



NEWS RELEASE

Annual Financial Report

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Ferguson PLC

12 October 2018

FERGUSON PLC

(the "Company")

Publication Announcement: Annual Report and Accounts 2018

Further to the release of the Company's full year results announcement on 2 October 2018, the Company announces that it has today published its Annual Report and Accounts 2018 ("**Annual Report 2018**") on the Company's website www.fergusonplc.com. Hard copies of the Annual Report 2018 will be posted to shareholders on or around 26 October 2018 in advance of the Company's Annual General Meeting.

In accordance with LR 9.6.1 and DTR 6.3.5(3) a copy of the Annual Report 2018 has been submitted to the National Storage Mechanism and will shortly be available for inspection at www.morningstar.co.uk/uk/nsm and can also be downloaded in pdf format from the Company's website at <http://www.fergusonplc.com/en/investors-and-media/annual-report-2018.html>

Annual Report 2018

A condensed set of Ferguson plc financial statements and information on important events that have occurred during the year and their impact on the financial statements were included in the Company's final results announcement on 2 October 2018. That information together with the information set out below which is extracted from the Annual Report 2018 constitute the requirements of DTR 6.3.5 which is to be communicated via an RIS in unedited full text. This announcement is not a substitute for reading the full Annual Report 2018. Page and note references in the text below refer to page numbers in the Annual Report 2018. To view the final results announcement, visit the Company website: www.fergusonplc.com.

Extract from Annual Report 2018

Principal risks and uncertainties

Principal risks:

- A. New competitors and technology
- B. Market conditions
- C. Pressure on margins
- D. Information technology
- E. Health and safety
- F. Regulations
- G. Talent management and retention
- H. Macro political tax risk

The materialisation of these risks could have an adverse effect on the Group's results or financial condition. If more than one of these risks occur, the combined overall effect of such events may be compounded. There are two risks that are no longer included in the list of principal risks. Following the disposal of the Stark building materials business, our Strategic change risk has decreased. Litigation risk has also declined due to smaller footprint in the EU and tort reform efforts in the US. Litigation and Strategic change risks continue to be monitored. The chart

shows management's assessment of material risks before mitigating controls and actions. Various strategies are employed to reduce these inherent risks to an acceptable level. These are summarised in the tables on the following pages. The effectiveness of these mitigation strategies can change over time, for example with the acquisition or disposal of businesses. Some of these risks remain beyond the direct control of management. The risk management programme, including risk assessments, can therefore only provide reasonable but not absolute assurance that risks are managed to an acceptable level. The Group faces many other risks which, although important and subject to regular review, have been assessed as less significant and are not listed here. These include, for example, natural catastrophe and business interruption risks and certain financial risks. A summary of financial risks and their management is provided on page 33.

Risks to the drivers of profitable growth

The symbols shown at the bottom of this page are displayed alongside each risk on the following pages to indicate which of the strategic drivers of growth are most threatened by that risk.

A. New competitors and technology

Risk is unchanged

Inherent risk level: High
Trend: No change

Definition and impact

Wholesale and distribution businesses in other industry sectors have been disrupted by the arrival of new competitors with lower-cost transactional business models or new technologies to aggregate demand away from incumbents.

Changes during the year

A dedicated team and increased resources were allocated to the exploration and incubation of new business models and new technologies. The creation of Ferguson Ventures allows us to partner with start ups and our innovation lab explores emerging technologies.

Mitigation

The Group develops and invests in new business models, including e-commerce, to respond to changing customer and consumer needs. This will allow the Group to accelerate the time to market for new revenue streams and gain insight on new disruptive technologies and trends.

The Board is attuned to both the risks and opportunities presented by these changes and is actively engaged as the Group takes action to respond.

One example, Ferguson Ventures' partnership with GTP Services, is set out on page 19.

The Group remains vigilant to the threats and opportunities in this space. The development of new business models in our market place is closely evaluated - both for investment potential and threats.

B. Market conditions

Risk is unchanged

Inherent risk level: High
Trend: No change

Definition and impact

This risk relates to the Group's exposure to short-term macroeconomic conditions and market cycles in our sector (i.e. periodic market downturns).

Changes this year

The Group has maintained a strong balance sheet throughout the year and other measures have been taken to manage the cost base in line with forecast growth.

Mitigation

The Group cannot control market conditions but believes it has effective measures in place to respond to changes. Ferguson continues to reinforce existing measures in place, including:

Some of the factors driving market growth are beyond the Group's

The Group has again tested its financial forecasts, including cash

- the development of our business

control and are difficult to forecast.	flow projections, against the impact of a severe market downturn. See page 45.	model; - cost control, pricing and gross margin management initiatives, including a focus on customer service and productivity improvement;
Further information on the market trends can be found in our regional reviews on pages 34 to 39.	The UK's withdrawal from the European Union continues to create a level of uncertainty affecting the UK economy, although this is not expected to have a material impact on the Group. See page 45.	- resource allocation processes; and - capital expenditure controls and procedures.

