



NEWS RELEASE

# Annual Financial Report

10/25/2017

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Ferguson PLC

25 October 2017

FERGUSON PLC

(the "Company")

Publication Announcement: Annual Report and Accounts 2017 and Notice of Annual General Meeting 2017

Further to the release of the Company's full year results announcement on 3 October 2017, the Company announces that it has today published its Annual Report and Accounts 2017 ("**Annual Report 2017**"). The Company also announces that it has today posted to shareholders the Notice of Annual General Meeting to be held on Tuesday, 28 November 2017 (the "**Notice**").

The Annual General Meeting will take place at 2pm, Swiss time, on Tuesday, 28 November 2017 at Parkhotel, Industriestrasse 14, CH-6300 Zug, Switzerland with an audio-visual link proposed to be available at the offices of Freshfields Bruckhaus Deringer LLP, 26-28 Tudor Street, London, EC4Y 0BQ, United Kingdom at 1pm, UK time, on Tuesday, 28 November 2017.

In accordance with LR 9.6.1 copies of the documents listed below have been submitted to the National Storage Mechanism and will shortly be available for inspection at [www.Hemscott.com/nsm.do](http://www.Hemscott.com/nsm.do)

- Annual Report and Accounts 2017; and
- Notice of Annual General Meeting to be held on Tuesday, 28 November 2017.

In compliance with DTR 6.3.5(3) those documents can also be downloaded in pdf format from the Company's website at <http://www.fergusonplc.com/en/investors-and-media/annual-report-2017.html>

The expected timetable for the Dividend and Annual General Meeting are set out below:

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	2017
Ordinary Shares marked ex-entitlement to the Dividend	26 October
Record date for entitlement to the Dividend	5.00pm (UK time) on 27 October
Latest time and date for election to participate in the DRIP for the Dividend	5.00pm (UK time) on 10 November
Latest time and date for receipt of Forms of Proxy from shareholders	2.00pm on 26 November
Annual General Meeting	2.00pm on 28 November
Payment of the Dividend to shareholders	1 December
Purchase of Ordinary Shares for participants in the DRIP in respect of the Dividend	1 December
Ordinary Shares purchased pursuant to the DRIP in respect of the Dividend credited to CREST accounts	6 December

References to times in the above timetable are to Swiss time unless otherwise stated. If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by an announcement to a Regulatory Information Service ("RIS"). All definitions used in the Notice have the same meaning when used in this announcement.

#### Annual Report 2017

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 3 October 2017. That information together with the information set out below which is extracted from the Annual Report 2017 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 2017. Page and note references in the text below refer to page numbers in the Annual Report 2017. To view the final results announcement, visit the Company website: [www.fergusonplc.com](http://www.fergusonplc.com).

Extract from Annual Report 2017

Principal risks and uncertainties

Principal risks:

A. New competitors and technology

B. Market conditions

C. Pressure on margins

D. Information security

E. Litigation

F. Health and safety

G. Strategic change

H. Regulations

I. Talent management and retention

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. 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 pages 41, 107 and 108.

## Risks to the drivers of profitable growth

The symbols shown at the bottom of page 45 are displayed alongside each risk on the following pages to indicate which of the strategic drivers of growth are most threatened by that risk. These strategic drivers are described on page 17.

Inherent risk level and trend	Definition and impact	Changes during the year	Mitigation
A. New competitors and technology			
Inherent risk level: High Trend: Increased	Wholesale and distribution businesses in other industry sectors have been disrupted by the arrival of new competitors with lower-cost business models or new technologies to aggregate demand away from incumbents.	Increased resources were allocated to the exploration and incubation of new business models and new technologies. The Group made a number of acquisitions of online businesses during the year.	The Group develops and invests in new business models, including e-commerce, to respond to changing customer and consumer needs. One example, online channels in our HVAC business, is set out on page 11.
	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.	A new Non Executive Director, Nadia Shouraboura, joined the Board, bringing experience of large international e-commerce businesses.	The Company 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			
Inherent risk level: High Trend: No change	This risk relates to the Group's exposure to short-term macroeconomic conditions and market cycles in our sector (i.e. periodic market downturns).	The downturn seen in industrial markets in 2015/16 has stabilised.	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 control and are difficult to forecast.	The UK's vote to leave 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.	- the development of our business model;  - cost control, pricing and gross margin management initiatives, including a focus on customer service and productivity improvement;
	Further information on the trends in each of our regions can be found on pages 28-33.	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.	- resource allocation processes; and  - capital expenditure controls and procedures.
		The Group has again tested its financial	

forecasts, including cash flow projections, against the impact of a severe market downturn.

