Stark Danmark A/S

Gladsaxe Møllevej 5, DK-2860 Søborg

Annual Report for 1 August 2016 - 31 July 2017

CVR No 55 82 84 15

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 13/12 2017

Edward Walker
Chairman

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Stark Danmark A/S for the financial year 1 August 2016 - 31 July 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 July 2017 of the Company and of the results of the Company operations for 2016/17.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Gladsaxe, 11 December 2017

Executive Board

Søren Peschardt Olesen CEO	Britta Korre Stenholt Executive Officer

Board of Directors

Simon Gray Chairman	Søren Peschardt Olesen	Edward Grosvenor Walker Deputy Chairman
Kim Laursen Staff Representative	Lene Kjærbo Groth	

Independent Auditor's Report

To the Shareholder of Stark Danmark A/S

Opinion
We have audited the financial statements of Stark Danmark A/S for the financial year 01.08.2016 - 31.07-2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.07.2017 and of the results of its operations for the financial year 01.08.2016 - 31.07.2017 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines 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, Management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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 and the additional requirements applicable in Denmark 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.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on Management's Review
Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information re-

Independent Auditor's Report

quired under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management commentary.

Copenhagen, 11 December 2017
Deloitte
Statsautoriseret revisionspartnerselskab
CVR No 33 96 35 56

Kim Takata Mücke
State-Authorised Public Accountant

Company Information

The Company	Stark Danmark A/S Gladsaxe Møllevej 5 DK-2860 Søborg Telephone: + 45 +45 3955 9700 Facsimile: + 45 +45 3955 9799 E-mail: info@starkgroup.dk Website: www.starkgroup.dk CVR No: 55 82 84 15 Financial period: 1 August - 31 July Municipality of reg. office: Gladsaxe
Board of Directors	Simon Gray, Chairman Søren Peschardt Olesen Edward Grosvenor Walker Kim Laursen Lene Kjærbo Groth
Executive Board	Søren Peschardt Olesen Britta Korre Stenholt
Auditors	Deloitte Statsautoriseret revisionspartnerselskab Weidekampsgade 6 DK-2300 København

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2016/17	2015/16	2014/15	2013/14	2012/13
	Mio. DKK	Mio. DKK	Mio. DKK	Mio. DKK	Mio. DKK
Key figures					
Profit/loss					
Revenue	6.701	6.758	8.294	8.163	8.145
Gross profit/loss	1.357	1.357	2.388	2.274	2.365
Profit/loss before financial income and expenses	-65	122	296	122	220
Net financials	32	112	49	257	360
Profit/loss from discontinuing activities	-4	29	0	0	0
Net profit/loss for the year	-28	163	265	307	502
Balance sheet					
Balance sheet total	6.719	7.742	7.492	7.935	9.141
Equity	3.373	3.395	3.238	2.968	2.920
Investment in property, plant and equipment	219	225	130	258	126
Ratios					
Profit margin	-1,0%	1,8%	3,6%	1,5%	2,7%
Return on assets	-1,0%	1,6%	4,0%	1,5%	2,4%
Solvency ratio	50,2%	43,9%	43,2%	37,4%	31,9%
Return on equity	-0,8%	4,9%	8,5%	10,4%	18,0%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. The financial highlights are changed regarding the discontinuing activities and for further information see Management Review.

Profit margin $$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$$

Return on assets $$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$$

Solvency ratio $$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$$

Return on equity $$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$$

Management's Review

Financial Statements of Stark Danmark A/S (previously known as DT Group Danmark A/S and Stark Group A/S) for 2016/17 have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

This Annual Report has been prepared under the same accounting policies as last year and comprises company only financial statements, not consolidated financial statements for the Company and its subsidiaries.

Key activities

The Company is a supplier of building and furnishing materials and related services in Denmark and it also holds and manages investments in subsidiaries with similar activities across the Nordic region. The Company has two overall business areas:

•Building materials stores, and
•DIY centres.