C. Pressure on margins

Risk is unchanged

Inherent risk level: High

Definition and impact

Changes during the year

Mitigation

Trend: No change

The Group's ability to maintain attractive profit margins can be affected by a range of factors. These include levels of demand and competition in our markets, the arrival of new competitors with new business models, the flexibility of the Group's cost base, changes in the cost of commodities or goods purchased, customer or supplier consolidation or manufacturers shipping directly to customers.

Pressure on margins remained high during the period under review, primarily due to levels of competition.

The Group's strategy for tackling this issue remains unchanged. This includes continuous improvements in customer service, product availability and inventory management. Revenues from e-commerce and other growth sectors continue to expand and the Group has made acquisitions in these areas during 2017/18. Refer to page 134 for more information on acquisitions during the year.

There is a risk that the Group may not identify or respond effectively to changes in these factors. If it fails to do so, the amount of profit generated by the Group could be significantly reduced.

In response, the Group has continued to manage its cost base in line with changes in expected growth rates.

Business unit performance, including margins achieved, were monitored on a monthly basis throughout the year.

The performance of each business unit is closely monitored and corrective action taken when appropriate.

Ongoing gross margin was 30 basis points ahead with growth driven by improved product mix and procurement in USA, Canada and Central Europe.

Resource allocation processes invest capital in those businesses capable of generating the best returns.

D. Information technology

Risk has been added to the list of top Group risks this year

Inherent risk level: High

Definition and impact

Changes during the year

Mitigation

Trend: New

With the appointment of a new Chief Information Officer, the Group now has a clearly defined global technology strategy and roadmap (see page 27).

IT risks have remained material and are being closely monitored as we implement the global technology strategy and roadmap (see page 27).

Business leadership is implementing a comprehensive change management programme designed to transition current business practices and norms to adopt new business capabilities.

Technology systems and data are fundamental to the future growth and success of the Group. Information Technology (IT) risks are categorised as strategic and operational.

A new Chief Information Officer and Chief Information Security Officer have been appointed during the year.

A Business Technology Centre of Excellence is in place to drive organisational discipline around the prioritisation of business projects to ensure alignment with Ferguson's strategic framework.

Strategic risks are threats that could prevent execution of the IT strategic plan such as inadequate leadership,

The IT function has been reorganised to align resources and focus on the strategic plan.

An assessment of information security capabilities is underway with the intent of driving a rolling three-year global roadmap of investments in processes, resources and technical

poor allocation/ management of resources and/or poor execution of

	the organisational change of management necessary to adopt and apply new business processes.	Internal Audit and IT are partnering to transition IT General Control testing to Internal Audit.	defences necessary to continuously address emerging security threats. Group level compliance processes continue to remain in place.
	Operational risks include business disruption resulting from system failures, fraud or criminal activity. This includes security threats and/or failures in the ability of the organisation to operate, recover and restore operations after such disruptions. While cyber security threats have resulted in minimal impact to date, this risk continues to persist and evolve.	Briefings on the status of the Group's IT strategy were provided to the Board, the Audit Committee and the Executive Committee throughout the year. Regular Board update checkpoints have been established to provide monitoring and oversight of execution of the IT strategic plan.	Disaster recovery systems, secondary data centres, resources and processes have been implemented to ensure business critical systems are recoverable in the event of a major disaster. Testing of critical infrastructure and application systems are in place and have been consistently executed across the Group. Insurance coverage is in place, including data protection and cyber liability.
E. Health and safety		Risk is unchanged	
Inherent risk level: Medium	Definition and impact	Changes this year	Mitigation
Trend: No change	The nature of Ferguson's operations can expose its associates, contractors, customers, suppliers and other individuals to health and safety risks. Health and safety incidents can lead to loss of life or severe injuries.	A new Vice President of Health and Safety joined this year. The Group has developed a functional strategic plan with clear objectives to address performance challenges. The hiring and deploying of Health and Safety professionals in the field will provide businesses with technical resources to more effectively mitigate risk. The overall performance across the Group is showing a slight improvement. Page 29 provides further information.	Leadership of health and safety is key. Health and safety performance is reported to and discussed at all Executive Committee and Board meetings. The Group maintains a health and safety policy and detailed minimum standard, which sets out requirements which all Ferguson businesses are expected to meet. Branches are audited against this standard. Businesses are implementing key changes to transform our culture which are summarised on pages 25 and 26.
F. Regulations		Risk is unchanged	
Inherent risk level: High	Definition and impact	Changes this year	Mitigation
Trend: No change	The Group's operations are affected by various statutes, regulations and standards in the countries and markets in which it operates. The amount of such regulation and the penalties can vary. While the Group is not engaged in a highly regulated industry, it is subject to the laws governing businesses generally, including laws relating to competition, product safety, data protection, labour and employment practices, accounting and tax standards, international trade, fraud, bribery and corruption, land usage, the environment, health and safety,	The most significant change in the level of regulation applying to the Group this year is the EU's adoption of the General Data Protection Regulation (GDPR). The Group has adopted procedures and controls required by the legislation to ensure compliance. Anti-bribery and anti-corruption practices in all businesses were reviewed during the year and the findings reported to the Executive Committee and to the Audit Committee.	The Group monitors the law across its markets to ensure the effects of changes are minimised and the Group complies with all applicable laws. The Group aligns company-wide policies and procedures with its key compliance requirements and monitors their implementation. Briefings and training on mandatory topics and compliance requirements

