performance
- Share headroom in accordance with Investment Association guidelines
- Committee effectiveness
- Directors' shareholding guidelines
- Committee's terms of reference

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 2017. 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 paid to Mercer Kepler for the advice provided to the Committee during the year was £142,283. Fees paid to Mercer Kepler for other remuneration-related services to the Company during the year were £61,600.

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 £20,834. Freshfields was appointed by the Company and 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 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.

Statement of shareholder voting

The following table shows the results of the full details of the voting outcomes for the Remuneration Report resolution at the AGM on 28 November 2017 and the Remuneration Policy at the AGM on 1 December 2015:

	Date of vote	Votes for	For %	Votes against	Against %	Total	Votes withheld (abstentions)
Remuneration Report	28 November 2017	190,565,944	98.61	2,685,822	1.39	193,251,766	2,605,522
Remuneration Policy	1 December 2015	195,566,771	97.79	4,428,909	2.21	199,995,680	961,949

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]	Date of service agreement/ letter of appointment	Effective date of appointment	Expiry of current term
Chairman			
G Davis	29 May 2003	1 July 2003	20 January 2020
		20 January 2011 (as Chairman)	
Executive Directors			
J Martin	31 August 2016	1 April 2010	
		1 September 2016 (as Group CEO)	
M Powell	28 February 2017	1 June 2017	
K Murphy	17 July 2017	1 August 2017	
Non Executive Directors[2]			
T Bamford	22 March 2011	22 March 2011	22 March 2020
A Murray	11 December 2012	1 January 2013	1 January 2019
D Shapland	3 April 2014	3 April 2014	1 May 2020
N Shouraboura	7 June 2017	1 July 2017	1 July 2020
J Simmonds	21 May 2014	21 May 2014	21 May 2020

1. Details of all Directors can be found on pages 52 and 53. It remains the Board's policy that Non Executive Directors are appointed for an initial term of three years, which is then reviewed and, if appropriate, extended for a further three-year period. All Directors are proposed for re-election annually in accordance with the Code.
2. During the year, John Daly and Pilar López served as Non Executive Directors until stepping down from the Board on 31 May 2018 and 31 July 2018 respectively.

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 Corporate Head Office in Switzerland and the Group Services Office in the UK, and will be available for inspection at the 2018 AGM.

Remuneration table (showing single total figure of pay for year) (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 2018.

	Year	Salary (000)	Taxable benefits[6] (000)	Bonuses (000)	Value of LTI vesting[7,8,9] (000)	Other[10] (000)	Pension benefits[11] (000)	Total remuneration (000)
Executive Directors								
J Martin[1]	**2017/18**	**£877.2**	**£48.2**	**£1,003.5**	**£1,942.5**	**£3.7**	**£263.2**	**£4,138.3**
	2016/17	£832.6	£50.6	£915.2	£1,699.7	–	£247.6	£3,745.7
M Powell[2]	**2017/18**	**£510.0**	**£17.7**	**£521.2**	**–**	**£2.2**	**£127.5**	**£1,178.7**
	2016/17	£85.0	£3.1	£91.4	–	£1,095.7	£21.3	£1,296.5
K Murphy[3]	**2017/18**	**$900.0**	**$74.0**	**$1,060.2**	**–**	**$0.7**	**$144.0**	**$2,178.9**
	2016/17	–	–	–	–	–	–	–
Total[4]	**2017/18**	**£2,063.5**	**£121.5**	**£2,321.4**	**£1,942.5**	**£6.5**	**£498.9**	**£6,954.3**
	2016/17	£917.6	£53.7	£1,006.6	£1,699.7	£1,095.7	£268.9	£5,042.2
Total for 2016/17 for all Executive Directors who served in that year[5]	2016/17	£1,870.5	£164.9	£2,050.9	£5,718.3	£1,095.7	£494.5	£11,394.8