Following a strategic review during 2016/17, it was decided to sell the entire Silvan DIY business which focuses on sales to consumers (B2C). This was because the ongoing core Building Materials business strategy is to concentrate on serving Business customers (B2B). The sale of the Silvan DIY business was completed on 31 August 2017 after the year end. Consequently, the results and net assets of the Silvan DIY business are reported as discontinued activities in these financial statements.

Ownership

The Company is a wholly-owned subsidiary of Stark Group A/S (previously known as DT Holding 1 A/S).

The Company's Financial Statements are included in the consolidated financial statements of the ultimate parent company, Ferguson plc, which are prepared under IFRS and include additional figures and specifications for the Nordic market.

Development in activities and financial circumstances

The reported revenue of the holding Company reduced by 0.9% in the year from DKK 6.758m to DKK 6.701m due to the closure in 2016/17 of 13 STARK branches in Denmark. The Branches were closed in January and February 2017 and generated revenues of DKK 138m in 2016/17 and revenues of DKK 259m in 2015/16. Looking at the results of the ongoing business in Denmark, excluding the effect of closed branches, revenues increased by 1.0% from DKK 6.499m in 2015/16 to DKK 6.563m in 2016/17. Trading in the B2B building materials sector in Denmark remained challenging in the first half of 2016/17. However, trading improved from January 2017 onwards delivering 1.0% growth overall in the ongoing business for the full year 2016/17 - and this trend is continuing into the first half of 2017/18. Please refer to the table below for details.

	2016/17		2015/16	
	Ongoing	Reported	Ongoing	Reported
	(Notes 1,2)		*(Note 1)*	
Revenue	6.563	6.701	6.499	6.758
Growth %	1,00%	-0,90%		
Profit/loss before financial inc & exp	164	-65	134	122

Note 1: The reported results have been adjusted to exclude results from the 13 STARK branches closed in Denmark in 2016/17

Note 2: The 2016/17 ongoing results exclude one-off costs totaling DKK 208m which include costs associated with:
Closure of the 13 STARK branches in Denmark; the costs associated with the sale of the Silvan DIY business in Denmark; and costs related to the restructuring of the regional organisation following completion of the strategic review in the year.

Ongoing operating profit before financial income and expenses for the ongoing business was DKK 164m in 2016/17 compared to DKK 134m last year on a comparable basis. The one off costs incurred in 2016/17 amounted to DKK 208m and included: costs associated with the closure of 13 poor performing STARK branches in Denmark; costs associated with the disposal of the Silvan DIY business; and costs related to the restructuring of the Regional organization following completion of the strategic review in 2017. One-off costs in 2015/16 were to DKK 12m.

The distribution of loss proposed by the Board of Directors appears from page 21.

The Company's equity at year end amounts to DKK 3.371m (31 July 2016: DKK 3.395m).

Diversity and equal opportunity

Stark Danmark A/S is included in the consolidated financial statements of parent company, Ferguson plc and is, as regards reporting on diversity and equal opportunity, comprised by the exemption provision of section 99 a(6) of the Danish Financial Statements Act. Reference is made to the consolidated financial statements of Ferguson plc for 2016/17.

Employees

In order to achieve the best customer service in the business, the company must have the right employees with relevant qualifications and knowledge as well as the right skills. The company focus strongly on ensuring that our employees are offered training and tools that equip them for providing the best service in the business.

Special risks

Due to the Company’s activities, its results and equity are subject to a number of business and financial risks. Management considers it a key part of its strategy to optimize returns, including to balance off risks against profit opportunities.

Foreign exchange risks

The extent of the Company's foreign exchange risks is limited by costs of labour and of goods purchased to a great extent being in the same currency as that used when invoicing sales. Foreign exchange risks arise primarily in connection with international purchases in currencies other than DKK.

It is the Company's policy to limit the effect of changes in foreign exchange rates on the Company's results primarily using forward exchange transactions. The Company does not enter into any speculative foreign exchange transactions.