C. Pressure on margins

<p>Inherent risk level: High</p> <p>Trend: No change</p>	<p>Ferguson'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.</p> <p>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.</p>	<p>Pressure on margins remained high during the period under review, primarily due to levels of competition. Commodity price deflation eased during the year.</p> <p>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 monthly throughout the year.</p> <p>Gross margins were 40 basis points ahead of last year. This was achieved by driving the benefits of scale in sourcing, growing own label sales and through good pricing discipline.</p>	<p>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 2016/17.</p> <p>The performance of each business unit is closely monitored and corrective action taken when appropriate.</p> <p>Resource allocation processes invest capital in those businesses capable of generating the best returns.</p>
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D. Information security

<p>Inherent risk level: High/medium</p> <p>Trend: No change</p>	<p>Technology systems and data are fundamental to the future growth and success of the Group. These digital assets are threatened by sophisticated security threats, including hacking, viruses, "phishing" or inadvertent errors.</p> <p>The Group is reliant on a number of different legacy technology systems, some of which have been in place for many years or have been subject to in-house development.</p> <p>Data breaches in our industry sector and others indicate that such events are highly likely and difficult to prevent.</p> <p>Sensitive employee, customer or other data may be stolen and distributed or used illegally, leading to increased operating costs, litigation and fines or penalties.</p> <p>These technology systems, on which our branches, distribution centres and e-commerce businesses rely, may be disrupted for several hours or days. As a result, Ferguson could forego revenue or profit margins if we are unable to trade.</p>	<p>This risk has remained material, as a greater proportion of the Group's revenue is derived from e-commerce. The level and sophistication of IT security threats is constantly developing.</p> <p>Like all large corporations, the Group continues to experience sustained and frequent attempts to gain unauthorised access to its technology systems, primarily from automated, non-directed malware.</p> <p>During the year, the Group engaged a specialist security consultancy to benchmark its information security capabilities. The findings, along with improvement actions, have been shared with the Audit Committee.</p> <p>Further penetration tests have been conducted, using both digital and physical means, e.g. phone calls. Improvements have been made where necessary.</p> <p>Technical IT projects continue to deliver enhancements to the Group's digital security systems and infrastructure.</p>	<p>The Group operates an IT governance framework including a set of dedicated IT policies, procedures and standards aligned to known security and operational risks. These include behavioural procedures for associates and technical controls for IT systems. These are reviewed annually and are subject to continuous improvement.</p> <p>The Group periodically reviews the nature of the sensitive data it holds, its location and the controls in place to protect it.</p> <p>The Group reviewed its approach to obtaining assurance over the correct operation of IT systems and controls, some of which relate to cyber risks.</p> <p>Certain of these controls are tested by business units and the Group IT and internal audit functions. External specialists are also employed as appropriate to test the security of our technology systems, e.g. penetration tests.</p> <p>Core IT systems and data centres for the Group's material businesses, including the Group's principal e-commerce businesses, have documented disaster</p>
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recovery plans which are tested annually. Crisis management and communications plans are regularly updated.

The Group reviewed the adequacy of its "cyber" insurance arrangements. Using a database of 50,000 historical data breaches, the Group conducted a statistical analysis to estimate its exposure to certain types of cyber risks.

Insurance coverage is in place, including coverage for "cyber" risks.

Briefings on the status of the Group's information security programme were provided to the Board, the Audit Committee and the Executive Committee throughout the year.

## E. Litigation

Inherent risk level: Medium  
The international nature of the Group's operations exposes it to the potential for litigation from third parties and such exposure is considered to be greater in the USA than in Europe.

During the year, there has been no material change in the level of litigation to which the Group is exposed.

Levels of litigation are monitored by individual operating companies. A monthly report of potential exposures and current litigation is submitted by all businesses and reviewed by the Group General Counsel.

Trend: No change

Material levels of litigation may arise from many of the Group's activities. Significant levels of litigation in our industry sector have in the past related to products, associates or major contracts.

An improved management information system was introduced to improve the reporting and analysis of actual and potential litigation.

Contracting procedures are continuously reviewed and improved against a "good practice" framework used by all Ferguson businesses.

Acquisitions and disposals and the restructuring of under-performing businesses may also give rise to litigation.

Reviews of policies and procedures relating to product liability were undertaken during the year and the findings were reported to the Board. Particular focus is being placed on quality control and assurance procedures to support the successful growth of own label sales.

The Group periodically re-assesses the level of product-related risk in all business units. Due diligence is conducted on products and suppliers considered to be high risk. Product testing is carried out in certain businesses supplying product to industrial customers.

For more information on litigation affecting the Group and related provisions, see pages 109 and 119.

The level of contractual protection afforded to the Group under product and employee-related contracts has improved during the year.

KPIs are used to measure the level of contractual and other protection.

Contracting procedures continue to be improved in all businesses.

In the case of claims related to exposure to asbestos, Ferguson continues to employ independent professional advisers to actuarially determine its potential gross liability.

The Group's liability insurance programme was restructured to provide enhanced cover.

## F. Health and safety

Inherent risk level: Medium  
The Group does not operate in a high risk industry with regard to health and safety.

The risk has been elevated this year following the deterioration in injury and lost workday rates. The Company is recruiting a senior leader for health and safety in the USA. The Group conducted in-depth driver risk assessments and implemented control improvements.

Leadership of health and safety is key. Health and safety performance is reported to and discussed at all Group Executive Committee meetings and Board meetings.

Trend: Increased

The nature of Ferguson's operations can nevertheless expose its employees, contractors, customers, suppliers and other individuals to health and safety risks.

The Group vehicle collision rate has improved.

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.

Page 23 provides further information.

Health and safety incidents can lead to loss of life or severe injuries.

### G. Strategic change

Inherent risk level: Medium  
Trend: Decreased

To respond to changing customer needs the Group is changing traditional ways of working in its established businesses.

During the year, we announced our intention to dispose of our operations in the Nordics.

Each business unit has a clear strategy for continuously developing its business model and a defined programme of work to execute the strategy.

These changes are underway in all of our key markets, especially the UK, and will continue for several years.

In the UK, the transformation plan is underway and we expect that it will take a further two years to complete. To support faster execution, greater focus has been paid to a smaller number of initiatives capable of delivering the greatest value.

The Group Chief Executive and Chief Financial Officer discuss progress with each business unit during regular performance reviews.

The Group must successfully implement these changes without disrupting existing operations.

The Board reviews progress during regular updates from the Group Chief Executive and as part of its six-monthly review of principal risks.

The Group's ability to successfully execute these changes will affect its ability to grow profitably in the future.

### H. Regulations

Inherent risk level - Medium  
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.

There has been no major change in the level of regulation applying to the Group.

The Group monitors the law across its markets to ensure the effects of changes are minimised and the Group complies with all

applicable laws.

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, timber sourcing, data protection, labour and employment practices, accounting and tax standards, international trade, fraud, bribery and corruption, land usage, the environment, health and safety, transportation, payment terms and other matters.

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. Improvements are being implemented.

The Group's Code of Conduct sets out the behaviours expected of

Ferguson associates. This includes clear statements that the Group does not permit bribery or the giving or receiving of improper gifts, that it does not tolerate fraud and that associates must comply with anti-trust laws.

The Group reviewed its Code of Conduct.

Breach of any legal or regulatory requirement could result in significant fines and penalties and damage to the Group's reputation.

Further information on the Group's ethics and compliance programme can be found on pages 24 and 36.

The Group aligns Company-wide

policies and procedures with its key compliance requirements and monitors their implementation.

Briefings and training on legal and

regulatory topics and compliance

requirements, including anti-trust, anti-fraud and anti-corruption, are undertaken.

Where appropriate, tests are conducted to ensure that the Group

would respond appropriately to a regulatory investigation.

#### I. Talent management and retention

Inherent risk level - Medium  
Trend - New addition  
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 employee turnover during the year; however a number of senior management changes have occurred throughout the Group.

All of the Group's businesses have established performance management and succession planning procedures.

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

These have included the retirement of the Group CEO and the CEO in the USA, the appointment of their successors and the appointment of a new Group Chief Financial Officer.

Reward packages for associates are designed

to attract and retain the best talent. Organisational and talent reviews are conducted quarterly by the Group HR Director with each business.

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.

The Group continues to invest in associate development, an example of which - our Industrial Group University - is highlighted on page 9.

Page 22 provides further information.

#### 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.

Further details of Directors' remuneration and share options are set out in the Remuneration Report on pages 69 to 84, which form part of these financial statements. The aggregate emoluments for all key management are set out in the following table:

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Key management personnel compensation (including Directors)

2017 £m      2016 £m

Salaries, bonuses and other short-term employee benefits	11	8
Termination and post-employment benefits	-	1
Share-based payments	4	4
Total compensation	15	13

## 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 2017. It is not connected to the extracted information presented in this announcement or the preliminary results announcement released on 3 October 2017.

The Directors are responsible for preparing the Annual Report 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 are as follows:

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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

John Daly, Non Executive Director

Pilar Lopez, Non Executive Director

Darren Shapland, Non Executive Director

Nadia Shouraboura, Non Executive Director

Jacky 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 Financial Statements, 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

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Group Company Secretary

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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 2017 was \$18.8 billion and ongoing trading profit was \$1.3 billion. Ferguson plc is listed on the London Stock Exchange (LSE: FERG) and is in the FTSE 100 index of listed companies. On 31 July 2017 the Group changed its name to Ferguson plc. For more information, please visit [www.fergusonplc.com](http://www.fergusonplc.com) or follow us on Twitter [https://twitter.com/Ferguson\\_plc](https://twitter.com/Ferguson_plc).

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