1. John Martin was promoted to Group Chief Executive with effect from 1 September 2016 having previously served as Group Chief Financial Officer. During 2016/17, Mr Martin received one month's salary at an annualised level of £531,000 and pension contributions of 25 per cent base salary for his services as Group Chief Financial Officer and 11 months' salary at an annualised level of £860,000 with pension contributions of 30 per cent base salary for his services as Group Chief Executive.
2. Mike Powell was appointed as Group Chief Financial Officer on 1 June 2017. During 2016/17, Mr Powell received two months' salary, taxable benefits, pension, annual bonus payment and three RSBO awards (previously detailed on page 80 of the 2017 Annual Report and Accounts). The face value of those RSBO awards is now shown in the 2016/17 figures. His annual bonus payments for both 2016/17 and 2017/18 are shown as gross amounts due to him. For 2016/17, amounts in excess of target were deferred into a nil cost option award of 284 shares in accordance with the terms of the DBP as he had not met his shareholding guideline target. Deferral is expected to apply again in 2017/18 if he has not met his shareholding guideline target prior to payment of his bonus.
3. Kevin Murphy was appointed as an Executive Director on 1 August 2017 and the remuneration (including any vested share plan awards) he received relating to his service in 2016/17 prior to his promotion is not required to be included.
4. For the purposes of the total remuneration figures shown for 2017/18, payments made to Kevin Murphy shown in USD have been converted back into pounds sterling using the three-month average exchange rate for the period ended 31 July 2018 shown on page 86.
5. This total is provided for information only. It includes remuneration paid to Ian Meakins and Frank Roach. The overall figure of £9,357,300 reported in last year's Annual Report and Accounts is reconciled with the inclusion of Mike Powell's RSBO awards (£1,095,700) and the actual LTI vesting adjustment for John Martin, Ian Meakins and Frank Roach (£941,800 in total for all three Directors).
6. These are pre-tax figures. Benefits comprise private health insurance, car benefit (car allowance, car, driver), tax and financial advice and tax gross up arrangements.
7. The LTIP grant made to John Martin in January 2016 will vest overall at 81.57 per cent in January 2019. Details of a grant made to Kevin Murphy in 2015 (before he was appointed as an Executive Director) are not required to be included. Further details of that grant are provided on page 93.
8. 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.
9. Value shown for 2017/18 represents estimated value of LTIP awards granted in 2016 that are expected to vest in January 2019. The estimate assumes 81.57 per cent overall vesting of LTIP awards using the three-month average share price for the period ended 31 July 2018 of 5,941 pence. Value shown for 2016/17 represents the actual vesting of the ESOP and LTIP awards which vested in November 2017, using the share price of 5,368 pence on the date of vesting (7 November 2017).
10. Each of the Executive Directors were granted shares in all-employee share plans in the year. John Martin, Mike Powell and Kevin Murphy entered into a five year sharesave contract, three year sharesave contract and a one year ESPP savings contract, respectively. The value shown for 2017/18 represents the gain, calculated 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.
11. Kevin Murphy participates in the defined contribution pension arrangements of Ferguson Enterprises, Inc. receiving contributions of 16 per cent of base salary from Ferguson Enterprises Inc. The cost of employer's contributions during the year was $144,000. During the year ended 31 July 2018, John Martin and Mike Powell received salary supplements in lieu of Group pension scheme membership.

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 2018.

Chairman and Non Executive Directors	**Fees (£000) 2017/18**	Fees (£000) 2016/17
G Davis	**383.0**	375.4
Non Executive Directors (current as at the date of this report)		
T Bamford	**66.7**	65.3
A Murray	**79.8**	78.1
D Shapland	**86.0**	84.2
N Shouraboura	**66.7**	5.4
J Simmonds	**83.0**	81.2
Non Executive Directors who stepped down during the year		
J Daly	**55.6[1]**	65.3
P López	**66.7**	65.3
Total remuneration	**887.5**	820.2

1. The annual fee amount received by John Daly for the year ended 31 July 2018 covers the period up to 31 May 2018, being the date on which he stepped down from the Board.

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 2018 are shown in the Remuneration table on page 90 and the bonuses are calculated as follows:

Director	Measure	Target Performance: Threshold	Target Performance: Target	Target Performance: Maximum	Target Performance: Actual Performance[1]	Actual performance (as % of salary) (Threshold / Target / Maximum)	Maximum opportunity (% of salary)
J Martin	Group ongoing trading profit	$1,331.0m	$1,387.0m	$1,442.0m	$1,504.0m	36.00%	36.0%
	Group ongoing gross profit	$5,689.0m	$5,835.0m	$5,981.0m	$6,031.0m	36.00%	36.0%
	Group ongoing average cash-to-cash days	54.0	53.5	53.0	53.7	18.40%	24.0%
	Personal objectives[2,5]	1/20	–	20/20	20/20	24.00%	24.0%
						Total Achieved: 114.40%	120.0%
M Powell	Group ongoing trading profit	$1,331.0m	$1,387.0m	$1,442.0m	$1,504.0m	33.00%	33.0%
	Group ongoing gross profit	$5,689.0m	$5,835.0m	$5,981.0m	$6,031.0m	33.00%	33.0%
	Group ongoing average cash-to-cash days	54.0	53.5	53.0	53.7	16.40%	22.0%
	Personal objectives[3,5]	1/20	–	20/20	18/20	19.80%	22.0%
						Total Achieved: 102.20%	110.0%
K Murphy	Group ongoing trading profit	$1,331.0m	$1,387.0m	$1,442.0m	$1,504.0m	7.20%	7.2%
	USA ongoing trading profit	$1,206.1m	$1,303.9m	$1,401.7m	$1,406.0m	28.80%	28.8%
	Group ongoing gross profit	$5,689.0m	$5,835.0m	$5,981.0m	$6,031.0m	7.20%	7.2%
	USA ongoing gross profit	$4,667.5m	$4,836.8m	$5,006.1m	$5,046.3m	28.80%	28.8%
	Group ongoing average cash-to-cash days	54.0	53.5	53.0	53.7	3.68%	4.8%
	USA ongoing average cash-to-cash days	55.9	55.4	54.9	54.6	19.20%	19.2%
	Personal objectives[4,5]	1/20	–	20/20	19.1/20	22.92%	24.0%
						Total Achieved: 117.80%	120.0%

1. Actual performance figures are adjusted, definitions and reconciliations are provided on page 72.
2. John Martin's personal objectives were based on supporting the new Chief Executive Officer, USA, reshaping the UK business leadership team to execute the turnaround strategy, reviewing the Executive Committee composition and the subsequent recruitment and appointment of individuals to the Executive Committee and reviewing the US business disruption team to complement the acceleration of innovation in the Group.
3. Mike Powell's personal objectives included recruiting and appointing a new Group Head of Internal Audit, ensuring strong financial leadership for the UK business, executing the Group Services Office relocation and enhancing financial reporting to the Board.
4. Kevin Murphy's personal objectives were based on improving the Ferguson associate engagement score, launching and embedding a new US business disruption team and recruiting and appointing individuals to the US leadership team.
5. 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 Report.

Following a review, the Committee considers that Executive Directors' personal objectives for 2016/17 are no longer commercially sensitive and has approved the following disclosure:

Executive Director	Objective	Assessment	Payout of element
John Martin	– Like-for-like revenue growth of at least 2% above market	– Like-for-like revenue growth was 2.7% above market	50%
	– Meet material year-one milestones for the UK strategy review	– Good progress made with most milestones met	20%
	– Execute review of Nordics operating strategy and implementation plan	– Review completed; Silvan business sold; good progress on disposing of Stark Group and implementing other priorities	25%
			Total: 95%
Frank Roach	– Deliver against trading profit targets set for the US CMRO business[1]	– Trading profit performance exceeded maximum performance level set	50%
	– Deliver against Net Promoter Score targets set for the US CMRO business[1]	– Net Promoter Score performance was below Threshold	0%
			Total: 50%
Mike Powell (from 1 June 2017)	Mike Powell joined Ferguson shortly before the end of the financial year. Specific objectives were not set for this period, which was spent primarily on completing his induction, reporting of the Group's results for 2016/17 and financial year 2017/18 budget reviews.	Performance was assessed from 1 June 2017 to the year end. The Committee agreed that Mr Powell had made a strong initial contribution. He successfully embedded in the Group's leadership team, oversaw the reporting of the Group's results for 2016/17 and gained approval of the 2017/18 budget.	**Total: 100%**

1. These targets remain commercially sensitive and will not be reported; performance of this business is not reported externally.

Long-term incentives All

Long-term incentives awarded to Executive Directors under the LTIP in January 2016 will vest in January 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) and for the impact of a special pension funding contribution to the UK defined benefit pension plan as well as exceptional cash flow (OpCF only).

LTIP

Vested awards

The performance conditions which applied to the awards made in January 2016 ended on 31 July 2018 and actual performance achieved is detailed below.

