

FERGUSON PLC

(the "Company")

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

1. Membership and attendance

- 1.1 The Audit Committee ("Committee") shall be appointed by the Board, on the recommendation of the Nominations Committee and in consultation with the Committee Chairman. The Committee shall comprise a Chairman and at least two other members, none of whom should be executives. The Committee Chairman shall be appointed by the Board. The Chairman of the Company shall not be a member of the Committee.
- 1.2 At least one member of the Committee should have recent relevant financial knowledge and should ideally have a professional qualification from one of the professional accountancy bodies, and the Committee as a whole should have competence relevant to the sector in which the Company operates. The Committee Chairman shall be an independent Non Executive Director.
- 1.3 In the absence of the Committee Chairman the remaining members present shall elect one of their number present to chair the meeting.
- 1.4 The Committee may ask the Chairman of the Company, Chief Executive, Chief Financial Officer and any relevant senior management to attend meetings either regularly or by invitation, but the invitees have no right of attendance.
- 1.5 The Committee shall ask a representative of the external auditors and the Head of Internal Audit to attend meetings on a regular basis.

2. Secretary

The Company Secretary shall act as the Secretary of the Committee ("Secretary").

3. Quorum

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in, or exercisable by, the Committee.

4. Frequency of Meetings

- 4.1 The Committee shall meet not less than four times a year and at such other times as the Chairman of the Committee shall require.
- 4.2 Meetings will be arranged to coincide with key dates in the Company's financial reporting cycle.

- 4.3 Meetings can be requested by the external or internal auditors through the Secretary if they consider one is necessary.
- 4.4 Meetings of the Committee shall be summoned by the Secretary at the request of any Committee member.

5. Minutes of Meetings

- 5.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names and roles of those present and in attendance.
- 5.2 In advance of or at the beginning of each meeting, each member of the Committee and those in attendance should indicate the existence of any conflicts of interest, which shall be minuted accordingly.
- 5.3 Minutes of Committee meetings shall be circulated to all members of the Committee and to all members of the Board.

6. Annual General Meeting

The Chairman of the Committee shall attend the Annual General Meeting in order to respond to any shareholder questions on the Committee's activities.

7. Duties

Internal Control and Risk Assessment

- 7.1 The Committee shall monitor the adequacy and effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks.
- 7.2 The Committee shall monitor, review and approve the statements to be included in the annual report concerning internal controls and risk management and its review of their effectiveness. The Committee shall consider the level of assurance it is getting on the risk management and the internal control systems, satisfy itself that the sources of assurance are sufficient and objective and consider whether it is enough to help the Board in satisfying itself that they are operating effectively.

Internal Audit

- 7.3 The Committee shall review the scope and agree the internal audit programme (and the key findings arising from reports completed pursuant to the programme, and management's responsiveness to the key findings) and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and unrestricted scope.
- 7.4 The Committee shall approve the appointment or dismissal of the Head of Internal Audit.
- 7.5 The Committee shall consider and approve the terms of reference of the internal audit function, approve the annual internal audit plan and shall be advised of the planned programme of audits and the reason for any change or delay in the programme.

- 7.6 The Head of Internal Audit shall have direct access to the Chairman of the Committee although the Committee recognises that day to day reporting will be to the Chief Executive and Chief Financial Officer. Each year the Committee shall meet with the Head of Internal Audit, without management present, to discuss his or her remit and any issues arising from internal audits carried out.
- 7.7 Each year the Committee shall review, monitor and assess the effectiveness of the internal audit function. The Committee shall consider periodically whether an independent, third party review of effectiveness is required.

External Audit

- 7.8 The Committee shall
- (a) consider and have prime responsibility to make recommendations to the Board regarding the appointment and re-appointment of the Company's external auditors, and shall ensure that key partners within the appointed firm are rotated in accordance with professional guidance and other regulations; and
 - (b) ensure that the external audit services contract is put out to tender periodically in compliance with, and at least as frequently as required by, the law and any guidance or standards to which the Company adheres to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms;
 - (c) in respect of any such tender of the external audit services contract, be responsible for and oversee the selection process, ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process and review and monitor the transition process if a new external auditor is appointed; and
 - (d) if an external auditor resigns, investigate the issues leading to the resignation and decide whether any action is required.
- 7.9 The Committee shall oversee the relationship with the external auditor including (but not limited to):
- (a) approval of their remuneration, whether fees for audit or non-audit services, and the level of those fees, is appropriate to enable an effective and high quality audit to be conducted, and the negotiation of audit fees;
 - (b) approval of their terms of engagement, including any engagement letter and agreeing the scope of audit;
 - (c) review of any representation letter(s) requested by the external auditor before they are signed by management;
 - (d) reviewing and monitoring annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services, and having discussed with the auditor the threats to their independence and the safeguards applied to mitigate those threats. It shall report its assessment to the Board;

- (e) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- (f) agreeing a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of that policy;
- (g) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- (h) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures and shall report its assessment to the Board; and
- (i) seeking to ensure coordination with the activities of the internal audit function.

7.10 The Committee shall meet with the external auditors at least twice each year:

- (a) once at the planning stage, where the scope of the audit and any factors that could effect audit quality will be considered together with the auditors' quality control procedures and steps taken by the auditors to respond to changes in regulatory and other requirements; and
- (b) once post audit, at the reporting stage.