Interest rate risks

Due to its operations, investments and funding, the Company is exposed to changes in the level of interest rates. Changes in the level of interest rates will have a limited effect on the Company's results.

Credit granting to customers

The Company has no exposure to major individual customers. In order to limit the risk of incurring losses on credit sales, the Company insures its receivables to the extent considered necessary and possible.

Statement of corporate social responsibility

Stark Danmark A/S is included in the consolidated financial statements of Ferguson plc and is, as regards reporting on corporate social responsibility, comprised by the exemption provision of section 99 a(6) of the Danish Financial Statements Act. Reference is made to the consolidated financial statements of Ferguson plc for 2016/17.

Outlook for 2017/18

In the early part of the new financial year, the trend in the market for building materials sales has been positive reflecting the relatively buoyant economic conditions currently pertaining across the region.

Increased focus on implementation of the newly identified strategic initiatives will support improved results for financial year 2017/18.

Subsequent events

Stark Danmark A/S reached agreement to sell its Silvan DIY stores business to Aurelius Private Equity on 8th July 2017. The transaction was completed on 31st August 2017. Consequently, the results and net assets of the Silvan DIY stores business have been reported as discountinued activities in these financial statements. This enables readers to see the performance and net assets of the continuing business.

The annual revenues of the Silvan business in 2015/16 and 2016/17 were DKK 1.624m and DKK 1.587m respectively.

The Company´s immediate parent company, Stark Group A/S (together with all of Ferguson plc's remaining Nordic operations) was put up for sale by the Company's ultimate parent company Ferguson plc in 2017. This decision followed completion of a strategic review which concluded that Ferguson's Nordic based operations did not form part of the Ferguson core business strategy which is the sale and distribution of heating, plumbing, air conditioning and similar light side materials for the building trade. Agreement for the sale of Ferguson's Nordic operations (excluding Silvan which had been sold previously) was signed on 10th November 2017 with an affiliate of Lone Star Funds, a global private equity firm for Euro 1.025.000,000 on a debt-free and cash-free basis. Ferguson has retained approximately Euro 150 million of property assets which it expects to sell in due course. The completion of the transaction expected in the first quarter of 2018 is subject to approval by government competition authorities in the region.

Income Statement 1 August - 31 July

	Note	2016/17 Mio. DKK	2015/16 Mio. DKK
Revenue	2	**6.701**	**6.758**
Other operating income		1	0
Expenses for raw materials and consumables		-5.048	-5.036
Other external expenses		-297	-365
Gross profit/loss		**1.357**	**1.357**
Staff expenses	3	-1.106	-1.121
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-156	-113
Other operating expenses		-160	-1
Profit/loss before financial income and expenses		**-65**	**122**
Income from investments in subsidiaries		24	94
Financial income	5	32	48
Financial expenses	6	-24	-30
Profit/loss before tax		**-33**	**234**
Tax on profit/loss for the year	7	9	-100
Profit/loss from continuing activities		**-24**	**134**
Profit/loss from discontinuing activities	8	-4	29
Net profit/loss for the year		**-28**	**163**

Balance Sheet 31 July

Assets

	Note	2016/17	2015/16
		Mio. DKK	Mio. DKK
Goodwill		24	37
Development projects in progress		33	48
Intangible assets	9	**57**	**85**
Land and buildings		1.489	1.508
Other fixtures and fittings, tools and equipment		66	86
Property, plant and equipment in progress		155	23
Property, plant and equipment	10	**1.710**	**1.617**
Investments in subsidiaries	11	1.105	1.124
Receivables from group enterprises	12	378	384
Fixed asset investments		**1.483**	**1.508**
Fixed assets		**3.250**	**3.210**
Inventories	13	**811**	**867**
Trade receivables		850	859
Receivables from group enterprises		930	1.404
Other receivables		57	16
Prepayments		3	19
Receivables		**1.840**	**2.298**
Cash at bank and in hand		**333**	**831**
Assets relating to discontinued activities	8	**485**	**536**
Currents assets		**3.469**	**4.532**
Assets		**6.719**	**7.742**

Balance Sheet 31 July

Liabilities and equity

	Note	2016/17 Mio. DKK	2015/16 Mio. DKK
Share capital		462	462
Retained earnings		2.911	2.933
Equity	14	**3.373**	**3.395**
Provision for deferred tax	16	74	112
Other provisions	17	81	60
Provisions		**155**	**172**
Mortgage loans		596	1.121
Long-term debt	18	**596**	**1.121**
Mortgage loans	18	64	0
Trade payables		1.655	1.676
Payables to group enterprises		3	568
Corporation tax		36	58
Other payables		330	264
Liabilities relating to discontinued activities	8	507	488
Short-term debt		**2.595**	**3.054**
Debt		**3.191**	**4.175**
Liabilities and equity		**6.719**	**7.742**
Subsequent events	1		
Distribution of profit/loss	15		
Contingent assets, liabilities and other financial obligations	19		
Related parties	20		
Accounting Policies	21		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	Mio. DKK	Mio. DKK	Mio. DKK
Equity at 1 August	462	2.933	3.395
Other equity movements	0	6	6
Net profit/loss for the year	0	-28	-28
Equity at 31 July	**462**	**2.911**	**3.373**

Notes to the Financial Statements

1 Subsequent events

Stark Danmark A/S reached agreement to sell its Silvan DIY stores business to Aurelius Private Equity on 8 July 2017. The transaction was completed on 31 August 2017. Consequently, the results and net assets of the Silvan DIY stores business have been reported as discontinued activities in these financial statements. This enables readers to see the performance and net assets of the continuing business.

2 Revenue

	2016/17 Mio. DKK	2015/16 Mio. DKK
Sale of goods	6.668	6.705
Other sales	33	53
	6.701	**6.758**

3 Staff expenses

	2016/17 Mio. DKK	2015/16 Mio. DKK
Wages and salaries	1.008	1.025
Pensions	78	74
Other social security expenses	20	22
	1.106	**1.121**
Including remuneration to the Executive Board	**16**	**17**
Average number of employees	**3.308**	**3.328**

The management participates in an ordinary share program and a share option program for the ultimate parent company, Ferguson plc.

Shares and share options issued by the ultimate parent company, Ferguson plc. are charged annually for the share of the costs relevant to Group, calculated in accordance with IRFS, which relates to the financial year. As a result, no liabilities are recognized at 31 July 2016 and 2017 concerning share-based compensation.

Notes to the Financial Statements

The management in Stark Danmark A/S has been granted the following conditional and unconditional shares:

	OSP	**ROSP**
O/s at 1 Aug 2016	114.167	-
Granted	19.562	79.867
Exercised	-37.711	-
Lapsed	-5.391	-3.036
O/s at 31 July 2017	90.627	76.831

OSP = Ordinary Share Plan
ROSP = revised ordinary Share Plan

The shares, which have been granted under the OSP scheme, are conditional for three years. The condition for the shares is that the holder is employed at the end of the three-year period.

Notes to the Financial Statements

		2016/17	2015/16
		Mio. DKK	Mio. DKK
4	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	13	18
	Depreciation and impairment of property, plant and equipment	95	95
	Impairment of intangible assets	48	0
		156	**113**
5	**Financial income**		
	Interest received from group enterprises	19	30
	Interest received from debtors	12	13
	Other financial income	1	1
	Exchange gains	0	4
		32	**48**
6	**Financial expenses**		
	Other financial expenses	19	30
	Exchange losses	5	0
		24	**30**
7	**Tax on profit/loss for the year**		
	Current tax for the year	28	29
	Deferred tax for the year	-29	52
	Adjustment of tax concerning previous years	-4	25
	Adjustment of deferred tax concerning previous years	-4	-6
		-9	**100**

Notes to the Financial Statements

8 Discontinuing activities

	2016/17 Mio. DKK	2015/16 Mio. DKK
Revenue	1.587	1.624
Expenses for raw materials and consumables	-998	-1.004
Other external expenses	-276	-260
Gross profit/loss	**313**	**360**
Staff expenses	-295	-298
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	-20	-23
Other operating expenses	0	-1
Profit/loss before financial income and expenses	**-2**	**38**
Financial expenses	-3	-2
Profit/loss before tax	**-5**	**36**
Tax on profit/loss for the year	1	-7
Profit/loss from discontinuing activities	**-4**	**29**
Property, plant and equipment	48	49
Fixed assets	**48**	**49**
Inventories	368	407
Receivables	69	80
Currents assets	**437**	**487**
Assets relating to discontinued activities	**485**	**536**
Provisions	14	18
Trade payables	493	470
Liabilities relating to discontinued activities	**507**	**488**

Discontinued activities relates to the SILVAN business. Following a strategic review during the year, it was decided to sell the Silvan DIY Centres as this business focus is on consumers whereas the core Building Materials business concentrates on serving B2B customers. The sales of the Silvan DIY business was completed on 31 August 2017 after the year end. Consequently, the results and net assets for this part of the business are reported as discontinued activities to enable readers to see the results for the continuing business.

Notes to the Financial Statements

9 Intangible assets

	Goodwill	Development projects in progress
	Mio. DKK	Mio. DKK
Cost at 1 August	551	48
Additions for the year	0	42
Disposals for the year	0	-36
Transfers for the year	0	-21
Cost at 31 July	551	33
Impairment losses and amortisation at 1 August	514	0
Amortisation for the year	13	0
Impairment losses and amortisation at 31 July	527	0
Carrying amount at 31 July	**24**	**33**

10 Property, plant and equipment

	Land and buildings	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
	Mio. DKK	Mio. DKK	Mio. DKK
Cost at 1 August	2.683	556	23
Net effect from demerger and business sale	0	-279	0
Additions for the year	0	22	177
Disposals for the year	-3	-74	0
Transfers for the year	41	25	-45
Cost at 31 July	2.721	250	155
Impairment losses and depreciation at 1 August	1.175	404	0
Net effect from demerger and business sale	0	-211	0
Impairment losses for the year	10	0	0
Depreciation for the year	48	37	0
Reversal of impairment and depreciation of sold assets	-1	-46	0
Impairment losses and depreciation at 31 July	1.232	184	0
Carrying amount at 31 July	**1.489**	**66**	**155**

Notes to the Financial Statements

11 Investments in subsidiaries

	2016/17	2015/16
	Mio. DKK	Mio. DKK
Cost at 1 August	1.124	1.178
Disposals for the year	-19	-54
Cost at 31 July	1.105	1.124
Value adjustments at 1 August	0	0
Value adjustments at 31 July	0	0
Carrying amount at 31 July	**1.105**	**1.124**

Investments in subsidiaries are specified as follows:

Name	Country	Votes and ownership	Equity, mio. DKK	Net profit/loss for the year, mio. DKK
DT Finland OY	Finland	100%	436	-41
Starkki Property Oy	Finland	100%	109	2
DT Holding (Sweden) AB	Sweden	100%	157	0
Beijer Byggmaterial AB	Sweden	100%	1.226	41
Beijer Byggmaterial i Uppsala AB	Sweden	100%	3	0
KB Huggjärnet 6	Sweden	100%	10	1
KB Näringen 8:4	Sweden	100%	10	1
Neumann Bygg AS	Norway	100%	123	7
Sandvold AS	Norway	100%	6	1
Stark Kalaallit Nunaat A/S	Greenland	100%	113	12
Stark Føroyar A/S	Faroe Islands	100%	-1	-2
Electro Energy A/S	Denmark	100%	110	6
Hobro Ny Trælast A/S	Denmark	100%	11	0

12 Other fixed asset investments

	Receivables from group enterprises
	Mio. DKK
Cost at 1 August	384
Exchange adjustment	-6
Cost at 31 July	378
Carrying amount at 31 July	**378**