		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")	Adjusted OpCF
Below threshold	0%	Below median	Below 9%	Below $3.577 billion
Threshold	25%	At median	9%	$3.577 billion
Between threshold and maximum	25% – 100%	Between median and upper quartile	Between 9% and 30%	Between $3.577 billion and $4.213 billion
Maximum or above	100%	Upper quartile	30% and above	$4.213 billion
Actual performance achieved		28th	17.7%	$4.443 billion
% of award subject to each performance condition vesting		88.6%	56.1%	100.0%
				Total percentage vesting: 81.57%

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)[4,5]
J Martin[1]	37,847	81.57%	30,870	1,943
Past Directors				
I Meakins[2]	25,537	81.57%	20,829	1,311
F Roach[3]	38,200	81.57%	31,158	1,961

1. In accordance with shareholding guideline requirements, John Martin will 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 66 of the Company's 2016 Annual Report and Accounts, Ian Meakins' awards reflect the completed financial years served prior to his retirement on 31 August 2016, in line with the Committee's exercise of discretion. His original award was 76,611 nil cost options.
3. As detailed on page 78 of the Company's 2017 Annual Report and Accounts, Frank Roach's awards reflect 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 57,301 conditional shares.
4. Value determined using the share price noted on page 86 under the heading "Information".
5. Dividend equivalents have accrued on the 2015 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 351.52 pence per share.

Unvested awards

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 2016/17 and 2017/18 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.

2016/17 Award

		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 ("RPI")[2]	Adjusted OpCF[3]
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
Indicative vesting % based on performance as at 31 July 2018		100.0%	100.0%	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). 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.

2017/18 Award

Performance level	% of award that would vest[1]	Performance required: TSR relative to FTSE 100 at date of grant	Total margin of adjusted EPS growth over US 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 2018		88.3%	100.0%	87.1%

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).

Performance Based Buy Out Award

Unvested award

The Performance Based Buy Out Award of 18,859 Conditional Shares granted to Mike Powell in June 2017 will normally 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 on page 92.

Restricted Share Buy Out Award

Vested award

The Restricted Share Buy Out Award of 14,026 Conditional Shares granted to Mike Powell in June 2017 vested in full on 28 March 2018. This award was not subject to performance conditions. The value of this award is included below the Share awards exercised during the year table and the face value of this award is now included in the "Other" column for 2016/17 in the Remuneration table on page 90.

Unvested awards

Restricted Share Buy Out Awards of 5,695 and 2,439 Conditional Shares granted to Mike Powell in June 2017 will normally vest in March 2019 and April 2020 respectively. These awards are not subject to performance conditions and will vest in full subject to continued employment. The face value of these awards is now included in the "Other" column for 2016/17 in the Remuneration table on page 90.

Deferred Bonus Plan Award

Unvested award

The Deferred Bonus Plan Award of 284 nil cost options granted to Mike Powell on 30 October 2017 will normally vest in August 2020. This award is not subject to performance conditions and will vest in full subject to continued employment. The face value of this award is captured in the Annual Bonus figure for 2016/17 in the Remuneration Table.

Ordinary Share Plan Award

Unvested awards

The Ordinary Share Plan Awards of 8,234 and 5,574 Conditional Shares granted to Kevin Murphy in November 2015 and November 2016 respectively will normally vest in November 2018 and November 2019 respectively. The awards (granted before Kevin Murphy was promoted to the Board) are not subject to performance conditions and will vest in full subject to continued employment.

Performance Ordinary Share Plan Award

Unvested award

The Performance Ordinary Share Plan Award of 13,936 Conditional Shares granted to Kevin Murphy in November 2016 will normally vest in November 2019. The performance condition that applies to the award (which was granted before Kevin Murphy was promoted to the Board) is based on trading profit growth of the Group's US business over a three-year period ending 31 July 2019.

Share awards exercised during the year

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

Director	All employee	LTIP	ESOP	OSP	RSBO	Total[1,2]
J Martin	957	17,561	35,113	–	–	53,631
M Powell	–	–	–	–	14,026	14,026
K Murphy	65	–	–	9,048	–	9,113

1. The aggregate gain made on the exercise of options during the year by John Martin and Kevin Murphy was £1,687,038 and £1,011 respectively.
2. The aggregate value of assets received or receivable by Mike Powell and Kevin Murphy during the year was £754,318 and £485,663 respectively.