transportation and other matters.

including anti-trust, anti-bribery and corruption are undertaken.

Further information on the Group's ethics and compliance programme can be found on page 26.

Violations of certain laws and regulations may result in significant fines and penalties and damage to the Group's reputation.

G. Talent management and retention

Risk is unchanged

Inherent risk level: Medium
Trend: No change

Definition and impact

Changes during the year

Mitigation

As the Group develops new business models and new ways of working, it needs to develop suitable skill-sets within the organisation.

There has been no material change in the level of associate turnover during the year; however a number of senior management changes have occurred throughout the

All of the Group's businesses have established performance management and succession planning procedures. Reward packages for associates are designed to attract and retain the best talent.

Furthermore, as the Group continues to execute a number of strategic change programmes, it is important that existing skill-sets and talent are retained.

Group. These have included the appointment of key Group Services roles and a new Managing Director and Chief Financial Officer of Wolseley UK.

New Group Chief Financial Officer and new CEO, USA transitions complete.

Failure to do so could delay the execution of strategic change programmes, result in a loss of "corporate memory" and reduce the Group's supply of future leaders.

Talent management procedures were reviewed during the year.

A new talent review process will be launched across the Group.

Page 24 provides further information.

The Group continues to invest in associate development.

H. Macro political tax risk

Risk has been added to the list of top Group risks this year

Inherent risk level: High
Trend: New

Definition and impact

Changes during the year

Mitigation

The wider macro political and economic situation is uncertain in many of the territories in which Ferguson operates and changes could affect the Group's future tax rate. A combination of growing international trade pressures, withdrawal of quantitative easing by central banks and rising debt levels, is creating political uncertainty which could lead to changes to the prevailing tax regime. As a result, we anticipate that the effective tax rate may increase over the medium term.

Group Tax has allocated further resources to ensure the macro political uncertainties are being appropriately monitored and mitigation plans updated when the need arises.

The Group is engaged with the relevant tax authorities to proactively assess any proposed changes in tax policy.

Once policy changes are fully assessed the Group will ensure any changes are reflected in Ferguson's tax strategy.

Related Party Transactions

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

The aggregate emoluments for all key management are set out in the following table:

Key management personnel compensation (including Directors)	2018 \$m	Restated 2017 \$m
Salaries, bonuses and other short-term employee benefits	14	14
Post-employment benefits	1	-
Termination benefits	4	-
Share-based payments	9	5
Total compensation	28	19

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 70 to 96.

Directors' Responsibilities Statement

This statement is repeated here solely for the purpose of complying with DTR 6.3.5. This statement relates to and is extracted from the Annual Report 2018. It is not connected to the extracted information presented in this announcement or the preliminary results announcement released on 2 October 2018.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

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

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

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

Gareth Davis, Chairman

John Martin, Group Chief Executive

Michael Powell, Group Chief Financial Officer

Kevin Murphy, Chief Executive Officer, USA

Alan Murray, Senior Independent Director

Tessa Bamford, Non Executive Director

Darren Shapland, Non Executive Director

Nadia Shouraboura, Non Executive Director

Jacqueline Simmonds, Non Executive Director

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

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

For further information please contact

Ferguson plc

Notes to editors

About Ferguson plc

Ferguson plc is the world's largest specialist trade distributor of plumbing and heating products to professional contractors principally operating in North America and the UK. Ongoing revenue for the year ended 31 July 2018 was \$20.8 billion and ongoing trading profit was \$1.5 billion. Ferguson plc is listed on the London Stock Exchange (LSE: FERG) and is in the FTSE 100 index of listed companies. For more information, please visit

www.fergusonplc.com or follow us on Twitter

https://twitter.com/Ferguson_plc.

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