7.11 The Committee shall review the findings of the audit with the external auditor. This shall include, but not be limited to:

- (a) a discussion of any major issues which arose during the audit;
- (b) any accounting and audit judgements;
- (c) levels of error identified during the audit; and
- (d) how the auditor addressed the risks to audit quality and the controls the auditor relied on to address the identified risks to audit quality.

7.12 The Committee shall also review the management letter and management's response to the auditor's findings and recommendations.

7.13 The Committee shall develop and implement a policy on the supply of non-audit services by the external auditor.

7.14 Each year the Committee shall review the effectiveness of the external auditors and the external audit process. It shall report its findings to the Board.

7.15 The Committee shall meet the external auditors at least once a year, without management present, to discuss their remit and any issues arising from the audit.

Financial Statements

- 7.16 The Committee shall monitor the integrity of the financial statements of the Company, including its half-yearly reports, annual final results announcements and other formal announcements relating to its financial performance. The Committee shall review and report to the Board significant financial reporting issues and judgments made in connection with the financial statements of the Company (having regard to matters communicated to it by the external auditors). Where such matters are not reviewed by the full Board or, by the Major Announcements Committee or the Disclosure Committee (as appropriate), the Committee shall also review interim management statements, summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- 7.17 The Committee shall monitor the statutory audit of the annual and consolidated accounts. The Committee shall evaluate the risks to the quality and effectiveness of the financial reporting process, and consider the need to include the risk of the withdrawal of their auditor from the market in that evaluation.
- 7.18 The Committee shall review and, where necessary, challenge (before submission to the Board):
- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
 - (b) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
 - (c) significant issues that it considered in relation to the financial statements and how these issues were addressed;
 - (d) the extent to which the financial statements are affected by any unusual transactions and the methods used to account for them;
 - (e) the clarity and completeness of disclosure in the financial reports and the context in which statements are made;
 - (f) significant adjustments resulting from the audit;
 - (g) the going concern assumption;
 - (h) all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and risk management;
 - (i) compliance with stock exchange and other legal requirements; and
 - (j) the Company's statement on internal control systems prior to endorsement by the Board, the policies and process for identifying and assessing business risks and the management of those risks by the Company, and the operating review and the corporate governance statement (insofar as it relates to the audit and risk management). Primary responsibility will, however, remain with the full Board.

Reporting Responsibilities

7.19 The Committee shall report to the Board on how it has discharged its responsibilities including:

- (a) the significant issues that it considered in relation to the financial statements and how these issues were addressed;
- (b) assessment of the effectiveness of the external audit process and a recommendation on the appointment or reappointment of the external auditor; and
- (c) any other issues on which the Board has requested the Committee's opinion;

and shall make whatever recommendations to the Board it deems appropriate. As a minimum, the Committee or its Chairman shall attend the Board meeting at which the annual and half-year accounts are approved.

7.20 The Committee shall compile a report to shareholders to be included in the Company's Annual Report and Accounts. The Audit Committee's section of the annual report shall include a description of the work of the Committee in discharging its responsibilities. The report shall include, as a minimum:

- (a) an assessment of the effectiveness of the external auditor and the approach taken to the appointment or reappointment of the external auditor, including the length of tenure of the current audit firm and when a tender was last conducted;
- (b) in relation to the provision of non-audit services by the auditor, an explanation of how auditor objectivity and independence is safeguarded; and
- (c) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditors, the nature and extent of any interaction with the FRC's Corporate Reporting Review team and any relevant findings (and actions to be taken) where the audit has been reviewed by the FRC's Audit Quality review team.

The Committee shall report to the Board on the above matters and provide it with the basis for its advice. It shall also provide its recommendation on the appointment or reappointment of the external auditor, including the steps taken in deciding whether or not to recommend that the audit be put out to tender.

7.21 The Committee shall advise the Board on whether, taken as a whole, the annual report is fair, balanced and understandable and provides the information necessary for users of the annual report to assess the Company's performance, business model and strategy. Any review undertaken by the Committee will assess whether the narrative in the annual report is consistent with the accounting information. The Committee shall also review and recommend to the Board the disclosures in the annual report relating to the viability statement.

Other Matters

- 7.22 The Committee shall be responsible for ensuring the effective co-ordination of and communication between the internal auditor, the Group's risk, compliance and finance functions and the external auditor and for considering management's response to any major external or internal audit recommendations.
- 7.23 The Committee will review the Company's arrangements for its employees to raise concerns in confidence about possible wrongdoing in financial reporting or other matters. The Committee will also review: the procedures for the detection and prevention of fraud; the system and controls for the prevention of bribery; and the procedures for, and reports relating to, the investigation of alleged wrongdoing and any recommended follow-up action.
- 7.24 Each year the Committee should review its own performance, constitution and terms of reference and make recommendations to the Board.
- 7.25 The Committee shall be provided with appropriate training, both in the form of an induction programme for new members and on a continuing basis for all members.
- 7.26 The Committee should agree the procedures for reviewing claims for expenses from the Chairman and other Board members.
- 7.27 The Committee shall, where practicable, review all proposed announcements to be made by the Company to the extent that they contain material financial information.

8. Authority

The Committee is authorised:

- 8.1 to seek any information it requires from any employee of the Company and Group in order to perform its duties and all employees are directed to co-operate with any request made by the Committee (including attendance at a Committee meeting), and the Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required; and
- 8.2 to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference and such advisers may attend meetings as necessary.

Approved by the Board
22 March 2019