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 2018 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 2018[1]	Shareholding guideline (as a multiple of salary/fees)[2,3]	Vested (unexercised) share awards[4,5]	Unvested share awards						
				With performance conditions			Without performance conditions			
				LTIP[6]	PBBO[6]	POSP[6]	RSBO[6]	DBP[6]	OSP[6]	All employee[6]
Executive Directors										
J Martin	**107,227**	2.5	–	146,702	–	–	–	–	–	344
M Powell	**7,020**	2	–	23,254	18,859	–	8,134	284	–	206
K Murphy	**24,233**	2	–	32,915	–	13,936	–	–	13,808	64
Chairman and Non Executive Directors										
G Davis	**14,538**	1	–	–	–	–	–	–	–	–
T Bamford	**1,940**	1	–	–	–	–	–	–	–	–
A Murray	**2,368**	1	–	–	–	–	–	–	–	–
D Shapland	**1,989**	1	–	–	–	–	–	–	–	–
N Shouraboura	**–**	1	–	–	–	–	–	–	–	–
J Simmonds	**1,894**	1	–	–	–	–	–	–	–	–
Directors who stepped down during the year										
J Daly	**1,942**	1	–	–	–	–	–	–	–	–
P López	**2,465**	1	–	–	–	–	–	–	–	–

1. Following the special dividend and share consolidation effected on 11 June 2018, Directors’ shareholdings reduced as they received 18 New Ordinary Shares of $11\frac{227}{563}$ pence for every Old Ordinary Share of $10\frac{53}{66}$ pence owned.
2. 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 Deferred Bonus Plan 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.
3. As at 31 July 2018, all Directors had met their shareholding guideline targets set for 2017/18, with the exception of Mike Powell and Nadia Shouraboura. 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. 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.
4. There were no vested but unexercised awards held by Executive Directors under any of the share plans.
5. Details of share awards exercised in the year are detailed in the Share awards exercised during the year table at the bottom of page 93.
6. LTIP, POSP and PBBO awards are subject to performance conditions but RSBO, DBP, OSP and All employee awards are not. LTIP awards are 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. The DBP award was 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 92 and 93.

Scheme interests awarded during the financial year (Audited) All

Awards under the LTIP were made on 30 October 2017. 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 93.

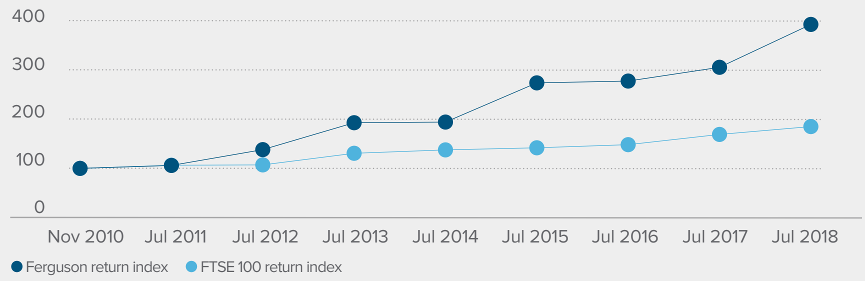
The scheme interests awarded during 2017/18 are summarised below:

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	49,997	2,631.6	1 August 2018 – 31 July 2021	25% of award vesting	EPS TSR Cumulative OpCF
M Powell	LTIP	Nil cost options	23,254	1,224.0			
K Murphy	LTIP	Conditional shares	32,915	1,732.5			
M Powell	DBP	Nil cost options	284	14.9	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 2016/17 that exceeded target.
2. The share price used to calculate the face value of the LTIP share awards granted on 30 October 2017 was 5,263.5 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 30 October 2017 was 5,263.5 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 0.00042 per cent calculated as at 31 July 2018.
4. Mike Powell’s DBP award will normally vest on 30 October 2020 subject to Mr Powell’s continued employment with the Company.

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 new holding company, which was created at the time of the redomiciliation to Switzerland in November 2010, to 31 July 2018. 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 nine-year period from 1 August 2009 to 31 July 2018.

	Group CEO[1]		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
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[3]	–
	J Martin		–	–	–	–	–	–	–	3,746[3]	4,138
Annual bonus award rates against maximum opportunity	I Meakins		96%	98%	85%	84%	97%	85%	55%	–	–
	J Martin		–	–	–	–	–	–	–	97%	95%
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%
		ESOP	–	–	–	–	–	–	–	100%	–

1. During the nine-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 nine years is calculated on the same basis as that used in the Remuneration table on page 90.
3. The single figure of total remuneration for John Martin and Ian Meakins for the year ended 31 July 2017 has been adjusted respectively from the value of £3.458 million and £2.023 million estimated in that year's report to reflect the actual value of LTI at the date of vesting in November 2017.

