

Registered number: 11581816

FERGUSON FINANCE PLC

Annual report and financial statements

For the year ended 31 July 2022

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Strategic report

Business review and future developments

Ferguson Finance plc (the "Company") is a wholly owned subsidiary of Ferguson plc.

The principal activity of the Company is that of a financing company for the Ferguson plc Group (the "Group"). There have been no significant changes in the Company's principal activity in the year under review. At the date of this report the directors do not foresee there will be any major changes in the Company's activities in the next year, although the Company may continue to be utilised to raise further external finance for the Group in the future.

The balance sheet on page 13 of the financial statements shows the Company's financial position at 31 July 2022.

In April 2022, the Company issued notes in the USA bond market of \$300 million 5 year 4.25% notes, maturing in April 2027 and \$700 million 10 year 4.65% notes, maturing in April 2032. The Company immediately lent this money on to its parent company, Ferguson UK Holdings Limited.

The profit for the financial year amounted to \$2 million (2021 - \$2 million).

Principal risks and uncertainties

The Company does not have any operations that are external to the Group and therefore its financial risks are governed by the Group policies and procedures. The Group is exposed to market risks arising from its international operations. The Group has well defined and consistently applied policies for the management of foreign exchange and interest rate exposures. There has been no change since the year end in the major financial risks faced by the Group. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The treasury committee of Ferguson plc reviews and agrees policies for managing each of these risks for the Group and these policies are regularly reviewed and updated.

Group risk factors are discussed in the Group's Annual Report for the year ended 31 July 2022 which does not form part of this report and can be found on the Ferguson plc website. These risk factors are all relevant to the Company due to the Company's position in the Group, however, the following risk factor is considered to be the principal risk of the Company:

- Changes in our credit ratings and outlook may reduce access to capital and increase borrowing costs.
- We may not be able to access the capital and credit markets on terms that are favourable to us.

How the Group manages its risks is discussed in the Group's ESG report that can be found on the Ferguson plc website.

The impact of the COVID-19 pandemic on the assets and liabilities of the Company has been fully assessed and management concluded that there was no material impact from the pandemic on the financial statements. The Company is reliant on the future successful trading of the wider Ferguson Group which took a number of protective measures in connection with COVID-19 but has since returned to normal operations. Due to the unpredictability of the COVID-19 pandemic, it is possible that protective measures could be reinstated which could impact the results and operations of the Group. The Group's strong performance during the pandemic has provided comfort of the Group's resilience should this occur and for the recoverability of the Company's assets.

Financial key performance indicators

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

Strategic report (continued)

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing so, section 172 requires directors to have regard to, amongst other matters, the:

- Likely consequences of any decisions in the long-term;
- Interests of the company's employees;
- Need to foster the company's business relationships with customers, suppliers and others;
- Impact on the company's operation on the community and environment;
- Desirability of the company maintaining a reputation for high standards of business conduct; and
- Need to act fairly as between members of the company.

In discharging our section 172 duties we have had regard to the factors set out above. In addition, we also have regard to other factors which we consider relevant to the decision being made. Those factors for example include the interest and views of members of the Group and our relationship with lenders. The Group aims to act as a trusted supplier and partner to its customers, providing innovative solutions to make their projects better. By considering the Group's purpose, vision, values and policies, we aim to ensure that our decisions are consistent and appropriate in all circumstances.

We delegate authority for day to day management of the Company to senior management. Board meetings are held periodically where the directors consider the Company's activities and make decisions. As part of those meetings the directors receive information in a range of different formats which includes information relevant to section 172 matters when making relevant decisions, for example, when making decisions about the payment of dividends.

As the principal activity of the Company is to act as a financing company for other entities in the Group, the Company has no commercial business, no employees and no customers or suppliers other than Group companies during the period and as such the breadth of stakeholder considerations that would often apply in operating or commercial trading companies have generally not applied to the decisions made by the directors. The Company's key stakeholders are its shareholder, creditors and other Group undertakings.

The Company is a wholly owned subsidiary of Ferguson plc (the "Parent") and whilst the Company is required to set out how its Board discharges its duties under s172 of the Companies Act 2006, this statement should be viewed in the context of the Company's position as a subsidiary of a listed parent and part of a wider Group. Further details of how Ferguson plc undertook its responsibilities during the financial year and details of Group wide considerations, for example, in relation to the impact of the Group's operations on the community and environment and the desirability of maintaining a reputation for high standards of business conduct, can be found in the Group's ESG report which is on the Ferguson plc website at www.fergusonplc.com.

This report was approved by the board and signed on its behalf.



Paul Brooks

Director

Date: 15 December 2022

1020 Eskdale Road
Winnersh Triangle
Wokingham
Berkshire
RG41 5TS

Directors' report

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report for the year ended 31 July 2022.

Directors

The directors who served during the year and up to the date of signing the financial statements were:

P Brooks
A J F Burton (appointed 1 November 2022)
I T Graham
J A Mattison
N M O McCawley (resigned 31 October 2022)
K M McCormick
G Middlemiss (resigned 31 October 2022)

Dividends

There have been no dividends paid in the year (2021 - \$nil).

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the Directors' 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 have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements 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 these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments 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.

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 Act 2006. 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.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Directors' report (continued)

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Matters covered in the strategic report

Information relating to future developments and financial risk management are provided in the Strategic report on page 2.


Going concern

In light of the principal risks and uncertainties outlined in the Strategic Report on page 2, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future, thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements (note 1.2).

Auditor

Deloitte LLP have been deemed re-appointed under section 487 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



Paul Brooks

Director

Date: 15 December 2022

1020 Eskdale Road
Winnersh Triangle
Wokingham
Berkshire
RG41 5TS

Independent auditor's report to the members of Ferguson Finance plc
Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Ferguson Finance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 July 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Services were provided by Deloitte LLP in relation to the issuance of the bond during the current year which has been disclosed under Note 3: Audit remuneration. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: <ul style="list-style-type: none">• Recoverability of debtors from group undertakings
Materiality	The materiality that we used in the current year was \$3,310,000 which was determined on the basis of 5% of total expenses.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes in approach compared to the prior year.

Independent auditor's report to the members of Ferguson Finance plc (continued)

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the company's existing access to sources of financing, including undrawn committed bank facilities that it shares with its parent and fellow subsidiaries;
- Assessing the reasonableness and likelihood of future interest receivable from group undertakings by considering the historical performance of the Group undertakings, including the impact of COVID-19 on operations during the year as well as post balance sheet performance of the Group undertakings;
- Evaluating the recoverability of debtors from group undertakings as discussed in section 5.1; and
- Assessing the appropriateness of the going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Recoverability of debtors from group undertakings

Key audit matter description	Debtors from group undertakings are stated in the balance sheet at \$2,375m (2021: \$1,362m). Judgement is required by the directors in determining the recoverability of these debtors from group undertakings based on the financial position and future prospects of the group undertakings. This takes into consideration a range of factors such as the underlying trading performance of the group undertakings and expected dividend growth. Further details are included within the strategic report on page 2 and notes 8 and 9 to the financial statements.
How the scope of our audit responded to the key audit matter	We challenged the directors' judgements regarding the appropriateness of the carrying value through obtaining a copy of the latest audited financial information of the debtor from group undertakings. We assessed the ability of the group undertakings to repay these amounts through obtaining an understanding of the future trading performance of the group undertakings by benchmarking against industry peers, considering post balance sheet performance of the group undertakings and obtaining analysts' reports of expected future performance of the group undertakings.
Key observations	Based on the work performed we concluded that debtors from group undertakings were appropriately stated. We identified a control finding in this area which is outlined in Section 7.2 below.

Independent auditor's report to the members of Ferguson Finance plc (continued)

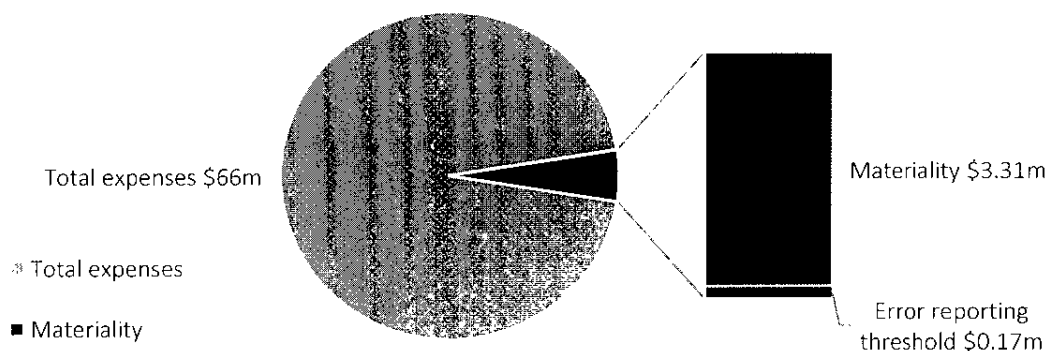
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	\$3,310,000 (2021: \$2,650,000)
Basis for determining materiality	5% (2021: 5%) of total expenses
Rationale for the benchmark applied	We determined materiality based on total expenses, being the interest payable to external bond holders. This is a key metric for lenders and the shareholder, as other group companies are recharged this cost and it represents a significant portion of total interest payable by the wider Group.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered factors such as our risk assessment, including our assessment of the company's overall control environment and our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the directors that we would report to them all audit differences in excess of \$165,500 (2021: \$132,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report to the members of Ferguson Finance plc (continued)

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

With the involvement of our IT specialists, we obtained an understanding of the general ledger system. We did not plan to rely on those controls due to findings identified in the prior year audit which required remediation by management.

We obtained an understanding of relevant manual business process controls, but did not plan to place reliance on them, mainly due to the findings noted above. We identified control gaps relating to the assessment of recoverability of intercompany receivables and the precision of review of interest expenses and concluded that these findings constituted a significant deficiency in aggregate in internal control.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of Ferguson Finance plc (continued)

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the directors about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including IT specialists and tax specialist regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the directors concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent auditor's report to the members of Ferguson Finance plc (continued)

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

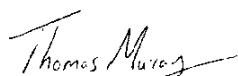
We were appointed by the directors on 17 June 2019 to audit the financial statements for the year ending 31 July 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 July 2019 to 31 July 2022.

14.2. Consistency of the audit report with the additional report to the directors

Our audit opinion is consistent with the additional report to the directors we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Thomas Murray ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
15 December 2022

Profit and loss account
for the year ended 31 July 2022

	Note	2022 \$m	2021 \$m
Interest receivable and similar income	5	68	55
Interest payable and similar expenses	6	(66)	(53)
Profit before tax		2	2
Tax on profit	7	-	-
Profit for the financial year attributable to the equity shareholders of the Company		2	2

All amounts relate to continuing activities.

There were no recognised gains and losses for 2021 or 2022 other than those included in the profit and loss account, therefore no Statement of comprehensive income is presented.

Ferguson Finance plc
Annual report and financial statements
for the year ended 31 July 2022

Registered number: 11581816

Balance sheet
at 31 July 2022

	Note	\$m	2022 \$m	\$m	2021 \$m
Current assets					
Debtors: amounts falling due after more than one year	8	2,350		1,350	
Debtors: amounts falling due within one year	9	25		12	
Cash at bank and in hand		6		4	
		2,381		1,366	
Creditors: amounts falling due within one year	10	(25)		(12)	
Net current assets			2,356		1,354
Creditors: amounts falling due after more than one year	11	(2,350)		(1,350)	
Net assets			6		4
Capital and reserves					
Called up share capital	12		-		-
Profit and loss account	13		6		4
			6		4

The financial statements were approved and authorised for issue by the board and were signed on its behalf.



J A Mattison
Director

Date: 15 December 2022

The notes on pages 15 to 19 form part of these financial statements.

Ferguson Finance plc
Annual report and financial statements
for the year ended 31 July 2022

Statement of changes in equity
at 31 July 2022

	Share capital \$m	Profit and loss account \$m	Total equity \$m
At 31 July 2020	-	2	2
Profit for the financial year	-	2	2
At 31 July 2021	<hr/> -	<hr/> 4	<hr/> 4
Profit for the financial year	<hr/> -	<hr/> 2	<hr/> 2
At 31 July 2022	<hr/> - <hr/>	<hr/> 6 <hr/>	<hr/> 6 <hr/>

Notes to the financial statements
for the year ended 31 July 2022

1. Accounting policies

1.1 General information and basis of accounting

Ferguson Finance plc (the 'Company') is a public Company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The principal activity of the Company is shown on page 2 and the address of the Company's registered office is shown on page 5.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Ferguson Finance plc is considered to be US dollars because that is the currency of the primary economic environment in which the Company operates.

Ferguson Finance plc meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The Company is consolidated in the financial statements of its ultimate parent, Ferguson plc, which may be obtained from the Company's registered office, 1020 Eskdale Road, Winnersh Triangle, Wokingham, RG41 5TS, United Kingdom. Exemptions have been taken in these separate Company financial statements in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

1.2 Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic report on page 2.

The Company has net assets with which it can fund its operations. In addition, it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment, which has included making enquiries of the directors of Ferguson plc about the going concern position of the Group, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for at least 12 months from the date of signing these accounts. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.3 Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

1.4 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and are measured at amortised cost.

Notes to the financial statements
for the year ended 31 July 2022

1. Accounting policies (continued)

1.5 Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

1.6 Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Other exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks.

Notes to the financial statements
for the year ended 31 July 2022

1. Accounting policies (continued)

1.7 Tax

Tax for the year comprises current and deferred tax. Tax is presented in profit or loss, other comprehensive income or equity depending on where the transaction that resulted in the tax is presented.

Current tax is tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past reporting periods. Current tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax represents the future tax consequences of transactions and events recognised in the financial statements of the current and previous periods.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- deferred tax assets shall be recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- deferred tax shall be reversed if and when all conditions for retaining associated tax allowances for the cost of a fixed asset have been met.

Deferred tax is not recognised on permanent differences.

Deferred tax is determined using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors have not identified any critical accounting judgements or key sources of estimation uncertainty made in the process of applying the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

In evaluating the impact of COVID-19 and in light of the wider Ferguson Group's strong performance during the period, management concluded there was no material impact on the financial statements.

3. Auditor's remuneration

The remuneration for the audit of the financial statements for the year of \$38,500 (2021 – \$15,000) was borne by Ferguson Group Services Limited and was not recharged to the Company. Fees of \$314,000 were paid to Deloitte LLP in relation to the issuance of the bond during the current year (2021 - \$nil). These were borne by Ferguson UK Holdings Limited and not recharged to the Company. The Company has taken advantage of the exemption available under sections 6(2) and 6(3) from part 2 of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 to dispense with the requirement to disclose non-audit fees as the disclosure is included within the Group financial statements of Ferguson plc.

4. Employees

The Company has no employees (2021 – none) other than the directors, who did not receive any remuneration in respect of their services to the Company.

**Notes to the financial statements
for the year ended 31 July 2022**

5. Interest receivable and similar income

	2022 \$m	2021 \$m
Interest receivable from Group undertakings	68	55

6. Interest payable and similar expenses

	2022 \$m	2021 \$m
Bank and other loans	66	53

7. Tax on profit

	2022 \$m	2021 \$m
Total tax charge on profit	-	-

The tax assessed for the year is equal to the standard rate of corporation tax in the UK of 19% (2021 – 19%).

	2022 \$m	2021 \$m
Profit before tax	2	2
Profit multiplied by standard rate of corporation tax in the UK at 19% (2021 - 19%)	-	-

8. Debtors: amounts falling due after more than one year

	2022 \$m	2021 \$m
Amounts owed by Group undertakings	2,350	1,350

Amounts owed by Group undertakings were unsecured. \$750 million (2021 - \$750 million) was interest bearing at 4.65%, maturing in October 2028. \$600 million (2021 - \$600 million) was interest bearing at 3.40%, maturing in June 2030. \$300 million (2021 - \$nil) was interest bearing at 4.36%, maturing in April 2027. \$700 million (2021 - \$nil) was interest bearing at 4.76%, maturing in April 2032.

9. Debtors: amounts falling due within one year

	2022 \$m	2021 \$m
Amounts owed by Group undertakings	25	12

Amounts owed by Group undertakings were unsecured and were non-interest bearing and relate to accrued interest on amounts owed by Group undertakings in note 8.

Notes to the financial statements
for the year ended 31 July 2022

10. Creditors: amounts falling due within one year

	2022 \$m	2021 \$m
Bank loan interest accrued	25	12

11. Creditors: amounts falling due after more than one year

	2022 \$m	2021 \$m
Bank loans - senior unsecured loan notes	2,350	1,350

In October 2018, the Company issued \$750 million of 10 year 4.5% notes in the USA bond market, maturing in October 2028. Costs of \$9 million were incurred in respect of the bond, including issuance costs and the discount to par at which the bond was issued. These were borne by Ferguson UK Holdings Limited and capitalised on its balance sheet to be amortised over the life of the bond. These were not recharged to the Company.

In June 2020, the Company issued \$600 million of 10 year 3.25% notes in the USA bond market, maturing in June 2030. Costs of \$8 million were incurred in respect of the bond, including issuance costs and the discount to par at which the bond was issued. These were borne by Ferguson UK Holdings Limited and capitalised on its balance sheet to be amortised over the life of the bond. These were not recharged to the Company.

In April 2022, the Company issued notes in the USA bond market of \$300 million 5 year 4.25% notes, maturing in April 2027 and \$700 million 10 year 4.65% notes, maturing in April 2032. Costs of \$3 million and \$8 million respectively were incurred in the respect of the bonds, including issuance costs and the discount to par at which the bond was issued. These were borne by Ferguson UK Holdings Limited and capitalised on its balance sheet to be amortised over the life of the bonds. These were not recharged to the Company.

12. Called up share capital

	2022 \$m	2021 \$m
Shares classified as equity: allotted, called up and fully paid		
50,000 ordinary shares of £1 each	-	-

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

13. Reserves

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

14. Related party transactions

The Company has taken advantage of the exemption available under FRS 102 Section 33.1A to dispense with the requirement to disclose transactions with wholly owned subsidiaries.

15. Ultimate parent undertaking and controlling party

The Company's ultimate parent company and ultimate controlling party is Ferguson plc, a company incorporated in Jersey whose registered office is 13 Castle Street, St Helier, Jersey JE1 1ES. It is the smallest and largest parent undertaking to consolidate this Company's financial statements. Copies of the Group financial statements of Ferguson plc may be obtained from the Group Company Secretary, Ferguson plc, 1020 Eskdale Road, Winnersh Triangle, Wokingham, RG21 5TS, United Kingdom. The Company's immediate controlling party is Ferguson UK Holdings Limited (formerly Wolseley Limited).

16. Post balance sheet events

There are no post balance sheet events that require disclosure.

Registered number: 128484 Jersey

FERGUSON PLC

Annual accounts and auditors' report
for the fiscal year ended July 31, 2022

THESE ACCOUNTS
FORM PART OF THE
GROUP ACCOUNTS
OF COMPANY
No. 11581816

COMPANIES HOUSE

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FERGUSON PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Ferguson plc and its subsidiaries (the 'Group'):

- give a true and fair view of the state of the Group's affairs as of July 31, 2022 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America ('US GAAP'); and
- have been properly prepared in accordance with Companies (Jersey) Law, 1991.

We have audited the financial statements which comprise:

- the Group consolidated statements of earnings;
- the Group consolidated statement of comprehensive income;
- the Group consolidated balance sheet;
- the Group consolidated statement of shareholder's equity;
- the Group consolidated statements of cash flows; and
- the notes to the consolidated financial statements 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and accounting principles generally accepted in the United States of America.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Inventory existence and valuation;
 - Adoption of US GAAP; and
-

-
- IT systems which impact financial reporting.
-

Materiality	The materiality that we used for the Group financial statements in the current year was \$135 million which was determined on the basis of approximately 5% of profit before tax.
Scoping	We have performed a full scope audit at one component, being the USA, and on the consolidation process. We have performed audits of specified account balances at five head office entities. Our components within the scope of our audit represent 95% of the Group's revenue from continuing operations, 98% of the Group's adjusted operating profit, and 94% of the Group's net assets.
Significant changes in our approach	Our approach is consistent with the previous year with the exception of including two new key audit matters given the audit effort involved in testing the adoption of US GAAP and the testing of IT systems which impact financial reporting.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls over the going concern models, including assessing the inputs and assumptions used in those models;
- testing the accuracy of the models, including agreement to the most recent Board approved budgets and forecasts;
- challenging the key assumptions of these forecasts by:
 - reading industry data and other external information and comparing these with management's estimates;
 - comparing forecast revenue with the Group's historical performance, including the impact of COVID-19 on operations in FY21;
 - evaluating the historical accuracy of forecasts;
- assessing the sensitivity of the headroom and the forecasts; and
- assessing the sufficiency of the Group's disclosure concerning the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorized for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of

material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Inventory existence and valuation – Refer to Note 1 to the financial statements

Key audit matter description	<p>The Group had inventories of \$4,333 million at July 31, 2022 (\$3,273 million as of July 31, 2021), held in numerous distribution centres and branches, and across multiple product lines.</p> <p>The Group employs a range of inventory counting procedures to record the existence and condition of inventory considering the highly disaggregated nature of the inventory balance across the Group’s distribution centres and branch locations, including perpetual cycle counts. The perpetual cycle count process is in turn reliant on a core warehouse management system.</p> <p>In addition, reserves are made against slow-moving, obsolete and damaged inventories for which the net realisable value is estimated to be less than the cost. The reserve is estimated based on the Group’s current knowledge with respect to inventory levels, sales trends and historical experience. The reserve calculation requires judgement, which increases the risk of possible misstatement.</p> <p>We identified the valuation of inventory reserves and the existence of perpetual cycle count as a key audit matter. This is due to the inherent uncertainty in estimating the inventory reserve and higher degree of auditor judgment and effort needed to determine the extent and timing of testing the perpetual cycle count inventory existence.</p>
How the scope of our audit responded to the key audit matter	<p>Our audit procedures related to inventory existence and valuation included the following, among others:</p> <p>Existence</p> <ul style="list-style-type: none"> • Obtained an understanding of the general IT controls associated with the relevant IT systems for inventory, including the systems responsible for managing the perpetual cycle count programmes. • Used senior team members to determine the extent and location of inventory counts. • Physically observed management’s count procedures over inventory close to the year-end date and performed independent sample count procedures in relation to locations across the Group. • Performed roll-forward procedures from the date of our inventory counts to the year-end date. • Investigated any variations from our independent counts and considered the impact in the context of the inventory balance as a whole. <p>Valuation</p> <ul style="list-style-type: none"> • Obtained an understanding of relevant inventory controls operating across the Group.

	<ul style="list-style-type: none"> • Tested the Group's process in determining the inventory reserve by recalculating the inventory reserve, if any, for a sample of on hand inventory items and inventory reserve amounts. • Formed an independent expectation of the inventory reserves at year-end based on prior year ratios and compared the inventory reserve against our expectation. • Performed a historical look back analysis for a selection of inventory items and considered the impact in the context of the inventory balance as a whole.
Key observations	<p>Our work on the existence of inventory was completed as planned and, after taking into account any count variances observed, we are satisfied that the Group's inventory is not materially misstated.</p> <p>Certain general IT and business process controls required improvement (refer to the "IT systems which impact financial reporting" key audit matter).</p> <p>We consider the Group's provisioning methodology to be conservative when compared with historical levels of inventory write-offs. However, the methodology is consistently applied year-on-year and our estimate of the potential overstatement of the provision is not material to the financial position or the reported financial result as of July 31, 2022.</p>

5.2. Adoption of US GAAP

Key audit matter description	<p>As outlined in Note 1 to the financial statements, the Group transitioned from International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board to US GAAP. The consolidated financial statements and notes thereto, including all prior periods presented, have been presented under US GAAP.</p> <p>The Group also had to make judgements about differences in the application of US GAAP compared to the previous application of IFRS, and adjust certain account balances and disclosures accordingly.</p> <p>The associated audit work assessing the judgements taken, adjustments made and disclosures provided on adoption of US GAAP has required a significant allocation of resources and has been a key area of audit effort for the engagement team.</p>
How the scope of our audit responded to the key audit matter	<p>We have performed the following procedures in respect of this key audit matter:</p> <ul style="list-style-type: none"> • Obtained an understanding and tested the relevant controls relating to the identification and quantification of US GAAP differences, as well as disclosures made. • Challenged management's assessments of IFRS to US GAAP differences with reference to our historical knowledge of the Group, and assessed completeness of these differences. • Agreed the adjusting entries recorded for each of the years of transition to appropriate supporting evidence.

- Assessed whether the disclosures within the financial statements are appropriate in light of the new reporting framework.

Key observations	We conclude that the amounts presented and the disclosures made within the financial statements are appropriate and in accordance with the new reporting framework.
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5.3. IT systems which impact financial reporting

Key audit matter description	<p>The Group utilizes a range of information systems and has been undertaking a multi-year programme, in line with its need to comply with the Sarbanes-Oxley Act ('SOX') for the first time this fiscal year, to improve general IT controls and remediate identified deficiencies.</p> <p>Certain general IT controls required improvement, particularly those impacting inventory. These were in the area of Access Security and Change Management in relation to information used in the performance of inventory reserve and cycle count monitoring controls. These matters were anticipated in determining our initial risk assessment for existence of inventory associated with perpetual cycle count locations and testing of the inventory reserve (refer to the "inventory existence and valuation" key audit matter).</p> <p>The testing of general IT controls, including the assessment of any deficiencies and consideration of remedial actions to ensure compliance with SOX, has been identified as a key audit matter as it has required a significant allocation of resources and has been a key area of audit effort.</p>
How the scope of our audit responded to the key audit matter	<p>Our IT audit scope is driven by the level of reliance placed on technology to obtain sufficient audit evidence within a business process. The technology deemed relevant to the audit is based on the financial data, system configured automated controls and/or key financial reports that reside within it. We used IT specialists to support our evaluation of the risks associated with technology and with the assessing the design and testing IT controls.</p> <p>Testing over the technology deemed relevant to the audit included the following areas:</p> <ul style="list-style-type: none"> • General IT controls, including user access and change management controls. • Key financial reports and system configured automated controls. • Controls to provide assurance over the completeness and accuracy of relevant data migrations for newly implemented systems. • Testing of exposure review controls and testing remediation of any identified deficiencies. <p>Our risk assessment procedures included an assessment of the impact of all unremediated IT control deficiencies to determine the impact on our audit plan.</p>

Where relevant, the audit plan was adjusted to include the testing of additional manual business process controls to mitigate the unaddressed IT risk.

Key observations	IT control deficiencies were identified during the year in respect of user access and change management. By year-end the majority of these deficiencies had been successfully remediated or mitigated through ad-hoc exposure review controls. Continued improvement in general IT controls is required in future years in order to remediate the remaining deficiencies. Where these deficiencies affected applications and systems within the scope of our audit, we successfully completed additional testing of exposure review controls, or performed additional substantive testing in order to assess the completeness and accuracy of system generated information.
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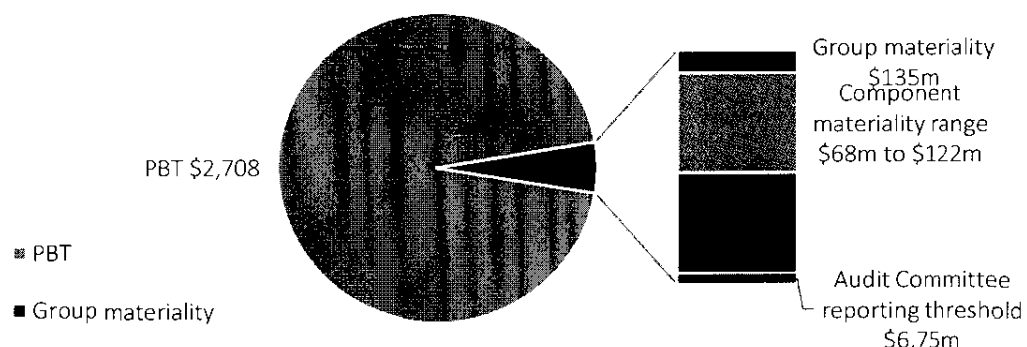
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	
Materiality	\$135m (2021: \$90m)
Basis for determining materiality	Materiality was determined on the basis of approximately 5% of profit before tax, which is consistent with the prior year.
Rationale for the benchmark applied	Profit before tax is a key metric for users of the financial statements and reflects the manner in which business performance is reported and assessed by external users of the financial statements.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

Group performance materiality	
Performance materiality	65% (2021: 65%) of Group materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> • our understanding of the entity and its environment; • the reliability of the entity's internal control over financial reporting; • the entity's history of misstatements – both corrected and uncorrected; • the likelihood that misstatements from the prior period will recur in the current period; and • any changes in the business that would affect our ability to forecast potential misstatements.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$6.75m (2021: \$4.50m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit scope primarily on the audit work performed at components in the USA. A full scope audit was performed by local component auditors in the US, whilst an audit of specified account balances was performed by local component auditors for the five head office

entities. We no longer consider Wolseley Canada to include significant risks of material misstatement to the Group, given its size relative to the wider Group. The Group team therefore performed analytical procedures, as opposed to an audit of specified account balances which was performed in the prior year. Our audit work on the components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from \$68 million to \$122 million (2021: \$27 million to \$75 million).

Our components within the scope of our audit represent 95% of the Group's revenue from continuing operations (2021: 100%), 98% of the Group's adjusted operating profit (2021: 100%), and 94% of the Group's net assets (2021: 100%).

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

7.2. Our consideration of the control environment

The Group operates a range of IT systems which underpin the financial reporting process. These can vary by business and/or by geography. For all of the components that were subject to either a full scope or audit of specified balances, we identified relevant IT systems for the purpose of our audit work. These were typically the principal Enterprise Resource Planning (ERP) systems for each business that govern the general ledger and transactional accounting balances, and in some cases also included ancillary/feeder systems into the main ERP. Our approach was principally designed to inform our risk assessment and, as such, we obtained an understanding of relevant general IT controls using IT specialists. We did not place reliance on certain of the general IT controls that we tested for the purpose of the substantive audit procedures due to the evolving IT control environment and the deficiencies identified.

As the Group's preparations for the requirements under SOX continued through the year, management have focused on the identification and documentation of control procedures throughout the Group, which has led us to obtain an understanding of additional business process controls in the current year to inform our risk assessment. These controls include those addressing significant financial statement line items in the US component, including revenue and inventory, as well as head office controls relating to central balances and processes such as pension accounting, consolidation and financial reporting, treasury and the Group's planning and budgeting process.

The Group continues to invest in its IT systems and overall control environment and this includes seeking to remediate control findings where they are identified through its own assurance framework, including Internal Audit, or through the external audit. As part of our controls work in the prior and current year, we identified a number of control deficiencies that management is in the process of remediating, including as noted in the IT systems which impact financial reporting key audit matter above. Where deficiencies have been identified and the remediation activity remained ongoing during the current year we did not seek to place reliance on those relevant IT systems and business process controls for the purpose of our audit, but we did assess the deficiencies in the aggregate to assess overall compliance with SOX requirements. By year end, the majority of these deficiencies have been successfully remediated or mitigated through ad-hoc exposure review controls.

7.3. Working with other auditors

Our oversight of component auditors focused on the planning of their audit work and understanding of their risk assessment process to identify key areas of estimates and judgement, as well as the execution of their audit work. We sent our component teams detailed instructions, reviewed and challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing conference calls and held regular remote communication to interact on any related audit and accounting matters which arose.

As part of our oversight of the component teams, planning meetings were also held with key component audit teams. The purpose of these planning meetings was to determine whether the component teams

had a good level of understanding of the Group's businesses, its core strategy and significant risks. We also provided direction on enquiries made by the component auditors through online and telephone conversations. All the findings noted were discussed with the component auditors in detail and further procedures to be performed were issued where relevant.

Given the relaxation in global travel rules compared to last year, we made a number of in-person visits to oversee the work of the US component audit team. This was in addition to frequent virtual meetings which continued to take place throughout the year.

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

The Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included Jersey Law, Listing Rules in the United States, pension legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and *reviewing correspondence with tax authorities; and*
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Matters on which we are required to report by exception

12.1. Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13. Other matters which we are required to address

13.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the members of the Annual General Meeting on November 12, 2015 to audit the financial statements for the year ending July 31, 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending July 31, 2016 to July 31, 2021.

13.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

14. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone

other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'Andrew Bond', with a long horizontal flourish extending to the right.

Andrew Bond
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Recognized Auditor
London, United Kingdom
September 27, 2022

Ferguson plc
Consolidated Statements of Earnings

(In millions, except per share amounts)	For the years ended July 31,		
	2022	2021	2020
Net sales	\$28,566	\$22,792	19,940
Cost of sales	(19,810)	(15,812)	(13,957)
Gross profit	8,756	6,980	5,983
Selling, general and administrative expenses	(5,635)	(4,732)	(4,329)
Depreciation and amortization	(301)	(298)	(282)
Operating profit	2,820	1,950	1,372
Interest expense, net	(111)	(98)	(93)
Other (expense) income, net	(1)	10	(7)
Income before income taxes	2,708	1,862	1,272
Provision for income taxes	(609)	(232)	(299)
Income from continuing operations	2,099	1,630	973
Income (loss) from discontinued operations (net of tax)	23	(158)	(12)
Net income	<u>\$2,122</u>	<u>\$1,472</u>	<u>961</u>
Earnings per share - Basic:			
Continuing operations	\$9.64	\$7.29	\$4.32
Discontinued operations	0.11	(0.70)	(0.05)
Total	<u>\$9.75</u>	<u>\$6.59</u>	<u>\$4.27</u>
Earnings per share - Diluted:			
Continuing operations	\$9.59	\$7.25	\$4.29
Discontinued operations	0.10	(0.70)	(0.05)
Total	<u>\$9.69</u>	<u>\$6.55</u>	<u>\$4.24</u>
Weighted average number of shares outstanding:			
Basic	217.7	223.5	224.8
Diluted	218.9	224.8	226.8

See accompanying Notes to the Consolidated Financial Statements.

Ferguson plc
Consolidated Statements of Comprehensive Income

(In millions)	For the years ended July 31,		
	2022	2021	2020
Net income	\$2,122	\$1,472	\$961
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(24)	170	33
Pension (loss) income, net of tax (expense) benefit of (\$11), (\$17) and \$45, respectively.	(10)	79	(197)
Total other comprehensive (loss) income, net of tax	(34)	249	(164)
Comprehensive income	<u>\$2,088</u>	<u>\$1,721</u>	<u>\$797</u>

See accompanying Notes to the Consolidated Financial Statements.

Ferguson plc
Consolidated Balance Sheets

(In millions, except share amounts)	As of July 31,	
	2022	2021
Assets		
Cash and cash equivalents	\$771	\$1,335
Accounts receivable, less allowances of \$27 and \$17, respectively	3,610	2,786
Inventories, net	4,333	3,273
Prepaid and other current assets	834	732
Assets held for sale	3	3
Total current assets	9,551	8,129
Property, plant and equipment, net	1,376	1,305
Operating lease right-of-use assets	1,200	1,102
Deferred income taxes, net	177	240
Goodwill	2,048	1,828
Other intangible assets, net	782	546
Other non-current assets	527	559
Total assets	\$15,661	\$13,709
Liabilities and shareholders' equity		
Accounts payable	\$3,607	\$3,030
Short-term debt	250	—
Current portion of operating lease liabilities	321	263
Share repurchase liability	324	—
Other current liabilities	1,297	1,445
Total current liabilities	5,799	4,738
Long-term debt	3,679	2,512
Long-term portion of operating lease liabilities	878	827
Other long-term liabilities	640	629
Total liabilities	10,996	8,706
Shareholders' equity:		
Ordinary shares, par value 10 pence: 500,000,000 shares authorized, 232,171,182 shares issued	\$30	\$30
Paid-in capital	760	704
Retained earnings	7,594	6,054
Treasury shares, 21,078,577 and 9,862,816 shares, respectively at cost	(2,782)	(931)
Employee Benefit Trust, 846,491 and 833,189 shares, respectively at cost	(107)	(58)
Accumulated other comprehensive loss	(830)	(796)
Total shareholders' equity	4,665	5,003
Total liabilities and shareholders' equity	\$15,661	\$13,709

See accompanying Notes to the Consolidated Financial Statements.

Ferguson plc
Consolidated Statements of Shareholders' Equity

(In millions, except per share data)	Ordinary Shares	Paid-in Capital	Retained Earnings	Treasury Shares	Employee Benefit Trust	Accumulated Other Comprehensive Loss	Total Equity
Balance at August 1, 2019	\$30	\$585	\$5,080	(\$305)	(\$102)	(\$881)	\$4,407
Share-based compensation	—	39	—	—	—	—	39
Net income	—	—	961	—	—	—	961
Other comprehensive loss	—	—	—	—	—	(164)	(164)
Cash dividends: \$1.451 per share	—	—	(327)	—	—	—	(327)
Share repurchases	—	—	—	(292)	(26)	—	(318)
Shares issued under employee share plans	—	—	(56)	27	40	—	11
Balance at July 31, 2020	\$30	\$624	\$5,658	(\$570)	(\$88)	(\$1,045)	\$4,609
Share-based compensation	—	80	—	—	—	—	80
Net income	—	—	1,472	—	—	—	1,472
Other comprehensive income	—	—	—	—	—	249	249
Cash dividends: \$4.611 per share	—	—	(1,034)	—	—	—	(1,034)
Share repurchases	—	—	—	(400)	—	—	(400)
Shares issued under employee share plans	—	—	(51)	39	30	—	18
Other	—	—	9	—	—	—	9
Balance at July 31, 2021	\$30	\$704	\$6,054	(\$931)	(\$58)	(\$796)	\$5,003
Share-based compensation	—	56	—	—	—	—	56
Net income	—	—	2,122	—	—	—	2,122
Other comprehensive loss	—	—	—	—	—	(34)	(34)
Cash dividends: \$2.505 per share	—	—	(550)	—	—	—	(550)
Share repurchases	—	—	—	(1,872)	(92)	—	(1,964)
Shares issued under employee share plans	—	—	(51)	21	43	—	13
Other	—	—	19	—	—	—	19
Balance at July 31, 2022	\$30	\$760	\$7,594	(\$2,782)	(\$107)	(\$830)	\$4,665

See accompanying Notes to the Consolidated Financial Statements.

Ferguson plc
Consolidated Statements of Cash Flows

(In millions)	For the years ended July 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$2,122	\$1,472	\$961
(Income) loss from discontinued operations	(23)	158	12
Income from continuing operations	2,099	1,630	973
Depreciation and amortization	301	298	282
Share-based compensation	57	77	29
Net loss (gain) on disposal of assets and impairment	15	—	(2)
(Increase) decrease in inventories	(927)	(748)	16
(Increase) decrease in receivables and other assets	(780)	(756)	104
Increase (decrease) in accounts payable and other liabilities	436	1,012	(39)
(Decrease) increase in income taxes	(62)	(170)	66
Other operating activities	10	(6)	23
Net cash provided by operating activities of continuing operations	1,149	1,337	1,452
Net cash provided by operating activities of discontinued operations	—	45	93
Net cash provided by operating activities	1,149	1,382	1,545
Cash flows from investing activities:			
Purchase of businesses acquired, net of cash acquired	(650)	(286)	(271)
Proceeds from sale of assets and divestitures	4	18	45
Capital expenditures	(290)	(241)	(283)
Other investing activities	(10)	(6)	(5)
Net cash used in investing activities of continuing operations	(946)	(515)	(514)
Net cash provided by (used in) investing activities of discontinued operations	24	390	(57)
Net cash used in investing activities	(922)	(125)	(571)
Cash flows from financing activities:			
Purchase of own shares by Employee Benefit Trust	(92)	—	(26)
Purchase of treasury shares	(1,545)	(400)	(451)
Proceeds from sale of treasury shares	13	18	11
Repayments of debt	(575)	(375)	(1,196)
Proceeds from debt	2,019	4	1,799
Change in bank overdrafts	(4)	(213)	230
Cash dividends	(538)	(1,036)	(327)
Other financing activities	(22)	(49)	(36)
Net cash (used in) provided by financing activities	(744)	(2,051)	4
Change in cash, cash equivalents and restricted cash	(517)	(794)	978
Effects of exchange rate changes	(40)	6	4
Cash, cash equivalents and restricted cash, beginning of period	1,342	2,130	1,148
Cash, cash equivalents and restricted cash, end of period	\$785	\$1,342	\$2,130
Supplemental Disclosures:			
Cash paid for income taxes	\$670	\$404	\$225
Cash paid for interest	94	104	114
Accrued capital expenditures	16	10	7

See accompanying Notes to the Consolidated Financial Statements.

Ferguson plc
Notes to the Consolidated Financial Statements

Note 1: Summary of significant accounting policies

Background

Ferguson plc (the “Company”) (NYSE: FERG; LSE: FERG) is a public company limited by shares incorporated in Jersey under the Companies (Jersey) Law 1991 (as amended). The Company is a value-added distributor in North America providing expertise, solutions and products from infrastructure, plumbing and appliances to HVAC, fire, fabrication and more. We exist to make our customers’ complex projects simple, successful and sustainable. Ferguson is headquartered in the U.K., with its operations and associates solely focused on North America and managed from Newport News, Virginia. The Company’s registered office is 13 Castle Street, St Helier, Jersey, JE1 1ES, Channel Islands.

Basis of consolidation

These consolidated financial statements include the results of the Company and its wholly-owned subsidiaries and its share of after tax profits and losses of its equity method investments. All intercompany transactions are eliminated from the consolidated financial statements.

Effective August 1, 2021, the Company transitioned from International Financial Reporting Standards (“IFRS”) accepted by the International Accounting Standards Board to accounting principles generally accepted in the United States (“U.S. GAAP”). The accompanying consolidated financial statements and notes thereto, including all prior periods presented, have been presented under U.S. GAAP.

Fiscal year

Except as otherwise specified, references to years indicate our fiscal year ended July 31 of the respective year. For example, references to “fiscal 2022” or similar references refer to the fiscal year ended July 31, 2022.

Use of estimates

The preparation of the Company’s Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions affecting reported amounts in the Consolidated Financial Statements and accompanying notes. Actual results may differ from those estimates.

Accounts receivables

Accounts receivables are stated at their estimated net realizable value. An allowance for doubtful accounts is estimated based on historical write-offs, the age of past due receivables, as well as consideration for forward-looking expectations where appropriate. Accounts receivables are written off when recoverability is assessed as being remote. The charges associated with the allowance for doubtful accounts are recognized in selling, general and administrative expenses (“SG&A”). Subsequent recoveries of amounts previously written off are credited to SG&A.

Advertising and marketing costs

Advertising costs, including digital, television, radio and print, are expensed when the advertisement first appears. Certain marketing, or co-op, contributions are received to fund marketing activities of specific, incremental, and identifiable costs incurred to promote suppliers’ products or activities, which are recorded in SG&A as reductions of the related marketing costs. The following table presents net advertising expenses included in SG&A:

(In millions)	For the years ended July 31,		
	2022	2021	2020
Net advertising and marketing costs	\$389	\$299	\$249

Business combinations

The assets and liabilities of acquired businesses are recorded at their fair values at the date of acquisition. The excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed is recorded as goodwill. During the measurement period, which is up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks with original maturities of three months or less and overdrafts to the extent there is a legal right of offset and practice of net settlement with cash balances.

Restricted cash consists of deferred consideration for business combinations, subject to various settlement agreements, and is recorded in prepaid and other current assets in the Company's balance sheets.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

(In millions)	As of July 31,	
	2022	2021
Cash and cash equivalents	\$771	\$1,335
Restricted cash	14	7
Total cash, cash equivalents and restricted cash	<u>\$785</u>	<u>\$1,342</u>

Concentrations of credit risk

The Company monitors credit risk associated with those financial institutions with which it conducts significant business. Credit risk, including but not limited to counterparty non-performance under derivative instruments and our credit facilities, is not considered significant, as we primarily conduct business with large, well-established financial institutions. This risk is managed by setting credit and settlement limits for approved counterparties. In addition, the Company has established guidelines that it follows regarding counterparty credit ratings which are monitored regularly, seeking to limit its exposure to any individual counterparty. The concentration of credit risk was deemed not significant as of July 31, 2022 and 2021.

Cost of sales

Cost of sales includes the cost of goods purchased for resale, net of earned rebates, and the cost of bringing inventory to a sellable location and condition. As the Company does not produce or manufacture products, its inventories are finished goods and therefore depreciation related to warehouse facilities and equipment is presented separately within operating expenses.

Derivative instruments and hedging activity

Derivative financial instruments, in particular interest rate swaps and foreign exchange swaps, are used to manage the financial risks arising from the Company's business activities and the financing of those activities. Derivatives are not used for speculative purposes or trading activities and have generally not been significant.

Derivatives are measured at their fair values and included in other assets and other liabilities in the consolidated balance sheets.

When the hedging relationship is classified as an effective fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the change in its fair value attributable to the hedged risk and the resulting gain or loss is recognized in the Consolidated Statements of Earnings where it will be offset by the change in the fair value of the hedging instrument.

When the hedging relationship is classified as an effective cash flow hedge or as a net investment hedge, changes in the fair value of the hedging instrument arising from the hedged risk are recorded in other comprehensive income. When the hedged item is recognized in the financial statements, the gains and losses recognized in accumulated other comprehensive loss are either recognized in the statement of earnings or, if the hedged item results in a non-financial asset, are recognized as an adjustment to its initial carrying amount.

Discontinued operations

When the Company has disposed of, or classified as held for sale, a business component that represents a strategic shift with significant effect on the Company's operations and financial results, it classifies that business component as a discontinued operation and retrospectively presents discontinued operations for the comparable periods. The post-tax income, or loss, of discontinued operations are shown as a single line on the face of the consolidated statements of earnings. The disposal of the discontinued operation would also result in a gain or loss upon final disposal.

Fair value measurements

The applicable accounting guidance for fair value measurements established a fair value hierarchy. The fair value hierarchy established under this guidance prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted prices, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 - Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value from the perspective of a market participant.

Foreign currency

The consolidated financial statements are presented in U.S. dollars.

Results of operations of foreign subsidiaries are translated into U.S. dollars using average exchange rates during the year. The assets and liabilities of those subsidiaries are translated into U.S. dollars using exchange rates at the current rate of exchange on the last day of the reporting period. These foreign currency translation adjustments are included in accumulated other comprehensive loss. Foreign currency transaction gains and losses are not material.

In the event that the Company disposes of a subsidiary that uses a non-U.S. dollar functional currency, the gain or loss on disposal recognized in the Consolidated Statement of Earnings includes the cumulative currency translation differences attributable to the subsidiary.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is not amortized but is carried at cost less accumulated impairment losses. The Company performs an annual impairment assessment in the fourth quarter of each year, or more frequently if changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

The annual impairment assessment begins with an option to assess qualitative factors to determine whether a quantitative evaluation is appropriate for determining potential goodwill impairment. The quantitative impairment assessment compares the fair value of the reporting unit to its carrying value. The reporting units represent the lowest level within the Company at which the associated goodwill is monitored for management purposes and are based on the markets where the business operates.

The fair value of a reporting unit is determined using the income approach, which requires significant assumptions regarding future operations and the ability to generate cash flows. These assumptions include a forecast of future operating cash flows over a period of four years, a terminal value, capital requirements and a discount rate. Where the carrying value of a reporting unit exceeds the fair value, an impairment loss is recorded in the consolidated statements of earnings.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Other intangible assets

Definite-lived intangible assets are primarily comprised of customer relationships, trade names and other intangible assets, acquired as part of business combinations and are capitalized separately from goodwill and carried at cost less accumulated amortization and accumulated impairment losses.

Computer software that is not integral to an item of property, plant and equipment is recognized separately as an intangible asset and is carried at cost less accumulated amortization and accumulated impairment losses. Costs may include software licenses and external and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training and data conversion are expensed as incurred.

Customer relationship amortization is calculated using a systematic, accelerated approach based on the timing of future expected cash flows. The straight-line method is used for all other intangible assets.

The estimated useful life of the respective intangible assets are as follows:

Customer relationships	4 – 15 years
Trade names and brands	1 – 15 years
Software	3 – 5 years
Other	1 – 4 years

Impairment of long-lived assets

The recoverability of long-lived assets, including property, plant and equipment (“PPE”), right of use assets and definite-lived intangible assets, is evaluated when events or changes in circumstances indicate that the carrying amounts of an asset group may not be recoverable. Long-lived depreciable and amortizable assets are tested for impairment in asset groups, which are defined as the lowest level of assets that generate identifiable cash flows that are largely independent of the cash flows of other asset groups. A potential impairment has occurred for an asset group if projected future undiscounted cash flows expected to result from the use and eventual disposition of the assets are less than the carrying amounts of the assets.

Inventories

Inventories, which comprise goods purchased for resale, are stated at the lower of cost or net realizable value. Cost is primarily determined using the average cost method. The cost of goods purchased for resale includes import and custom duties, transport and handling costs, freight and packing costs and other attributable costs less trade discounts and rebates. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Inventory reserves are recorded against slow-moving, obsolete and damaged inventories for which the net realizable value is estimated to be less than the cost. The reserve is estimated based on the Company’s current knowledge with respect to inventory levels, sales trends and historical experience.

Leases

The Company enters into contractual arrangements for the utilization of certain non-owned assets. These principally relate to property for the Company’s branches, distribution centers and offices which have varying terms including extension and termination options and periodic rent reviews.

The Company determines if an arrangement is a lease at inception. Leases are evaluated at commencement to determine proper classification as an operating lease or a finance lease. The Company’s leases primarily consist of operating leases. The Company recognizes a right-of-use (“ROU”) asset and lease liability at lease commencement based on the present value of lease payments over the lease term.

The Company generally uses its incremental borrowing rate as the discount rate as most of the Company’s lease arrangements do not provide an implicit borrowing rate. The incremental borrowing rate is estimated using a combination of U.S. Treasury note rates corresponding to lease terms, as well as a blended credit risk spread.

For operating leases, fixed lease payments are recognized on a straight-line basis over the lease term. The Company has elected to not separate lease and non-lease components. Certain lease agreements include variable lease payments that depend on an index, as well as payments for non-lease components, such as common area maintenance, and certain pass-through operating expenses such as real estate taxes and insurance. In instances where these payments are fixed, they are included in the measurement of our lease liabilities, and when variable, are excluded and recognized in the period in which the obligations for those payments are incurred. The Company's leases do not contain any material residual value guarantees or payments under purchase and termination options which are reasonably certain to be exercised.

Lease terms are initially determined as the non-cancelable period of a lease adjusted for options to extend or terminate a lease that are reasonably certain to be exercised. Generally, the Company's real estate leases have initial terms of three to 10 years and up to four extension periods that range from two to five years each. Renewal options are typically not included in the lease term as it is not reasonably certain at commencement date that the Company would exercise the extension options. Lease liabilities are subsequently measured at amortized cost using the effective interest method.

Right of use assets are carried at cost less accumulated amortization, impairment losses, and any subsequent remeasurement of the lease liability. Initial cost comprises the lease liability adjusted for lease payments at or before the commencement date, lease incentives received, initial direct costs and an estimate of restoration costs. The Company recognizes minimum rent expense on a straight-line basis over the lease term.

Leases that have an original term of 12 months or less are not recognized on the Company's balance sheet, and the lease expense related to those short-term leases is recognized over the lease term.

Property, plant and equipment ("PPE")

PPE is recorded at cost less accumulated depreciation. Cost includes expenditures necessary to acquire and prepare PPE for its intended use. In addition, subsequent costs that increase the productive capacity or extend the useful life of PPE are capitalized. The cost of repairs and maintenance are expensed as incurred.

Assets are depreciated to their estimated residual value using the straight-line method over their estimated useful lives as follows:

Owne d buildings	20 - 50 years
Leasehold improvements	Period of lease
Plant and machinery	10 years
Computer hardware	3 - 5 years
Furniture, fixtures, equipment	5 - 7 years
Vehicles	4 years

Rebates

The Company has agreements ("supplier rebates") with a number of its suppliers whereby volume-based rebates, marketing support and other discounts are received in connection with the purchase of goods for resale from those suppliers.

The majority of volume-based supplier rebates are determined by reference to guaranteed rates of rebate. These calculations require minimal judgment. A small proportion of volume-based supplier rebates are subject to tiered targets where the rebate percentage increases as volumes purchased reach agreed targets within a set period of time. The Company estimates supplier rebates based on forecasts which are informed by historical trading patterns, current performance and trends.

Rebates relating to the purchase of goods for resale are accrued as earned and are recorded initially as a deduction in inventory with a subsequent reduction in cost of sales when the related goods are sold. Supplier rebates receivable are offset with amounts owed to each supplier at the balance sheet date and are included within accounts payables where the Company has the legal right to offset and net settles balances. Where the supplier rebates are not offset against amounts owed to a supplier, the outstanding amount is recorded in prepaid and other current assets in the consolidated balance sheet.

Revenue recognition

The Company recognizes revenue when a sales arrangement with a customer exists (e.g., contract, purchase orders, others), the transaction price is fixed or determinable and the Company has satisfied its performance obligation per the sales arrangement. The majority of the Company's revenue originates from sales arrangements with a single performance obligation to deliver products, whereby performance obligations are satisfied when control of the product is transferred to the customer which is the point they are delivered to, or collected by, the customer. Therefore, shipping and handling activities are not deemed a separate performance obligation. Revenue from the provision of goods is only recognized when the transaction price is determinable and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods to be transferred to the customer. Payment terms between the Company and its customers vary by the type of customer, country of sale and the products sold. The Company does not have significant financing components in its contracts and the payment due date is typically shortly after sale.

In some limited cases, the Company's contracts contain services and products that are deemed one performance obligation as the services are highly interdependent and interrelated with the products or are significantly integrated with the products. Contracts in which services provided are a separately identifiable performance obligation are not material.

In some instances, goods are delivered directly to the customer by the supplier. The Company has concluded that it is the principal in these transactions as it is primarily responsible to the customer for fulfilling the obligation and has the responsibility for identifying and directing the supplier to deliver the goods to the customer.

The Company offers a right of return to its customers for most goods sold. Revenue is reduced by the amount of expected returns in the period in which the related revenue is recorded with a corresponding liability recorded in other current liabilities. The Company also recognizes a return asset in prepaid and other current assets with a corresponding adjustment to cost of sales, for the right to recover the returned goods, measured at the former carrying value, less any expected recovery costs.

Share-based compensation

Share-based incentives are provided to associates under the Company's long-term incentive plans and all-employee sharesave plans. The Company recognizes a compensation cost in respect of these plans that is primarily based on the fair value of the awards. For equity-settled plans, the fair value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. For liability-settled plans, the fair value is initially determined at the date of grant and is remeasured at each balance sheet date until the liability is settled. The related liability is recorded in other current liabilities and other long-term liabilities. Generally, the compensation cost is recognized on a straight-line basis over the vesting period, utilizing cumulative catch-up for changes in the liability-settled plans. Estimates of expected forfeitures are made at the date of grant to appropriately reduce expense for those grants expected not to satisfy service conditions or non-market performance conditions. The estimated forfeitures are adjusted when facts and circumstances indicate the prior estimate is no longer appropriate.

Tax

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines DTAs and DTLs on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on DTAs and DTLs is recognized in income in the period that includes the enactment date.

The Company recognizes DTAs to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, carryback potential if permitted under the tax law, and results of recent operations. If the Company determines that it would be able to realize our DTAs in the future in excess of their net recorded amount, the DTA valuation allowance would be appropriately adjusted, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with Accounting Standard Codification ("ASC") 740 on the basis of a two-step process in which (1) it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

Recently issued accounting pronouncements

Accounting Standards Update (“ASU”) No. 2020-04. In March 2020, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of Effects of Reference Rate Reform on Financial Reporting. This ASU, and subsequent clarifications, provide practical expedients for contract modification accounting related to the transition away from the London Interbank Offered Rate (LIBOR) and other interbank offering rates to alternative reference rates. The expedients are applicable to contract modifications made and hedging relationships entered into on or before December 31, 2022. The amendments should be applied on a prospective basis. The Company continues to evaluate the impact of reference rate reform and does not currently expect a material impact to the Company’s consolidated financial statements.

ASU No. 2021-08. In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The amendments address how to determine whether a contract liability is recognized by the acquirer in a business combination and provides specific guidance on how to recognize and measure acquired contract assets and contract liabilities from revenue contracts in a business combination. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption of the amendments is permitted, including adoption in an interim period. The Company is evaluating this standard update and does not expect a material impact to the Company’s consolidated financial statements.

ASU No. 2022-03. In June 2022, the FASB issued ASU No. 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. The amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. ASU 2022-03 also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. In addition, ASU 2022-03 introduces new disclosure requirements to provide investors with information about contractual sale restrictions, including the nature and remaining duration of these restrictions. ASU 2022-03 is effective for interim and annual periods beginning after December 15, 2023, although early adoption is permitted. The Company’s practice aligns with this clarification and it is evaluating the additional disclosure requirements.

Recent accounting pronouncements pending adoption that are not discussed above are either not applicable, or will not have, or are not expected to have, a material impact on our consolidated financial condition, results of operations or cash flows.

Note 2: Segment information

The Company reports its financial results of operations on a geographical basis in the following two reportable segments: United States and Canada. Each segment generally derives its revenues in the same manner as described in note 1. The Company uses adjusted operating profit as its measure of segment profit. Adjusted operating profit is defined as profit before tax, excluding central and other costs, restructuring costs, amortization of acquired intangible assets, net interest expenses, as well as other items typically recorded in net other (expense) income such as (loss)/gain on disposal of businesses, pension plan changes/closure costs and amounts recorded in connection with the Company's interests in investees. Certain income and expenses are not allocated to the Company's segments and, thus, the information that management uses to make operating decisions and assess performance does not reflect such amounts.

Segment details were as follows:

(In millions)	For the years ended July 31,		
	2022	2021	2020
Net sales:			
United States	\$27,067	\$21,478	\$18,857
Canada	1,499	1,314	1,083
Total net sales	<u>\$28,566</u>	<u>\$22,792</u>	<u>\$19,940</u>
Adjusted operating profit:			
United States	\$2,893	\$2,070	\$1,586
Canada	112	76	43
Central and other costs	(54)	(54)	(42)
Business restructurings ⁽¹⁾	—	11	(72)
Corporate restructurings ⁽²⁾	(17)	(22)	(29)
Amortization of acquired intangible assets	(114)	(131)	(114)
Interest expense, net	(111)	(98)	(93)
Other (expense) income, net	(1)	10	(7)
Income before income taxes	<u>\$2,708</u>	<u>\$1,862</u>	<u>\$1,272</u>

- (1) For fiscal 2021, business restructuring reflects the release of provisions in connection with previously anticipated COVID-19 cost actions recorded in fiscal 2020. For fiscal 2020, business restructuring principally comprised costs incurred in the United States and Canada in respect of cost actions taken to ensure the business was appropriately sized for the post COVID-19 operating environment.
- (2) For fiscal 2022, 2021 and 2020, corporate restructuring costs primarily related to the incremental costs of the Company's listing in the United States.

An additional disaggregation of net sales by end market for continuing operations is as follows:

(In millions)	For the years ended July 31,		
	2022	2021	2020
United States:			
Residential	\$14,657	\$11,990	\$10,087
Non-residential:			
Commercial	8,600	6,661	6,116
Civil/Infrastructure	2,163	1,506	1,315
Industrial	1,647	1,321	1,339
Total Non-residential	12,410	9,488	8,770
Total United States	27,067	21,478	18,857
Canada	1,499	1,314	1,083
Total net sales	\$28,566	\$22,792	\$19,940

No sales to an individual customer accounted for more than 10% of net sales during any of the last three fiscal years.

The Company is a value-added distributor of products from infrastructure, plumbing and appliances to HVAC, fire, fabrication and more. We offer a broad line of products, and items are regularly added to and removed from the Company's inventory. Accordingly, it would be impractical to provide sales information by product category due to the way the business is managed, and the dynamic nature of the inventory offered.

Depreciation and amortization and capital expenditures by segment:

(In millions)	For the years ended July 31,		
	2022	2021	2020
Depreciation and amortization:			
United States ⁽¹⁾	\$292	\$288	\$270
Canada	9	9	10
Corporate	—	1	2
Total depreciation and amortization	\$301	\$298	\$282

⁽¹⁾ Includes amortization of acquired intangible assets of \$114 million, \$131 million and \$113 million in 2022, 2021 and 2020, respectively. These amounts are not included in the United States segment adjusted operating profit.

Capital expenditures:

United States	283	232	278
Canada	7	9	5
Corporate	—	—	—
Total capital expenditures	\$290	\$241	\$283

Assets by segment include:

(In millions)	As of July 31,	
	2022	2021
Assets:		
United States	\$13,747	\$11,247
Canada	802	737
Corporate	1,112	1,725
Total assets	\$15,661	\$13,709

Note 3: Earnings per share

Basic earnings per share is calculated using our weighted-average outstanding common shares. Diluted earnings per share is calculated using our weighted-average outstanding common shares including the dilutive effect of share awards as determined under the treasury stock method.

The following table shows the calculation of diluted shares:

(In millions, except per share amounts)	For the years ended July 31,		
	2022	2021	2020
Income from continuing operations	2,099	\$1,630	\$973
Income (loss) from discontinued operations (net of tax)	23	(158)	(12)
Net income	<u>\$2,122</u>	<u>\$1,472</u>	<u>\$961</u>
Weighted average number of shares outstanding:			
Basic weighted-average shares	217.7	223.5	224.8
Effect of dilutive securities	1.2	1.3	2.0
Diluted weighted-average shares	<u>218.9</u>	<u>224.8</u>	<u>226.8</u>
Earnings per share - Basic:			
Continuing operations	\$9.64	\$7.29	\$4.32
Discontinued operations	0.11	(0.70)	(0.05)
Total	<u>\$9.75</u>	<u>\$6.59</u>	<u>\$4.27</u>
Earnings per share - Diluted:			
Continuing operations	\$9.59	\$7.25	\$4.29
Discontinued operations	0.10	(0.70)	(0.05)
Total	<u>\$9.69</u>	<u>\$6.55</u>	<u>\$4.24</u>
Excluded anti-dilutive shares	0.1	0.1	0.1

Note 4: Income tax

Earnings before income tax by geographical area consisted of the following:

(In millions)	For the years ended July 31,		
	2022	2021	2020
United Kingdom	\$102	\$123	\$74
United States	2,222	1,385	856
International	384	354	342
Total	<u>\$2,708</u>	<u>\$1,862</u>	<u>\$1,272</u>

Provision for income taxes consisted of the following:

(In millions)	For the years ended July 31,		
	2022	2021	2020
Current:			
United Kingdom	(\$18)	\$5	\$10
Federal and state (U.S.)	528	364	245
International	58	48	35
Total current	<u>\$568</u>	<u>\$417</u>	<u>\$290</u>
Deferred:			
United Kingdom	\$20	(\$8)	\$11
Federal and state (U.S.)	20	(176)	(3)
International	1	(1)	1
Total deferred	<u>\$41</u>	<u>(\$185)</u>	<u>\$9</u>
Provision for income tax	<u><u>\$609</u></u>	<u><u>\$232</u></u>	<u><u>\$299</u></u>

The following is a reconciliation of income tax expense with income taxes at the U.K. statutory rate:

(In millions)	For the years ended July 31,					
	2022		2021		2020	
Provision for income taxes at U.K. statutory rate ⁽¹⁾	\$515	19.0 %	\$354	19.0 %	\$242	19.0 %
Non-U.K. tax rate differentials	127	4.7	68	3.7	29	2.3
Impact of change in reserves	8	0.2	(138)	(7.4)	33	2.6
Tax rate change	—	—	(29)	(1.6)	(5)	(0.4)
Tax credits	(9)	(0.3)	(12)	(0.6)	(6)	(0.5)
Non-taxable income	(9)	(0.3)	(18)	(1.0)	(8)	(0.6)
Other	(23)	(0.8)	7	0.4	14	1.1
Income tax expense	<u>\$609</u>	<u>22.5 %</u>	<u>\$232</u>	<u>12.5 %</u>	<u>\$299</u>	<u>23.5 %</u>

(1) Ferguson, plc is tax resident in the U.K. Therefore, the Company has utilized the U.K. statutory rate.

Deferred Taxes

Significant components of the Company's deferred tax assets and liabilities are as follows:

(In millions)	As of July 31,	
	2022	2021
Assets:		
Deferred compensation	\$48	\$63
Tax loss carryforwards	184	184
Lease liabilities	306	275
Warranty and other liabilities	103	140
Inventory	50	68
Other	37	64
Total deferred tax assets	728	794
Valuation allowance	(77)	(77)
Total deferred tax assets, net of valuation allowance	\$651	\$717
Liabilities:		
Right of use assets	(\$306)	(\$281)
Goodwill and intangible assets	(119)	(99)
Tax method change	(49)	(97)
Total deferred tax liabilities	(474)	(477)
Net deferred tax assets	\$177	\$240

We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. Our valuation allowance at July 31, 2022 and 2021 relates to foreign net capital loss carryforwards in the U.K. and Canada which are not expected to be realizable. For the year ended July 31, 2022, there was no change in the valuation allowance (2021: \$30 million and 2020: \$2 million).

As of July 31, 2022, the Company had \$711 million of gross loss carryforwards related to the United Kingdom operations. At July 31, 2022, the Company had U.S. federal and state net operating loss carryforwards for income tax purposes of \$19 million and \$17 million, respectively. Some of the loss carryforwards may expire at various dates through 2039. At July 31, 2022, the Company had \$8 million of gross loss carryforwards related to international operations. A portion of these losses related to capital losses were offset with valuation allowances.

Unrecognized Tax Benefits

The following table reconciles the beginning and ending amount of our gross unrecognized tax benefits:

(In millions)	For the years ended July 31,		
	2022	2021	2020
Unrecognized tax benefits at beginning of fiscal year	\$132	\$245	\$220
Additions based on tax positions related to current year	27	28	26
Additions for tax positions of prior years	11	2	—
Reductions for tax positions of prior years	—	(8)	—
Reductions due to settlements	—	—	(1)
Reductions due to lapse of statute of limitations	(30)	(135)	—
Total	\$140	\$132	\$245

As of July 31, 2022, the unrecognized tax benefits that, if recognized, would impact the effective tax rate were \$140 million (2021: \$132 million and 2020: \$245 million). The Company recognizes interest and penalties in the income tax provision in its consolidated statements of earnings. As of July 31, 2022, the Company had accrued interest of \$17 million (2021: \$16 million and 2020: \$66 million). For the year end July 31, 2022, the interest included in income tax expense was an expense of \$1 million (2021: benefit \$42 million and 2020: expense \$21 million). Penalties related to these positions were not material for all periods presented.

The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, the settlement of ongoing tax audits and assessments and the expiration of applicable statutes of limitations. The Company anticipates that the balance of gross unrecognized tax benefits, excluding interest and penalties, will be reduced by \$23 million during the next 12 months, primarily due to the anticipated settlement of tax examinations and statute of limitation expirations. However, the outcomes and timing of such events are highly uncertain and changes in the occurrence, expected outcomes and timing of such events could cause the Company's current estimate to change materially in the future.

Reinvestment of Unremitted earnings

We consider foreign earnings of specific subsidiaries to be indefinitely reinvested. These permanently reinvested earnings of foreign subsidiaries at July 31, 2022 amounted to \$658 million (2021: \$551 million). The Company is not recording a deferred tax liability, if any, on such amounts. If at some future date, the Company ceases to be permanently reinvested in these foreign subsidiaries, the Company may be subject to foreign withholding and other taxes on these undistributed earnings and may need to record a deferred tax liability for any outside basis difference on these specific foreign subsidiaries.

Tax Return Examination Status

The Company files income tax returns in the U.K., U.S. and in various foreign, state and local jurisdictions. We are subject to tax audits in the various jurisdictions until the respective statutes of limitation expire. The Company is no longer subject to U.K. examinations by tax authorities for fiscal years before 2019 and U.S. federal income tax examinations by tax authorities for fiscal years before 2019. There are ongoing U.S. state and local audits and other foreign audits covering fiscal 2008-2020. We do not expect the results from any ongoing income tax audit to have a material impact on our consolidated financial condition, results of operations or cash flows.

Note 5: Property, plant and equipment

Property, plant and equipment consisted of the following:

(In millions)	As of July 31,	
	2022	2021
Land	\$273	\$271
Buildings	1,103	1,048
Leasehold improvements	455	423
Plant and machinery	719	641
Other equipment	146	143
Property, plant and equipment	2,696	2,526
Less: Accumulated depreciation	(1,320)	(1,221)
Property, plant and equipment, net	\$1,376	\$1,305

Depreciation related to property, plant and equipment included in operating costs for fiscal 2022 was \$140 million (2021: \$130 million and 2020: \$139 million).

Note 6: Leases

Lease-related assets and liabilities as presented in the consolidated balance sheets consist of the following:

(In millions)	As of July 31,	
	2022	2021
Assets:		
Operating lease right-of-use assets	\$1,200	\$1,102
Liabilities:		
Current portion of operating lease liabilities	\$321	\$263
Long-term portion of operating lease liabilities	878	827
Total lease liabilities	\$1,199	\$1,090

The components of leasing costs, included in SG&A, consist of the following:

(In millions)	For the years ended July 31,		
	2022	2021	2020
Operating lease costs	\$349	\$318	\$313
Variable lease cost	72	62	59
Short-term lease costs	14	1	10
Total lease costs	\$435	\$381	\$382

Variable lease costs represent costs incurred in connection with non-lease components, such as common area maintenance, and certain pass-through operating expenses such as real estate taxes and insurance.

The weighted average remaining lease terms and discount rates for the Company's operating leases were as follows:

	As of July 31,	
	2022	2021
Weighted average remaining lease term (years)	5.1	5.1
Weighted average discount rate	3.3 %	3.6 %

The future minimum rental payments under operating lease obligations, having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

(In millions)	As of July 31,
	2022
2023	\$330
2024	297
2025	234
2026	166
2027	108
Thereafter	182
Total undiscounted lease payments	1,317
Less: imputed interest	(118)
Present value of liabilities	\$1,199

The future minimum lease payments in the table above exclude payments for leases that have not yet commenced.

Supplemental cash flow information related to leases from continuing operations consists of the following:

(In millions)	For the years ended July 31,		
	2022	2021	2020
Cash paid for operating leases (operating cash flows)	\$337	\$321	\$310
Lease assets obtained in exchange for new operating lease liabilities (non-cash)	362	158	115

As of July 31, 2022, the Company had \$238 million of non-cancelable operating leases that have not yet commenced. These leases will commence in fiscal 2023 with terms similar to the Company's current operating leases.

Note 7: Goodwill

The Company completed its annual impairment analysis for goodwill during the fourth quarter of fiscal 2022. Based on the results of the Company's analysis, the Company concluded that the fair value of each reporting unit was substantially in excess of its respective carrying value. There were no impairment charges related to goodwill in fiscal 2022, 2021 or 2020.

The following table presents the changes in the net carrying amount of goodwill allocated by reportable segment for the years ended July 31, 2022 and 2021:

(In millions)	United States	Canada	Total
Balance as of July 31, 2020	\$1,590	\$147	\$1,737
Acquisitions	80	—	80
Effect of currency translation adjustment	—	11	11
Balance as of July 31, 2021	1,670	158	1,828
Acquisitions	224	—	224
Effect of currency translation adjustment	—	(4)	(4)
Balance as of July 31, 2022	\$1,894	\$154	\$2,048
Cumulative goodwill impairment as of July 31, 2022	108	11	119

Cumulative balance of historical goodwill impairments as of July 31, 2022, as shown above, was the same for all periods presented herein. See note 16 for further information on the additions to goodwill in fiscal 2022.

Note 8: Other intangible assets

The Company's major categories of definite-lived intangible assets and the respective weighted-average remaining useful lives consist of the following:

(In millions, except remaining useful life)	Weighted average remaining useful life (years)	As of July 31, 2022		As of July 31, 2021	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Software	4	\$370	(\$198)	\$305	(\$156)
Customer relationships*	8	1,138	(662)	857	(592)
Tradenames and brands*	5	258	(171)	230	(141)
Other*	4	206	(159)	187	(144)
Total intangible assets		\$1,972	(\$1,190)	\$1,579	(\$1,033)

* Acquired intangible assets

Amortization expense of intangible assets for the years ended July 31, 2022, 2021, and 2020 was \$161 million, \$168 million, and \$143 million, respectively. In fiscal 2022, the Company also recorded a \$15 million impairment charge in SG&A related to internal use software projects in the United States as the Company determined the benefits of the work capitalized would not be realized.

As of July 31, 2022, expected amortization expense for the unamortized definite-lived intangible assets for the next five years and thereafter is as follows:

(In millions)	As of July 31, 2022
2023	\$171
2024	155
2025	143
2026	106
2027	79
Thereafter	128
Total	\$782

Note 9: Debt

The Company's debt obligations consisted of the following:

(In millions)	As of July 31,	
	2022	2021
Variable-rate debt:		
Receivable Securitization Facility	455	—
Private Placement Notes:		
3.43% due September 2022	250	250
3.30% due November 2023	55	55
3.44% due November 2024	150	150
3.73% due September 2025	400	400
3.51% due November 2026	150	150
3.83% due September 2027	150	150
Unsecured Senior Notes:		
4.50% due October 2028	750	750
3.25% due June 2030	600	600
4.25% due April 2027	300	—
4.65% due April 2032	700	—
Subtotal	\$3,960	\$2,505
Less: current maturities of debt	(250)	—
Unamortized discounts and debt issuance costs	(24)	(16)
Interest rate swap - fair value adjustment	(7)	23
Total long-term debt	<u>\$3,679</u>	<u>\$2,512</u>

Private Placement Notes

In June 2015 and November 2017, Wolseley Capital, Inc. ("Wolseley Capital"), a wholly owned subsidiary of the Company, privately placed fixed rate notes in an aggregate principal amount of \$800 million and \$355 million, respectively (collectively, the "Private Placement Notes"). Interest on the Private Placement Notes is payable semi-annually. There was an additional \$95 million of variable rate notes issued in November 2017 that were re-paid in fiscal 2021.

Wolseley Capital's obligations under the note and guarantee agreements are unconditionally guaranteed by the Company and Ferguson UK Holdings Limited. Wolseley Capital may repay the outstanding Private Placement Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid plus a "make-whole" prepayment premium.

The note purchase agreements relating to the Private Placement Notes contain certain customary affirmative covenants, as well as certain customary negative covenants that, among other things, restrict, subject to certain exceptions, the Company's non-guarantor subsidiaries' ability to incur indebtedness and the Company's ability to enter into affiliate transactions, grant liens on its assets, sell assets, or engage in acquisitions, mergers or consolidations. In addition, subject to certain exceptions, the note purchase agreements require us to maintain a leverage ratio.

The outstanding Private Placement Notes contain customary events of default. Upon an event of default and an acceleration of the Private Placement Notes, the Company must repay the outstanding Private Placement Notes plus a make-whole premium and accrued and unpaid interest.

Unsecured Senior Notes

Since 2018, Ferguson Finance, plc (“Ferguson Finance”) has issued \$2.350 million in unsecured senior notes (collectively, the “Unsecured Senior Notes”) which are guaranteed by the Company.

The Unsecured Senior Notes are fully and unconditionally guaranteed on a direct, unsubordinated and unsecured senior basis by the Company and generally carry the same terms and conditions with interest paid semi-annually. The Unsecured Senior Notes may be redeemed, in whole or in part (i) at 100% of the principal amount on the notes being redeemed plus a “make-whole” prepayment premium at any time prior to three months before the maturity date (the “Notes Par Call Date”) or (ii) after the Notes Par Call Date at 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest on the principal being redeemed. The Unsecured Senior Notes include covenants, subject to certain exceptions, which include limitations on the granting of liens and on mergers and acquisitions.

Revolving Credit Facility

The Revolving Facility Agreement (as amended from time to time, the “Revolving Facility”), dated March 10, 2020, among the Company, Ferguson UK Holdings Limited, the lenders and arrangers party thereto, and the agent of the lenders party thereto, consists of a \$1.1 billion unsecured, revolving loan facility, which terminates in March 2026. The Revolving Facility includes an uncommitted accordion feature that permits the Company to request that the total commitments thereunder be increased by an aggregate amount not to exceed \$250 million, subject to the terms and conditions set forth therein. Borrowings are available to the Company and certain of its subsidiaries and bear interest at a rate equal to the sum of LIBOR, plus an applicable margin determined based on our public credit ratings. We are required to pay a quarterly commitment fee and utilization fee in certain circumstances. All obligations under the Revolving Facility are unconditionally guaranteed by the Company and Ferguson UK Holdings Limited, to the extent each entity is not the borrower with respect to such obligation.

The Revolving Facility contains certain customary affirmative covenants, as well as certain customary negative covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its subsidiaries to incur indebtedness, grant liens on present or future assets and revenues, sell assets, or engage in acquisitions, mergers or consolidations. The Revolving Facility also contains certain events of default, cross-default provisions and cross-acceleration provisions (in each case, with certain grace periods and thresholds).

As of July 31, 2022 and 2021, no borrowings were outstanding under the Revolving Facility.

Bilateral Loan

The Company maintains an unsecured \$500 million 364-day revolving facility agreement with Sumitomo Mitsui Banking Corporation, London Branch, as lead arranger, the lenders party thereto, and SMBC Bank International P.L.C., as agent for the lenders, which expires in March 2023 (the “Bilateral Loan Agreement”). The Bilateral Loan Agreement includes an extension feature that permits the Company, prior to the first anniversary of the date of the Bilateral Loan Agreement, to request that the termination date thereunder be extended for a further period of 364 days, subject to the terms and conditions set forth therein. Borrowings are available to the Company and certain of its subsidiaries and bear interest at a rate equal to the sum of Term SOFR, plus a margin and variable credit adjustment spread depending on the interest period. We are required to pay a quarterly commitment fee. All obligations under the Bilateral Loan Agreement are unconditionally guaranteed by the Company, to the extent that the Company is not the borrower with respect to such obligation. The Bilateral Loan Agreement contains certain affirmative and negative covenants and events of default that are substantially similar to those contained in the Revolving Facility.

As of July 31, 2022 and 2021, no borrowings were outstanding under the Bilateral Loan Agreement.

Receivable Securitization Facility

The Company’s Receivables Securitization Facility (the “Receivables Facility”) is primarily governed by the Receivables Purchase Agreement, dated July 31, 2013, as amended. The Company does not factor its account receivables as this facility is only secured borrowings.

As of July 31, 2022, the Receivables Facility consisted of accounts receivable funding for up to \$800 million, terminating in May 2024. The Company has available to it an accordion feature whereby the commitment on the Receivables Facility may be increased up to \$1.0 billion subject to lender participation. At all times, all borrowings under the Receivables Facility are recorded on the consolidated balance sheet of the Company.

Interest is payable under the Receivables Facility at a rate equal to LIBOR, or the commercial paper rates of the conduit lenders, plus an applicable margin. The Company pays customary fees regarding unused amounts to maintain the availability under the Receivables Facility.

The Receivables Facility contains certain customary affirmative covenants, as well as certain customary negative covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its subsidiaries party thereto from granting additional liens on the account receivables, selling certain assets or engaging in acquisitions, mergers or consolidations, or, in the case of the borrower, incurring other indebtedness.

The Receivables Facility also contains certain customary events of default and cross-default provisions, including requirements that our performance in relation to account receivables remains at set levels (specifically, among other things, relating to timely payments being received from debtors on the account receivables and to the amount of account receivables written off as bad debt) and that a required level of account receivables be generated and available to support the borrowings under the arrangements. As of July 31, 2022, \$455 million in borrowings were outstanding under the Receivables Facility. No amounts were outstanding at July 31, 2021.

The Company was in compliance with all debt covenants for all facilities as of July 31, 2022 and 2021.

Debt maturities, exclusive of unamortized original issue discounts, unamortized debt issuance costs, fair-value hedge adjustments, and finance lease obligations, for the next five fiscal years and thereafter are as follows:

(In millions)	As of July 31, 2022
2023	\$250
2024	510
2025	150
2026	400
2027	450
Thereafter	2,200
Total	<u>\$3,960</u>

Note 10: Assets and liabilities at fair value

The Company's assets and liabilities recorded at fair value are summarized as follows:

(In millions)	Fair Value Hierarchy	As of July 31,	
		2022	2021
Assets at fair value recorded in profit & loss:			
Current:			
Derivative financial assets	Level 2	\$2	\$5
Non-current:			
Derivative financial assets	Level 2	—	16
Investments in equity investments	Level 3	26	18
Liabilities at fair value recorded in profit & loss:			
Current:			
Derivative financial liabilities	Level 2	3	—
Non-current:			
Derivative financial liabilities	Level 2	3	—

Derivative Instruments

The Company's derivatives relate principally to interest rate swaps, designated as fair value hedges, to manage its exposure to interest rate movements on its debt. They are measured at fair value on a recurring basis through profit and loss using forward interest curves which are Level 2 inputs. No transfers between levels occurred during the current or prior year. The notional amount of the Company's outstanding fair value hedges as of July 31, 2022 and 2021 was \$355 million. The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty.

Other Fair Value Disclosures

Due to their short maturities or their insignificance, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and short-term debt approximated their fair values at July 31, 2022 and 2021.

Non-recurring fair value measurements

Fair value estimates are made in connection with the Company's acquisitions. See note 16 for further details.

Equity investments

The fair value of the Company's equity investments is measured on a recurring basis using market derived valuation methods upon occurrence of orderly transactions for identical or similar assets which is deemed a Level 3 input.

Liabilities for which fair value is only disclosed

The Company estimates that, based on current market conditions, the total fair value of its Unsecured Senior Notes was \$2,350 million (2021: \$1,538 million) compared with the carrying value of \$2,328 million (2021: \$1,337 million). The fair value of the Company's Private Placement Notes is estimated at \$1,142 million (2021: \$1,273 million) compared with a carrying value of \$1,153 million (2021: \$1,152 million). The difference in fair values results from changes, since issuance, in the corporate debt markets and investor preferences. The fair value of the Unsecured Senior Notes and Private Placement Notes are classified as Level 2 fair value measurements, and were estimated using quoted market prices as provided in secondary markets that consider the Company's credit risk and market-related conditions.

Note 11: Commitments and contingencies**Legal matters**

The Company is, from time to time, involved in various legal proceedings considered to be normal course of business in relation to, among other things, the products that we supply, contractual and commercial disputes and disputes with employees. Provision is made if, on the basis of current information and professional advice, liabilities are considered likely to arise. In the case of unfavorable outcomes, the Company may benefit from applicable insurance protection. The Company does not expect any of its pending legal proceedings to have a material adverse effect on its results of operations, financial position or cash flows.

Note 12: Accumulated other comprehensive loss

The change in accumulated other comprehensive income was as follows:

(In millions, net of tax)	Foreign currency translation	Pensions	Total
Balance at July 31, 2019	(\$599)	(\$282)	(\$881)
Other comprehensive income before reclassifications	24	(202)	(178)
Amounts reclassified from accumulated other comprehensive income	9	5	14
Other comprehensive income (loss)	33	(197)	(164)
Balance at July 31, 2020	(\$566)	(\$479)	(\$1,045)
Other comprehensive income before reclassifications	35	66	101
Amounts reclassified from accumulated other comprehensive income	135	13	148
Other comprehensive income	170	79	249
Balance at July 31, 2021	(\$396)	(\$400)	(\$796)
Other comprehensive income before reclassifications	(24)	(18)	(42)
Amounts reclassified from accumulated other comprehensive income	—	8	8
Other comprehensive income (loss)	(24)	(10)	(34)
Balance at July 31, 2022	(\$420)	(\$410)	(\$830)

Amounts reclassified from accumulated other comprehensive income related to pension and other post-retirement items include the related income tax impacts. Such amounts consisted of the following:

(In millions, net of tax)	For the years ended July 31,		
	2022	2021	2020
Amortization of actuarial losses	\$10	\$18	\$7
Tax benefit	(2)	(5)	(2)
Amounts reclassified from accumulated other comprehensive income	\$8	\$13	\$5

Note 13: Retirement benefit obligations

The Company provides various retirement benefits to eligible employees, including pension benefits associated with defined benefit plans, contributions to defined contribution plans, post-retirement benefits and other benefits. Eligibility requirements and benefit levels vary depending on associate location.

The Company provides defined benefit plans to its employees in Canada and the United Kingdom. The majority of the Canadian defined benefit plans are funded. Post-retirement benefit obligations are not material and have been included in all amounts presented herein.

The principal U.K. defined benefit plan is the Wolseley Group Retirement Benefits Plan which provides benefits based on final pensionable salaries. The assets are held in separate trustee administered funds. The plan was closed to new entrants in 2009, it was closed to future service accrual in December 2013, when it was replaced by a defined contribution plan, and it was closed during October 2016 for future non-inflationary salary accrual.

In 2017, the Company secured a buy-in insurance policy with Pension Insurance Corporation for the U.K. defined benefit plan. This policy covered all of the benefits provided by the plan to pensioner members at the time. The insurance asset is valued as exactly equal to the insured liabilities.

In 2021, prior to the disposal of the U.K. business, Wolseley UK Limited, the U.K. defined benefit plan was transferred to Ferguson UK Holdings Limited.

The net periodic benefit costs were valued with a measurement date of July 31 for each year. The funded status of the Company's plans was as follows:

(In millions)	For the years ended July 31,	
	2022	2021
Change in net benefit obligations:		
Beginning balance	\$2,208	\$2,283
Service cost	—	3
Interest cost	41	32
Actuarial (gain) loss	(554)	(171)
Benefits paid	(71)	(77)
Exchange rate adjustment	(222)	138
Ending balance	<u>\$1,402</u>	<u>\$2,208</u>
Change in assets at fair value:		
Beginning balance	\$2,304	\$2,220
Actual return on plan assets	(506)	(33)
Company contributions	15	56
Benefits paid	(71)	(77)
Exchange rate adjustment	(234)	138
Ending balance at fair value	<u>\$1,508</u>	<u>\$2,304</u>
Funded status of plans	<u>\$106</u>	<u>\$96</u>

Expected employer contributions to the defined benefit plans for the year ending July 31, 2023 are up to \$15 million.

Amounts recognized in the balance sheet consisted of:

(In millions)	As of July 31,	
	2022	2021
Non-current asset	\$114	\$108
Non-current liability	(8)	(12)

Amounts recognized in accumulated other comprehensive income loss:

(In millions)	As of July 31,	
	2022	2021
Net actuarial loss	\$537	\$538
Income tax impact	(127)	(138)
Accumulated other comprehensive loss	<u>\$410</u>	<u>\$400</u>

Components of other comprehensive loss (income) consisted of the following:

(In millions)	For the years ended July 31,		
	2022	2021	2020
Net actuarial (gain) loss	(\$3)	(\$78)	\$249
Amortization of net actuarial loss	(10)	(18)	(7)
Impact of exchange rates	12	—	—
Income tax impact	11	17	(45)
Other comprehensive loss (income)	\$ 10	(\$79)	\$197

The costs associated with all of the Company's plans were as follows:

(In millions)	For the years ended July 31,		
	2022	2021	2020
Selling, general and administrative expenses			
Service costs	\$—	\$3	\$3
Other expense (income), net			
Amortization of net actuarial losses	10	18	7
Interest cost	41	32	36
Expected return on plan assets	(45)	(60)	(53)
Net periodic benefit (income) cost	\$6	(\$7)	(\$7)

Weighted-average assumptions:

Discount rate, net periodic benefit cost	1.78 %	1.56 %	2.21 %
Discount rate, benefit obligations	3.53 %	1.78 %	1.56 %
Expected return on plan assets	2.12 %	2.60 %	3.15 %
Salary growth rate	2.35 %	2.13 %	2.08 %

The Company determines the discount rate primarily by reference to rates on high-quality, long-term corporate and government bonds that mature in a pattern similar to the expected payments to be made under the various plans. The weighted average discount rate assumptions used by the Company to determine the benefit obligations was 3.53%, 1.78% and 1.56% for fiscal 2022, 2021 and 2020, respectively.

The Company has established strategic asset allocation percentage targets for significant asset classes with the aim of achieving an appropriate balance between risk and return. The Company periodically revises asset allocations, where appropriate, in an effort to improve return and/or manage risk. The expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets. The market-related value of plan assets is based on long-term expectations given current investment objectives and historical results. The weighted average expected rate of return assumptions were 2.12%, 2.60%, and 3.15% for fiscal 2022, 2021 and 2020, respectively.

Investment Strategy

The Company's investment strategy for its funded post-employment plans is decided locally and, if relevant, by the trustees of the plan and takes account of the relevant statutory requirements. The Company's objective for the investment strategy is to achieve a target rate of return in excess of the increase in the liabilities, while taking an acceptable amount of investment risk relative to the liabilities. This objective is implemented by using specific allocations to a variety of asset classes that are expected over the long term to deliver the target rate of return.

For the U.K. plan, the guaranteed insurance policy represents approximately 30% of the plan assets. For the remaining assets, the strategy is to invest in a mix of equities, bonds and other income-generating asset classes so that expected cash flows broadly match a high proportion of the cash flows of the plan's expected liabilities. The investment strategy is subject to regular review by the trustees of the plan in consultation with the Company.

For the plans in Canada, the investment strategy is to invest predominantly in equities and bonds.

The Company's weighted-average asset allocations by asset category were as follows:

	As of July 31,	
	2022	2021
Asset category:		
Equity securities	2 %	2%
Fixed income securities	67	70
Cash, cash equivalents and other short-term investments	2	1
Guaranteed insurance policies	29	27
Total	100 %	100 %

The following table presents the fair value of the Company's plan assets using the fair value hierarchy as of July 31, 2022:

(In millions)	As of July 31, 2022			
	Total	Level 1	Level 2	Level 3
U.K. Plan assets:				
Fixed income securities:				
Corporate	639	8	492	139
Asset backed	80	16	58	6
Government	246	—	239	7
Cash and cash equivalents	25	22	3	—
Insurance policies	418	—	—	418
Canada Plan assets:				
Equity securities	35	35	—	—
Fixed income securities:				
Corporate	7	—	7	—
Government	32	—	32	—
Cash and cash equivalents	1	1	—	—
Other	25	14	11	—
	\$1,508	\$96	\$842	\$570

The following table presents the fair value of the Company's plan assets using the fair value hierarchy as of July 31, 2021:

(In millions)	As of July 31, 2021			
	Total	Level 1	Level 2	Level 3
U.K. Plan assets:				
Fixed income securities:				
Corporate	889	11	716	162
Asset backed	173	27	139	7
Government	492	—	477	15
Cash and cash equivalents	19	15	4	—
Insurance policies	602	—	—	602
Canada Plan assets:				
Equity securities	48	48	—	—
Fixed income securities:				
Corporate	13	—	13	—
Government	40	—	40	—
Cash and cash equivalents	1	1	—	—
Other	27	16	11	—
	<u>\$2,304</u>	<u>\$118</u>	<u>\$1,400</u>	<u>\$786</u>

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

(In millions)	For the years ended July 31,	
	2022	2021
Beginning balance	\$786	\$707
Realized gains	(108)	(113)
Purchases, sales and settlements, net	(20)	147
Impact of exchange rates	(88)	45
Ending balance	<u>\$570</u>	<u>\$786</u>

The Company expects the following benefit payments related to its defined benefit pension plan over the next 10 years:

(In millions)	As of July 31,
	2022
2023	\$62
2024	64
2025	65
2026	67
2027	68
2028-2032	367
Total	<u>\$693</u>

Defined Contribution Plans

The Company contributes to both employee compensation deferral and profit-sharing plans.

The principal plans operated for employees in the United States are defined contribution plans, which are established in accordance with 401k rules in the United States, as well as a Supplemental Executive Retirement Plan.

The Company's Canadian employees are covered by defined contribution plans including a Post Retirement Benefit Plan and Supplemental Executive Retirement Plan. Under the Canadian plans, the Company's employees are able to make personal contributions.

Total expense related to defined contribution plans in fiscal 2022 was \$87 million (2021: \$74 million and 2020: \$68 million).

Deferred compensation plan

The Company offers its employees a deferred compensation plan that was established to provide added incentive for the retention of key employees. The Company's obligations related to the plan total \$297 million (2021: \$328 million), including a current portion of the liability of \$29 million (2021: \$31 million). The Company has investments in Company-owned life insurance policies that are intended to fund these obligations, however, these assets are subject to the general claims of the Company's creditors. The assets are recorded at cash surrender value with changes recognized in earnings. The non-current assets total \$295 million (2021: \$332 million).

Note 14: Shareholders' equity

The following table presents a summary of the Company's share activity:

	For the years ended July 31,		
	2022	2021	2020
Ordinary shares:			
Balance at beginning of period	232,171,182	232,171,182	232,171,182
Change in shares issued	—	—	—
Balance at end of period	232,171,182	232,171,182	232,171,182
Treasury shares:			
Balance at beginning of period	(9,862,816)	(7,280,222)	(2,036,945)
Repurchases of ordinary shares	(11,413,180)	(3,020,368)	(5,591,570)
Treasury shares used to settle share-based compensation awards	197,419	437,774	348,293
Balance at end of period	(21,078,577)	(9,862,816)	(7,280,222)
Employee Benefit Trust:			
Balance at beginning of period	(833,189)	(1,277,347)	(1,563,778)
New shares purchased	(600,000)	—	(307,345)
Employee Benefit Trust shares used to settle share-based compensation awards	586,698	444,158	593,776
Balance at end of period	(846,491)	(833,189)	(1,277,347)
Total shares outstanding at end of period	210,246,114	221,475,177	223,613,613

Two Employee Benefit Trusts have been established in connection with the Company's discretionary share option plans and long-term incentive plans. Dividends due on shares held by the Employee Benefit Trusts are waived in accordance with the provisions of the trust deeds. At July 31, 2022, the shares held in trusts had a market value of \$107 million (2021: \$117 million).

Share Repurchases

In September 2021, the Company announced a program to repurchase up to \$1.0 billion of shares with the aim of completing the purchases within 12 months. In March 2022, the Company announced an increase of \$1.0 billion to its share repurchase program, bringing the total to \$2.0 billion. As of July 31, 2022, the Company has completed \$1.5 billion of the announced \$2.0 billion repurchase program. In September 2022, the Company extended its share repurchase program by an additional \$0.5 billion, resulting in a remaining balance of \$1.0 billion, which is expected to be completed within the next 12 months. The Company is currently purchasing shares under an irrevocable and non-discretionary arrangement (the “Arrangement”) with \$324 million in accrued repurchases remaining, which is recorded as a current liability in the consolidated balance sheet.

Note 15: Share-based compensation

The Ferguson Group International Sharesave Plan 2011, the Ferguson Group International Sharesave Plan 2019 and the Ferguson Group Long Term Incentive Plan 2019 (the “LTIP”) provide guidelines to determine the maximum number of ordinary shares that can be granted under each plan. Under these plans, the Company cannot grant equity awards that would result in the issuance of ordinary shares that, when aggregated with awards issued and outstanding under all of the Company’s other equity plans, would exceed 10% of the Company’s issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10-year period. In addition, as applicable, the Company is committed to not issuing new shares or reissuing treasury shares to executives under its equity plans that, when aggregated with issued and outstanding awards held by executives under all of the Company’s other equity plans, would exceed 5% of the issued ordinary share capital of the Company (adjusted for share issuance and cancellation) in any rolling 10-year period.

The Ferguson Group Employee Share Purchase Plan 2021 provides for a limit of 20 million ordinary shares that can be awarded under the plan subject to certain guidelines set forth in the plan that are consistent with the limits as described above. The Ferguson Group Deferred Bonus Plan 2019, the Ferguson Group Ordinary Share Plan 2019 (the “OSP”) and the Ferguson Group Performance Ordinary Share Plan 2019 (the “POSP”) each provides for the grant of equity awards without limitation on the number of ordinary shares that can be awarded under the subject plan.

The OSP grants to employees share awards that vest over a period of time (“time vested”), typically three years. Dividends do not accrue during the vesting period. The fair value of the award is based on share price on the date of grant.

Awards granted under the POSP vest at the end of a three-year performance cycle (“performance vested”). The number of ordinary shares granted upon vesting varies based upon the Company’s performance against an adjusted operating profit measure. Dividends do not accrue during the vesting period. The fair value of the award is based on share price on the date of grant.

Awards granted under the LTIP vest at the end of a three-year performance period. The number of ordinary shares granted upon vesting varies based on Company measures of inflation-indexed EPS, cash flow, and share performance compared with a peer company set. Based on the terms of this plan, the LTIP is treated as a liability-settled plan. As such, the fair value is initially determined at the date of grant, and is remeasured at each balance sheet date until the liability is settled. Dividends accrue during the vesting period.

The activity for fiscal 2022 with respect to all awards under the Company’s incentive plans is summarized in the following table:

	Number of Shares	Weighted Average grant date fair value
Outstanding as July 31, 2021	1,824,615	\$78.58
Time vested grants	78,816	134.29
Performance vested grants	184,404	134.29
Long-term incentive plan grants ⁽¹⁾	20,084	142.56
Share adjustments based on performance	205,874	132.43
Vested	(652,202)	65.58
Forfeited	(85,037)	97.66
Outstanding at July 31, 2022	1,576,554	\$100.03

⁽¹⁾ These awards are liability-settled awards.

The vesting date fair value of time vested, performance vested awards and long-term incentive awards in fiscal 2022 was \$94 million (2021: \$60 million and 2020: \$61 million). The weighted-average grant-date fair value per share of time vested, performance vested awards and long-term incentive awards was \$134.88 (2021: \$98.53 and 2020: \$75.48).

The Company recognized share-based compensation expense within SG&A in the fiscal 2022 consolidated statements of earnings of \$57 million (2021: \$77 million and 2020: \$29 million). The total associated income tax benefit recognized in fiscal 2022 was \$20 million (2021: \$20 million and 2020: \$12 million). Total unrecognized share-based payment expense for all share-based payment plans was \$62 million at July 31, 2022, which is expected to be recognized over a weighted average period of 1.7 years.

As of July 31, 2022, 19.8 million ordinary shares remain available for allotment under the rules of the Ferguson Group Employee Share Purchase Plan 2021. The exercise price per ordinary share will be prescribed by the Board for each offering period and may not be less than 85% of the lesser of the market value of an ordinary share on the date of grant and the market value of an ordinary share on the date of exercise. During fiscal 2022, there were approximately 122,218 shares purchased under the prior employee sharesave plan at an average price of \$106.50.

For additional information about the Company share-based compensation plans, see Part III, Item 11: Executive Compensation - Employee Share Schemes.

Note 16: Acquisitions

The Company acquired the following businesses during fiscal 2022. Each of the acquired businesses are engaged in the distribution of plumbing and heating products and was primarily acquired to support growth, primarily in the United States. All transactions have been accounted for by the acquisition method of accounting.

Name	Date of acquisition	Country of incorporation	Equity/asset deal	Acquired %
Meyer Electric Co.	September 2021	USA	Asset	100 %
Sunstate Meter & Supply, Inc.	October 2021	USA	Asset	100 %
Safe Step Walk-In Tub Company, Inc.	November 2021	USA	Asset	100 %
Royal Pacific Limited	November 2021	USA	Equity	100 %
Hot Water Products, Inc.	December 2021	USA	Asset	100 %
Plumbers Supply Company of St. Louis	January 2022	USA	Asset	100 %
Adirondack Piping Solutions, Inc.	February 2022	USA	Asset	100 %
A.P. Supply Co.	March 2022	USA	Asset	100 %
Lighting and Appliance Incorporated	April 2022	USA	Asset	100 %
Founders Kitchen and Bath, Inc.	April 2022	USA	Asset	100 %
Canadian Safe-Step Tubs, Inc.	May 2022	CA	Asset	100 %
Safe-Step Tubs Northwest Inc.	May 2022	USA	Equity	100 %
Aaron & Company, Inc.	May 2022	USA	Equity	100 %
Triton Environmental, LLC	June 2022	USA	Asset	100 %
D2 Land & Water Resource, Inc.	July 2022	USA	Asset	100 %
Minka Lighting, LLC	July 2022	USA	Equity	100 %
Rybak Engineering, Inc.	July 2022	USA	Asset	100 %

The assets and liabilities acquired and the consideration for these acquisitions are as follows:

(In millions)	Year ended July 31, 2022
Intangible assets:	
Trade names and brands	\$27
Customer relationships	282
Other	17
Right of use assets	65
Property, plant and equipment	11
Inventories	139
Trade and other receivables	91
Cash, cash equivalents and bank overdrafts	18
Lease liabilities	(65)
Trade and other payables	(68)
Deferred tax	(17)
Provisions	(1)
Total	499
Goodwill	224
Consideration	\$723
Satisfied by:	
Cash	\$668
Deferred consideration	\$55
Total consideration	\$723

The fair values of the assets acquired are considered preliminary and are based on management's best estimates. Further adjustments may be necessary when additional information becomes available about events that existed at the date of acquisition. Amendments to fair value estimates may be made to these figures in the 12 months following the date of acquisition. As of the date of this Annual Report, the Company has made all known material adjustments.

The fair value estimates of intangible assets are considered non-recurring, Level 3 measurements within the fair value hierarchy and are estimated as of each respective acquisition date.

The goodwill on these acquisitions is attributable to the anticipated profitability of the new markets and product ranges to which the Company has gained access and additional profitability, operating efficiencies and other synergies available in connection with existing markets. See note 7 for the allocation of acquired goodwill between the United States and Canada segments.

Deferred consideration represents the expected payout due to certain sellers of acquired businesses and is considered a non-cash investing activity as of the date of acquisition. The liability is estimated using assumptions regarding the expectations of an acquiree's ability to achieve operating targets, as defined in the purchase agreements, over a period of time that typically spans one to three years. Deferred consideration for all current year and prior year acquisitions was recorded at the maximum value as it was deemed probable that the performance targets would be achieved.

The businesses acquired in fiscal 2022 contributed \$227 million to net sales and \$8 million loss to the Company's income before income tax, including acquired intangible amortization, transaction and integration costs for the period between the date of acquisition and the balance sheet date.

If each acquisition had been completed on the first day of the financial period, the Company's net sales in fiscal 2022 would have been \$29,105 million (2021: \$23,510 million). The impact on income before income tax in fiscal 2022 and 2021, including additional amortization, transaction and integration costs, would not be material.

The net outflow of cash in respect of the purchase of businesses is as follows:

(In millions)	Year ended July 31,	
	2022	2021
Purchase consideration	\$668	\$299
Cash, cash equivalents and bank overdrafts acquired	(18)	(13)
Cash consideration paid, net of cash acquired	650	286
Deferred and contingent consideration paid for prior years' acquisitions ⁽¹⁾	22	49
Net cash outflow in respect of the purchase of businesses	\$672	\$335

(1) Included in other financing activities in the Consolidated Statements of Cash Flows

Note 17: Discontinued operations and disposals

On January 29, 2021, the Company disposed of the shares in its U.K. business, Wolseley UK Limited. As such, the disposal group has been presented as a discontinued operation.

The results from discontinued operations, which have been included in the consolidated statements of earnings are as follows:

(In millions, except per share amounts)	Year ended July 31,		
	2022	2021	2020
Net sales	\$—	\$1,138	\$1,879
Cost of sales	—	(879)	(1,440)
Gross profit	—	259	439
Selling, general and administrative expenses	—	(194)	(417)
Depreciation and amortization	—	(11)	(43)
Gain (loss) on disposal of business, net	23	(200)	—
Income (loss) before income tax	23	(146)	(21)
Provision for income taxes	—	(12)	9
Income (loss) from discontinued operations	\$23	(\$158)	(\$12)
Earnings per share - Basic	\$0.11	(\$0.70)	(\$0.05)
Earnings per share - Diluted	\$0.10	(\$0.70)	(\$0.05)

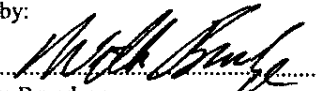
In fiscal 2022, the gain on disposal of business comprised a gain on the sale of land in connection with the Company's former Nordic operations that were disposed of in a prior year, generating \$24 million in cash flow from investing activities.

In fiscal 2021, the net loss on disposal of business primarily related to the disposal of the U.K. business, Wolseley UK Limited, comprising a loss on disposal of \$449 million of the U.K. business, partially offset by a \$235 million gain from the reclassification of currency translation adjustments from accumulated other comprehensive loss into income following the abandonment of former financing subsidiaries, as well as a \$14 million gain on a prior year's disposal of assets.

Note 18: Related party transactions

For fiscal 2022, the Company purchased \$22 million (2021: \$24 million and 2020: \$18 million) of delivery, installation and related administrative services from companies that are, or are indirect wholly owned subsidiaries of companies that are, controlled or significantly influenced by a Ferguson Non-Executive Director. No material amounts are due to such companies. The services are purchased on an arm's-length basis.

Approved by the Board of Ferguson plc and signed on its behalf by:

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William Brundage
Chief Financial Officer
September 27, 2022