Notes to the Financial Statements

		2016/17	2015/16
		Mio. DKK	Mio. DKK
13	**Inventories**		
	Finished goods and goods for resale	811	867
		811	**867**

14 Equity

The share capital consists of 23,123,657 shares of a nominal value of DKK 20. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

15 Distribution of profit/loss

	2016/17	2015/16
Retained earnings	-28	163
	-28	**163**

16 Provision for deferred tax

	2016/17	2015/16
Provision for deferred tax at 1 August	112	66
Amounts recognised in the income statement for the year	-38	46
Provision for deferred tax at 31 July	**74**	**112**

17 Other provisions

The Company provides warranties of 1 to 5 years on some of its products and is therefore obliged to repair or replace defected goods.

	2016/17	2015/16
Other provisions	81	60
	81	**60**

Notes to the Financial Statements

18 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2016/17	2015/16
	Mio. DKK	Mio. DKK
Mortgage loans		
After 5 years	254	1.121
Between 1 and 5 years	342	0
Long-term part	596	1.121
Within 1 year	64	0
	660	**1.121**

The Company repaid mDKK 600 of mortgage loans on 30 September 2017.

19 Contingent assets, liabilities and other financial obligations

Charges and security

The following assets have been placed as security with mortgage loans:

Land and buildings with a carrying amount of	1.489	1.508

The following assets have been placed as security with bankers:

Mortgage deeds registered to the mortgagor totalling DKK 1.102, providing security on land and buildings as well as other property, plant and equipment at a total carrying amount of	934	956

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:		
Within 1 year	105	123
Between 1 and 5 years	224	242
After 5 years	27	37
	356	**402**

Discontinued activities include 115 mDKK.

Notes to the Financial Statements

19 Contingent assets, liabilities and other financial obligations (continued)

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Stark group. The total amount of corporation tax payable is disclosed in the Annual Report of Stark Group Holdings A/S, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company’s liability.

20 Related parties

	Basis
Controlling interest	
Stark Group A/S	Stark Group A/S is the parent company.

Transactions

There have been no transactions with the Supervisory Board, the Executive Board, senior officers, significant shareholders, group enterprises or other related parties, except for intercompany transactions and normal management remuneration. All transactions are made on an arm's length basis.

Consolidated Financial Statements

The Company is included in the group Annual Report of the parent company of the largest and smallest group:

Name	Place of registered office
Ferguson plc	St. Hellier, Jersey

The Group Annual Report of Ferguson plc may be obtained at the following address:

Grafenauweg 10, CH- 6301, Zug, Switzerland

Notes to the Financial Statements

21 Accounting Policies

The Annual Report of Stark Danmark A/S for 2016/17 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2016/17 are presented in Mio. DKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Ferguson plc, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Ferguson plc, the company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

Notes to the Financial Statements

21 Accounting Policies (continued)

The relating lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as ”Other receivables” and ”Other payables”, respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting.

Revenue

Information on business segments and geographical segments based on the Companys risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of

Notes to the Financial Statements

21 Accounting Policies (continued)

discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses other than production wages.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

Dividends from subsidiaries are recognised as income in the income statement when adopted at the General Meeting of the subsidiary. However, dividends relating to earnings in the subsidiary before it was acquired by the Parent Company are set off against the cost of the subsidiary.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish subsidiaries. The tax effect of the joint taxation

Notes to the Financial Statements

21 Accounting Policies (continued)

is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 5-20 years.

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Office buildings	50	years
Other buildings	25	years
Plant and machinery	3-10	years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Other fixed asset investments

Other fixed asset investments consist of long term receivables from group enterprises.

Notes to the Financial Statements

21 Accounting Policies (continued)

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale equals landed cost.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Provisions are measured and recognised based on experience with guarantee work.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Notes to the Financial Statements

21 Accounting Policies (continued)

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Other debts are measured at amortised cost, substantially corresponding to nominal value.