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

No payments for loss of office were made during the financial year. Payments to John Daly and Pilar López, who stepped down from the Board during the year, are set out in the Non Executive Directors' remuneration table on page 90. Payments made to past Executive Directors Ian Meakins and Frank Roach in relation to LTIP awards granted on 19 January 2016 are disclosed on page 92. No payments have been made to past Directors other than a payment of $94,588 to Frank Roach in lieu of accrued holiday, and those payments detailed above.

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 2018 compared to the year ended 31 July 2017.

	Year ended 31 July 2018 $m[1]	Year ended 31 July 2017 $m[1]	Percentage change
Total employee remuneration costs[2]	**2,913**	2,710	+7.5%
Ordinary dividends paid[2]	**390**	328	+18.9%
Special dividends paid[2]	**974**	–	N/A
Share buyback[2]	**675**	–	N/A

1. This table is now reported in USD following the change in presentational currency in 2017.
2. Further details on employee remuneration, dividends paid and the share buyback programme can be found in note 11, note 9 and note 26 of the consolidated financial statements on pages 116, 115 and 133 respectively.

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 2018 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[3,4]	+2.0%	-33.6%	+15.3%
Average for all UK-based employees	+4.2%	+21.4%	-3.0%

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 Board and Committee meetings in Switzerland or other worldwide locations outside of the UK). 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.
3. During the year ended 31 July 2017, which forms the basis for the comparison for the percentage changes to Group Chief Executive remuneration, John Martin replaced Ian Meakins as Group Chief Executive on 1 September 2016. Group Chief Executive pay during that year has been calculated using the sum of Mr Meakins and Mr Martin's salary, benefits and bonus for their respective one and 11 months of service as Group Chief Executive during 2016/17. Mr Meakins did not receive an annual bonus for the year ended 31 July 2017.
4. The calculation of the change in benefits for the Group Chief Executive, is based on figures from 2016/17, described above in note 3, that include a tax gross up payment made to Ian Meakins in August 2016 that relates to the previous tax year and a tax gross up payment made to John Martin in September 2016 that relates to the previous tax year. **The change in benefits without this duplication would have been –4.8 per cent.**

Further information

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 Nominations Committee. The Nominations Committee 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, Mike Powell was a Non Executive Director and Audit Committee Chairman of Low & Bonar plc and received an annualised fee of £48,250 per annum for his services. The Company allowed Mr Powell to retain the fees paid to him during the year.

Detail of Employee Benefit Trusts

The Ferguson plc 2011 Employee Benefit Trust ("Jersey Trust") and Ferguson plc US Trust ("US Trust") (together, "the Trusts") were established 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 2018, the Jersey Trust held 298,567 ordinary shares of $11\,^{227}/_{563}$ pence and £7,011 in cash; and the US Trust held 1,128,038 ordinary shares of $11\,^{227}/_{563}$ pence. The number of shares held by the Trusts represented 0.56 per cent of the Company's issued share capital at 31 July 2018.

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 purchased 87,275 ordinary shares and paid £4.6 million and the US Trust purchased 478,053 ordinary shares and paid £25.6 million . The Company provided funds to the Trusts to enable them to make the purchases. All purchases took place prior to the share consolidation, which took place on 11 June 2018. The number of shares purchased represented 0.21 per cent of the Company's issued share capital prior to the share consolidation.

Detail of all-employee share plans

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

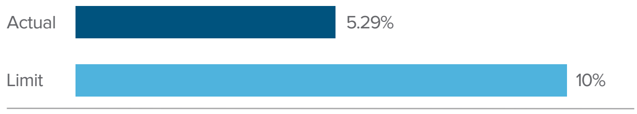
Dilution

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 2018 the Company's headroom was 1.72 per cent and 4.71 per cent respectively.

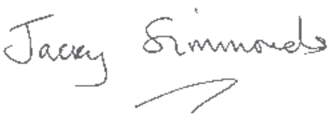
Executive share plans
%

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
1 October 2018

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 UK Corporate Governance Code updated in April 2016. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules.