

For personal use only

Growth and Opportunity

Annual
Report
2021

Our Vision

To be the trade's
most valuable
partner, helping
them to succeed
in a digital world.



Reece acknowledges the Traditional Custodians of Country throughout Australia and their continuing connection to land, culture and community. We pay our respects to Elders past, present and emerging.

FY2021 highlights	04
Chair and CEO's letter	07
Thinking for the long-term	08
Staying a step ahead	10
Delivering for our customers	12
Living the Reece Way	18
Best place to work	20
Doing the right thing	26
Financials	38

FY2021 highlights

We'll continue to invest in the future so we can stay one step ahead of our customers and the essential role they play in society.



Sales revenue

\$6,271m



Normalised EBITDA

\$720m



EBIT

\$493m



NPAT

\$286m



Net assets

\$2,888m



FY21 dividends declared

18 cents

189



Founded in
Fortworth

642



First branch in Albury

Founded in
Caulfield

Expanded
into NZ

For personal use only



Chair and CEO's letter

This year has continued to see the world provide many challenges. From the evolving environment due to the pandemic, the Texas Freeze, to the Australian bushfires, 2021 has certainly tested us, but it has also proved how resilient our business is.

I am so proud of the way our people have continued to live our purpose and values, so that we could deliver the customised service our customers demand. Some of their stories are shared in this report.

At the core of Reece is our long-term focus to be one step ahead of our customers. We kept our doors open so we could help them provide the essential services these times demand. Ensuring warm homes, access to clean water and preventing disease.

We've also seen major investment in the construction industry, helping to buoy the economy, which has made our tradespeople busier than ever. This activity has led to Reece Group achieving record sales revenue of \$6.3b for FY21 up 4% on FY20. Normalised earnings before interest, tax and depreciation and amortisation improved 11% to \$720m. Statutory net profit after tax rose 25% to \$286m.

We know that the next few years will continue to be unpredictable, and we are already seeing our customers at capacity, along with inflation and supply challenges. With this backdrop, the Board has declared a final dividend of 12 cents per share fully franked, taking the total dividends in FY21 to 18 cents per share.

Finally, I'd like to invite our shareholders to our Virtual Annual General Meeting on 28 October 2021. Details on how to attend will be included in the Notice of Meeting.



Alan Wilson
Executive Chair

At Reece, we have a clear long-term vision – to be the trade's most valuable partner, helping them succeed in a digital world. In FY21 we have made strong progress, even with the challenging environment.

Reece's resilient business model and great team means we were able to adapt, while remaining focused on the long-term. Like we've always done, we're passionate about providing the support our customers need. We do this by being brilliant at the fundamentals of our operations, being both strategic and opportunistic to grow the business and fostering a culture of innovation. This approach, coupled with our customers being busier than ever, has led to record results for the Group.

This year, we have developed new products and services to support our customers and their business, giving them more time on the tools, and less time on administration.

We've also listened to the role our customers want us to play in sustainability, and this insight has helped us create our customer-led sustainability strategy. Our approach focuses on reducing our environmental impact, empowering trade to create more sustainable ways of working and building resilient communities where we operate.

Across the US, Australia and New Zealand, we have seen strong activity, while lockdowns continue, and world events are unpredictable - we are proud that our customers feel supported and our people love working here.

I am very pleased to share that Reece Group achieved another record result for FY21. Sales revenue was up 4% to \$6.3b, while net profit after tax was up 25% to \$286m. We'll continue to invest in the future so we can stay one step ahead of our customers and the essential role they play in society.



Peter Wilson
Chief Executive Officer & Managing Director

Thinking for the long-term

While the world around us continues to bring uncertainty, our unwavering focus on the long term helps us to keep one step ahead of our customers' needs.

We continually improve and innovate to achieve our 2030 vision – to be the trade's most valuable partner, helping them succeed in a digital world.

One purpose, two regional strategies

Everything we do at Reece, across the US, Australia and New Zealand (ANZ), is inspired by our purpose – to improve the lives of our customers and people by striving for greatness every day. We do this by focusing on being brilliant at the fundamentals of our business, creating growth opportunities, and enabling a culture of innovation.

How we bring this to life is different in the markets we serve, which is why we have two distinct regional strategies.

In Australia and New Zealand, our focus is on digitising the customer experience, so we can offer the same world-class experience no matter when, where or how our customers want to do business with us.

In the US, our focus remains on getting the fundamentals of the business working well and understanding the opportunities for growth in the Sun Belt region.

While ANZ leads our digital journey, we use a global mindset, so we can take these learnings into the US business.

Our Strategic Priorities

01

**Brilliant
fundamentals**

02

**Investing
for growth**

03

**Delivering
innovation**

Building capability, being creative, and having a commercial mindset have been at the heart of the way we think at Reece for decades.

Thinking BIG

We've cemented this approach by establishing the Breakthrough Innovation Group, or BIG.

BIG is our group of businesses that brings the outside in, making sure Reece is staying on top of what's happening in our industry and what's coming in the future. This year, we've taken BIG global, supporting both Reece ANZ and the US. Testing, learning and iterating – helping us to be a thought leader of insight and innovation in the trade industry.

BIG has already helped us bring to life new services and partnerships for our business, developed after gathering insights around pain points for our customers.



Staying a step ahead

In 2021 it was crucial to be one step ahead of our customers' changing needs.

With the world changing around them, because of the essential work they do, our customers have been busier than ever before. They love us for the depth of advice and expertise we provide, and the quality products we continue to supply, through the challenges of the pandemic.

Over the last few years in ANZ, we have been focussed on helping our customers spend more time on the tools, while helping them run their businesses well. In 2021, we've seen this focus translate to strong adoption of our digital platforms, many of which came to life through BIG. From job management to education, our services are helping our customers be more effective and deepening their relationship with Reece.



FieldPulse

“I can do all of my invoicing on the road. It’s removed my need to spend time in the office when I get home.”

Mat, SW Environmental Plumbing

Managing customers can be the toughest part of the job. But with an integrated job management platform like FieldPulse, tradespeople spend less time on admin and more time supporting their customers and doing what they love.

In the last year, we’ve adapted FieldPulse for the local market, and improved integrations with Reece customer tools. This has seen an exponential increase in customer adoption. With more than 75% of people on the trial moving to a fully paid subscription.



“I love what PowerUp does and how it’s set up. It’s like a virtual classroom.”

Sonya, Hughes Contracting Group

When our customers are busy on the job, it’s hard for them to learn new skills or refine skills they haven’t used for a while. That’s why we started PowerUp and launched two nationally accredited courses in Business and Leadership & Management this year. We already have over 180 students enrolled, and we are excited about the opportunities our blended learning experiences can bring to the trade education space.

goodwork.

“It’s a simple and effective way to hire good tradies”

Mark, Make Renovate

This year, it’s been tougher than ever for tradespeople to find reliable resources. Through goodwork, tradespeople have been able to search for extra resources to help get the job done.

Over the last year, we’ve built new technology to match the right tradies to the right jobs. We have also overhauled our member communication channels to automate a range of emails, push notifications and SMS.

This has resulted in goodwork becoming the fastest way to find work, hire work and network. We now have 38,000 members in the platform’s community and a 35 per cent increase in active users over the last 12 months.

Delivering for our customers

This year, our customers needed our help more than ever before, and our people have gone the extra mile to support them.

In February 2021 Texas was hit hard by Winter Storm Uri, closing most businesses for nearly a week and causing damage to thousands of homes across the state. Burst pipes and other big plumbing issues meant many of our Plumbing and HVAC branches opened for business on Saturday and Sunday to serve our customers working to restore essential infrastructure.



Creating customers for life, during a snowstorm

Due to freezing temperatures, and the stresses placed on the power grid, many residents were left with no power during the storm.

Rosaisela began checking in on customers and offering her showroom's commercial fridges as a storage place for their groceries, to keep food from spoiling during the power outages.

“We were glad our showroom never lost power and we were able to offer many of our customers storage for their food in our refrigerators. Our values are to take care of all our customers at all times.”

Rosaisela, Showroom Manager, McAllen, Texas



Weathering the storm

Not only were the US team hugely challenged by the impact of COVID-19, in February, Winter Storm Uri led to significant power losses and frozen pipes across Texas, Oklahoma and other areas of the Sun Belt where we operate.

With plumbers in high demand, our people across the impacted areas went above and beyond to support our customers.



“Our customer was in need of ten tankless water heaters. One Sunday morning, I hit the ground running and travelled from Plano, Texas – stopped in Kansas, and delivered the pallet of heaters, which supplied hot water to families in need during this crisis.”

Cole, Business Development Representative, Texas Plumbing, Plano

Continuing our tradition of product innovation

Quality products backed up by strong supply is at the heart of the Reece approach. This year we brought a number of exclusive products to market.



Tecumseh

Made like no other

Fridgies demand high quality products with rock-solid reliability, their reputations depend on it. Tecumseh is the undisputed leader when it comes to real-world performance. Innovation, reliability and unparalleled efficiency are at the heart of this brand. In the last 12 months, we launched Compac Scroll. Scroll compressors allow ultra-smooth and efficient operation due to the true rotating motion, which enables dynamic balancing.



Simple installation. Fuss free maintenance

Five million tonnes of plastic enter the ocean each year, and 80 per cent of marine pollution comes from storm water run-off. The Enviropod is a storm gully pit we launched in October last year, designed to prevent litter, cigarette butts and other contaminants entering the storm water system and our oceans. A single Enviropod collects around 10 kilograms of plastics every year.



memo

The ingredients for a happy kitchen

This year we launched Memo. Memo kitchen products combine beautiful quality and clever little touches that are more important than ever, like mixers that turn themselves on for you, and sinks so striking they'll make you want to do the dishes.




THERMANN



Quality that always performs

Our customers value products that are good for the planet and the wallet. In 2021, we brought to market the Thermann E-plus. Powered by the world's most efficient technologies, these commercial units help our customers reduce their carbon footprint. Alongside environmental benefits, E-plus saves our customers thousands on energy bills over the life of the units.



“These units just keep powering away and are saving me a fortune. Thermann has been a great decision for our business.”

Jeff, Beatty Park Leisure Centre

THERMANN

Saving your hip pocket

Beatty Park Leisure Centre has an Olympic sized outdoor pool complex, with over 800,000 people visiting the centre every year.

The previous hot water system made it difficult to regulate temperature for customers taking showers and was very expensive to run. As a trial, three 32L commercial continuous flow units were initially installed. Happy with the first installation, the decision was made to replace the entire hot water plant with five 50L commercial continuous flow units.



Supporting our customers however they choose to do business with us

To achieve our vision, we have to deliver our digital strategy, and at the heart of this is our online customer platform, maX.

Over the last 12-months we've developed and launched new customer quoting tools, a new checkout for our cash-account trade customers, integrated with SimPro, a job management software designed for trade contractors and improved our integration with AroFlo, one of the most widely used job management solutions on the market.

These improvements combined with an accelerated adoption of digital tools through COVID-19 has seen an exponential increase in online sales through maX – and these levels of interaction continue.

“Reece have excelled in making the maX app the way it is, just proves that Reece are here to stay and are always finding new ways to help their customers.”

Jaimie, maX customer

53%

in online sales



11%

new accounts



Bringing Proudly Essential to the US

To support our local teams and customers in the US, this year we launched our Proudly Essential campaign. Using learnings from ANZ, we created material specifically tailored for the American plumber and fridgie. It was all to celebrate World Refrigeration Day and World Plumbing Day, and the important work our customers have carried out during the pandemic.

“My proudest moments come from restoring a home from unsafe plumbing.”

Kelly, Pro Plumber



Living the Reece Way

This year we introduced recognition programs across ANZ and the US, celebrating our people for living their values.



Own it

Daniel
North Carolina, US

"Always going the extra mile to help, Danny owns everything about being a great driver and ensuring the customer has a phenomenal experience."



Create customers for life

Andrew, Arizona, US

"It does not matter what the customer needs, Andrew takes the time to listen and understand exactly what it is they want. Andrew exemplifies what it is to create customers for life, and I am very proud to see him take things to the next level."



Discover your best

Jeremy
Northern Territory, AU

"Jeremy truly tries his hardest to get everyone to discover their best and always have an open mindset. He is a fantastic leader and mentor."



Grow as a team

Branch team in Katoomba
New South Wales, AU

"Earlier this year, the Katoomba branch tragically lost their Branch Manager and mate. Everyone really came together and stepped up to challenges of running the store. They started early, finished late, worked endlessly and did their best to keep the store running at an extremely difficult time."



Innovate big & small

Michael-John
Victoria, AU

"Michael works hard to find new ways of saving time and money. Michael is a War on Waste warrior and he's making big differences to the way we work."



Do the right thing

Jane
Victoria, AU

"Jane is an inspiring leader and has done amazing things as part of the Diversity and Inclusion working group."



Try. Try. Try

Nathan
Texas, US

"Nathan really held things together during our transition period when we were without a branch manager and assistant operations manager."

Keep it simple

Joseph
North Carolina, US

"Joe uses innovative techniques, as an inside sales team member, that enhances the relationship with our customers."

Be humble

Natasha
North Island, NZ

"Natasha moved from Sydney to become the new Branch Manager of Hamilton, New Zealand. This was a massive transition filled with many curve-balls. Natasha never makes a noise about any of this. She is no doubt the most humble and selfless person I've ever met – such an inspiration to us all."

Write the next chapter

Jon
North Carolina, US

"Jon is our Senior Inside Sales Representative and has been instrumental over the years in developing his peers that have less experience. No matter how busy he may be, he always takes time to share his knowledge and experiences with other team members at the branch."

Best place to work



At Reece, we are passionate about building the capability of our people.

Nurturing and growing talent has been a part of our culture for decades. In the US, Australia and New Zealand we have spent time this year building our people promise, capturing why it is great to work here. In 2021 we built our employment brand externally, helping us attract the talent we need for our future growth.



For personal use only

Realising the potential of young people

This year we've seen 40 graduates join our business across ANZ and the US.

We've also continued to support school-based apprentices in Australia. With over 379 students spending time in our business. Over 40 per cent of those who complete the program go on to full-time roles at Reece once their studies are complete.

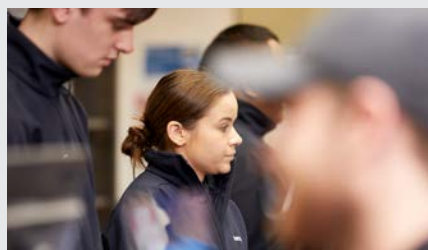
379

ASbA students have spent time in our business



40%

completed the program going on to full-time roles



40

graduates joined our business



Nurturing and growing talent has been a part of our culture for decades.

Best place to work

People love working here

The last year saw a global focus on creating a more inclusive world, and at Reece we were no different.

We believe that if our people live our purpose and values, our culture should be one where everyone feels they can be their best.

So, in September 2020, we asked our people to tell us what we could be doing better. We were overwhelmed by the result. Globally, our engagement score was 82 – eight points above the global benchmark. And of course, the feedback also told us what more we could be doing to improve our people's experience.

That's why we bought to life our diversity and inclusion commitment in ANZ, and have supported groups who want more support, including women, Aboriginal and Torres Strait Islanders and members of the LGBTQIA+ community.

82

engagement score



AFR – Best Place to Work

This work was validated when we claimed our spot in the AFR Best Place to Work list in April 2021, coming fourth in the property and construction sector.

We scored high on wellbeing, prioritising mental health, sustainable working norms and encouraging smart work practices. We were also acknowledged for our diversity approach, creating an environment that promotes belonging, fosters inclusion and removes bias.

“Reece Group launched its diversity and inclusion approach over the last 24 months, which included establishing a D&I working group and strategy, creating three sub-strategies and working groups focused on women, reconciliation and LGBTQIA+ inclusion.”

Australian Financial Review

4th

best place to work in the property and construction sector

Top 10

graduate employers

FINANCIAL REVIEW BOSS

BEST PLACES TO WORK

Making sure everyone goes home safe

Part of our People Promise is ensuring everyone goes home safe, every day. To ensure we do this, we partnered with Donesafe to digitise our safety footprint.

It allows branches to conduct inspections, audits, hazard management, risk management, incident reporting and investigation and industry management.

In the US, we enhanced our operational excellence audits, innovating the process and taking extra steps to ensure we provide an exceptional and safe customer and team member experience.

We developed a COVID-19 reporting application to streamline the communication, cleaning, isolation and reopening process for impacted branches, and to keep everyone as safe as possible during the pandemic.

20%




LTIFR incidents

200k

safety walks completed





“IMPACT helped me surround myself with the right people, so I could learn from the best.”

Brandon, Branch Operations Manager

**Brandon, Branch Operations Manager,
Fortiline Waterworks – Fort Myers, Florida**

Joining MORSCO as part of the IMPACT graduate program, Brandon kicked off his career in our Fortiline Waterworks business in Prosper, Texas, in July 2019. Eighteen months on he moved to Haltom City to learn the art of estimating. In April this year, Brandon moved to Florida, taking on the role of Branch Operations Manager at Fortiline, Fort Myers.

“IMPACT helped me surround myself with the right people, so I could learn from the best. It also gives exposure to both the corporate and branch side of the business, so we can better understand and implement strategies that combine our strategic goals and values with day-to-day branch operations.”

Tess, Branch Manager, Reece Plumbing – Gympie, Queensland

Joining Reece as part of the Australian School-based Apprenticeship (ASbA) program in September 2016, Tess has learnt the business from the ground up. After 12 months as an ASbA, Tess was promoted to a full-time team member at Reece Plumbing in Coolool Queensland at the end of 2017. Tess then honed her leadership skills as a 2iC in Nambour for a year and a half, before becoming a Branch Manager in Gympie in May this year.

“Reece is like a family, I’ve had great mentors that have helped get me to where I am today. The best part of my job now is returning the favour and helping other young women build their skillset and kick-down barriers.”



“Reece is like a family,
I’ve had great mentors
that have helped get me
to where I am today.”

Tess, Branch Manager

DOING THE RIGHT THING

Reece Group's Sustainability Vision

Sustainability is at the heart of what we do at Reece, and Reece Cares is our program that brings this to life.

Reece Cares supports our teams and customers to make a difference in the areas they believe matter most – including mental health, youth employment, progressing our commitment to Reconciliation and supporting them to be the best they can be when it comes to wellbeing.

This year we have evolved Reece Cares to consider how we focus our efforts to reduce our environmental impact, while supporting our customers to be proudly essential to communities most in need.



For personal use only

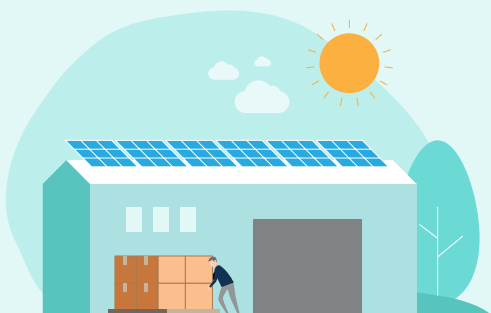


OUR REECE CARES APPROACH

Our customers and teams are empowered to create sustainable change.

Our Focus Areas

1.



Sustainable Business

We will reduce our environmental impact and promote sustainable business practices across Reece Group.

2.



Empowered Trade

We will invest in our industry to create more sustainable ways of working.

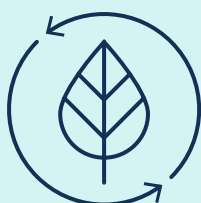
3.



Resilient Communities

We will meaningfully contribute to building resilient communities where we operate.

The value we will deliver



Our environmental impact is reduced, and our growth is driven by sustainable business practices.



The mental health and wellbeing of our communities is improved through our partnerships.

Our Actions

- Identify, share and be accountable to targets to reduce our impact.
- Promote diversity and inclusion through our employment practices and ways of working at Reece.
- Continue building a sustainable supply chain and take action to address human rights risks.
- Support the wellbeing of our people through health and safety leadership.
- Commit to sharing our sustainability progress annually from 2022.
- Work with our suppliers to invest in sustainable product and service design.
- Provide our customers with responsibly sourced and quality products.
- Make it easier for customers to make sustainable product choices through the information we provide.
- Identify opportunities with customers to work with the industry to promote sustainable living.
- Launch our second Reconciliation Action Plan, building respect, relationships and opportunities.
- Establish the Reece Foundation, connecting trades with communities in need to provide access to clean water and sanitation.
- Build mental health resilience and help seeking in our communities through our partnerships.
- Improve wellbeing for our people and customers, so that they can be the best at work, at home and in their communities.



Our customers feel supported to work sustainably.



Our people can bring their best self to work in a diverse and supportive workplace.

**“ASKING YOUR LOCAL
REECE STORE IS A
GREAT WAY TO CONNECT
WITH THE COMMUNITY
THAT CAN HELP YOU
IMPLEMENT CHANGE.”**

Joost, Melbourne VIC

THE ULTIMATE GREENHOUSE



Melbourne artist and 'no waste' champion Joost Bakker's newest project, Greenhouse by Joost, is a two-bedroom sustainable home that shelters, feeds and provides energy for its inhabitants in Melbourne's Federation Square.

Greenhouse inspires us to think about how we can make our homes more sustainable, and it features a range of Reece products, including tapware made in Melbourne from recycled brass, and the Roca W+W toilet that holds water from washing your hands for the next flush.

Water harvesting is also a key component of what Joost does to make this home functional, with pipes provided by Reece and filters in place to minimise water wastage.

GREENHOUSE BY
Joost

OUR PARTNERS

Pioneering an online Ticker Test

Tradies are more than twice as likely to suffer from heart disease and identifying risk early is key to prevention.

Together with the Baker Heart and Diabetes Institute, we've developed The Ticker Test, a short online survey that tells people how their heart plumbing is tracking and if it may be time to chat to a GP. This is the second year we've rolled out the test to our customers and teams, with over 5000 people taking part.

"The Reece and Baker Ticker Test collaboration represents one of the largest workplace-based cardiovascular risk assessments undertaken in Australia. The results will inform future health promotion and intervention strategies that will help improve the wellbeing of the Reece community."

Dr Prasanna Venkataraman, Baker Heart and Diabetes Institute



Creating future leaders with the Reach Foundation

We support the Reach Foundation Diverge Program, encouraging students in Years 9 and 10 to explore their passions, build resilience and start planning for life after school. The program is designed for young people and led by young people – the awesome Reach Crew – and our people participate in the program as mentors.

Our partnership enabled Reach to adapt the program to move online during COVID-19 lockdowns, supporting 70 students and training the Reach Crew so they could expand the program across the country. The Reach team also provide training for our graduate program.

"My proudest moment at Reach was having the opportunity to go back to my old high school and run the very same workshop for the girls that was run for me in Year 9. It was so humbling to see so much of myself in those young women and see how far I'd come since then."

Alex Turner, Reach Crew and Facilitator



“WE HOPE THAT IN FIVE YEARS’ TIME, OUR CURRENT SCHOOL-BASED TRAINEES BECOME LEADERS AT REECE AND IN THE COMMUNITY.”

David, Operations Leader, Reece

Our Reconciliation Commitment

We’ve partnered with the Clontarf Foundation to support 75 young Aboriginal and Torres Strait Islander men to attend Clontarf Academies, helping them complete school and creating employment opportunities and pathways to Reece.

We will be continuing our Reconciliation journey with the development of our second RAP in FY2022.

DISASTER RECOVERY



“INITIATIVES LIKE THE REECE GRANT ARE SO IMPORTANT BECAUSE IT MAKES IT POSSIBLE FOR COMMUNITIES TO HELP THEMSELVES.”

Kathleen Crawley, Volunteer, Nambucca Valley NSW

Supporting our customers during Disaster Recovery

Through floods, fires, cyclones and a pandemic, many of our communities have been doing it tough. Our customers have been there as we rebuild, and we're proud to support them.

Our Coffs Harbour team partnered with DWS Plumbing and local volunteers to assist rebuild efforts in the Nambucca Valley, a rural community severely impacted by the 2020 Australian bushfires.

Many of the homes destroyed in rural areas are not connected to town sewerage or water, so Reece provided products like septic tanks and pipe so that people had access to sanitation and clean water. Disaster recovery and rebuild takes time, and our team is continuing to provide support to the Nambucca community.



DELIVERING RUNNING WATER

23

families now have access to clean and safe drinking water



Bringing running water to Americans in need

More than 2.2 million Americans don't have running water or basic plumbing, like a flush toilet.

We're supporting the US-based not-for-profit organisation, Dig Deep, to deliver clean water to communities that need it most, including Cochran, an informal settlement along the US-Mexico border. Our support has allowed 23 families to access clean and safe drinking water.

**"TOGETHER WE CAN
HELP SOLVE THE
UNITED STATES WATER
CRISIS AMONG ALL
COMMUNITIES, GIVING
PEOPLE ACCESS TO A
HEALTHIER LIFE."**

Giovanna, Impact Grad, US



For personal use only

Introducing The Reece Foundation

Since 2017, over 50 communities locally and abroad have benefited from access to clean water and sanitation thanks to the work of our customers, supported by the Reece Grant.

We know there is more work to do and that Reece can play a part in connecting invaluable trade skills with communities in need.

In FY2022 Reece Grant will evolve to be the Reece Foundation – an independent charity dedicated to empowering trades to improve the lives of those who need it most. Our vision is that all people have access to clean water and sanitation.

The Foundation will recruit skilled trade volunteers to work with partners in communities and support trades to submit ideas for where they feel they can make a difference.

The Reece Foundation will launch in late 2021.



reece foundation

“We’re excited to be launching the Reece Foundation. We believe this evolution into a Foundation will amplify how we support our customers and in-turn communities, to create sustainable water systems for better health and wellbeing.

Chris Pattenden, Company Secretary for the Reece Foundation and Head of Investments at Superseed.

For personal use only

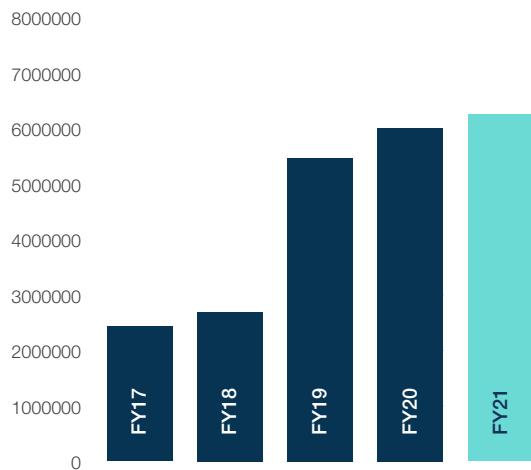


Financials

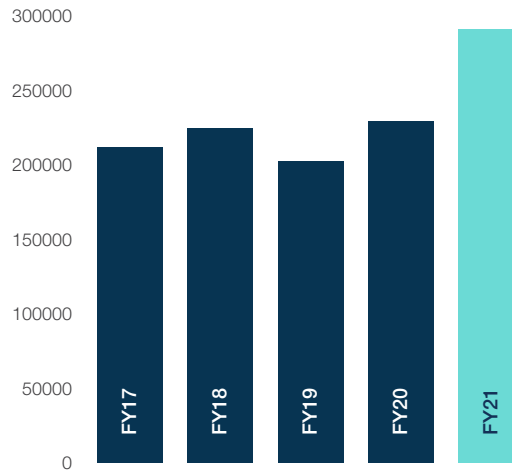
Corporate Governance Statement	41
Directors' Report	42
Remuneration Report	49
Auditor's Independence Declaration	63
Consolidated Statement of Profit or Loss and Other Comprehensive Income	65
Consolidated Statement of Financial Position	66
Consolidated Statement of Cash Flows	67
Consolidated Statement of Changes in Equity	68
Notes to the Financial Statements	69
Directors' Declaration	102
Independent Auditor's Report	103
Shareholders Information	108

2021 Highlights

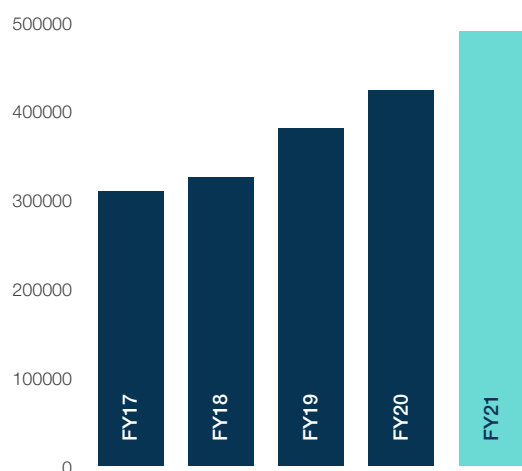
Sales Revenue (\$000's)



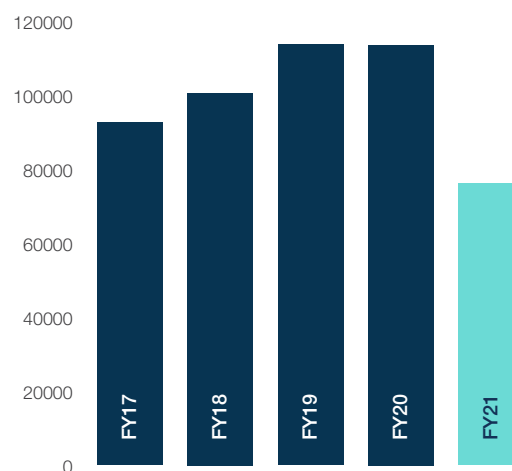
NPAT (\$000's)



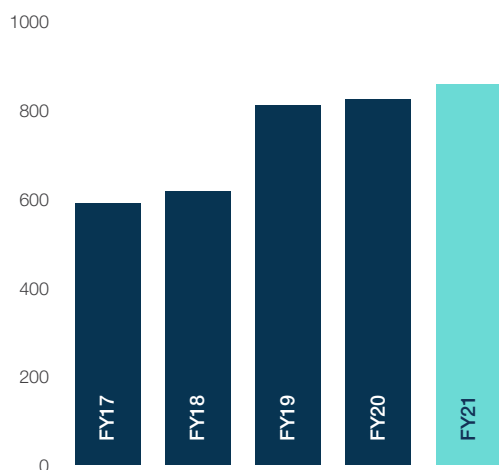
EBIT (\$000's)



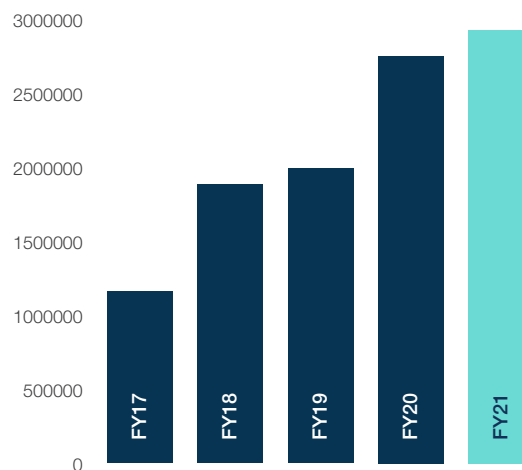
Dividends Paid (\$000's)



Number of Branches



Net Assets (\$000's)



Corporate Governance Statement

The Reece Group is committed to good corporate governance practices.

In FY21, the Group has focused on updating appropriate policies and practices for the 4th edition of the ASX Corporate Governance Council Principles and Recommendations applicable from 1 July 2020.

The FY21 Corporate Governance Statement has been lodged separately and is available on the Reece Group website.

Read more at www.group.reece.com/au/investor-centre

Directors' Report

The Directors present their report together with the financial report of the consolidated entity consisting of Reece Limited and the entities it controlled ('the Group', or 'Reece'), for the financial year ended 30 June 2021 ('FY21') and auditor's report thereon.

Principal Activities

Reece is a leading supplier of plumbing, bathroom, heating, ventilation, air-conditioning, waterworks and refrigeration products to customers in the trade, retail, commercial and infrastructure markets, operating for more than 100 years. Reece has strong market positions across its global footprint spanning Australia, New Zealand, and the United States' sun belt region. The Group's businesses are supported by leading innovation and service solutions.

Results

The consolidated financial results, including net profit after tax for FY21 attributable to the members of Reece Limited are:

	2021 (\$000's)	2020 (\$000's)	Variance %
Sales	6,270,706	6,009,878	4.3
Normalised EBITDA*	720,290	649,604	10.9
EBIT	492,572	410,612	20.0
Statutory net profit after tax	285,595	228,999	24.7
EPS (cents)	44	40	10.0
Total dividends per share (cents)	18.0	12.0	50.0

*Normalised EBITDA is earnings before interest, tax, depreciation, amortisation and has been adjusted to exclude business acquisition costs, FY20 impairment expense and finance income/(costs) – net.

Normalised EBITDA is a non-IFRS measure and is presented to enable understanding of the underlying performance of the Group without the impact of non-trading items. Non-IFRS measures have not been subject to audit or external review.

Review of Operations

FY21 has seen the Group continue to execute its long-term growth agenda and deliver another record result. Sales revenue increased by 4.3% to \$6,271m (2020: \$6,010m). Normalised EBITDA was up 10.9% to \$720m (2020: \$650m) and statutory net profit after tax grew 24.7% to \$286m (2020: \$229m).

ANZ Region

In the ANZ region, sales revenue increased by 9.2% to \$3,154m (2020: \$2,888m) in a market that remains operationally impacted by COVID-19 restrictions. New housing approvals increased by 23% in the year to 30 June 2021, and alterations and additions increased by 25% over the same period. Capacity constraints within the industry started to present in the second half, with border closures coupled with elevated construction demand causing labour shortages. Price inflation on construction products and supply chain tightening created additional challenges for the ANZ end markets.

Reece continues to deliver customised service, through quality products, strong relationships, and technical support, alongside an ongoing continuous improvement and innovation focus. The Group's footprint in ANZ increased to a total of 642 branches as at 30 June 2021.

US Region

In the US region, sales revenue was flat at \$3,117m (2020: \$3,122m). On a constant currency (US Dollar) basis sales revenue increased 11.4%. COVID-19 related restrictions and disruptions have continued to impact US operations, through short-term temporary branch closures and tightening supply chains. Price inflation on construction products began to present in the second half of the financial year. The US market also faced labour market shortages during FY21 which created capacity challenges for our end markets. Additionally, in February winter storm Uri led to prolonged and widespread power and gas outages, property damage and trading disruptions across Texas, Oklahoma, and other areas of the US Sun Belt.

New housing commencements trended upwards in FY21, as demand increased and interest rates remained low. The residential commencements for the period of 1.56 million are up from 1.38 million in the prior period. Alterations and additions increased 4.8% for the same period, with people spending more time at home for both work and leisure.

The US branch network comprised 189 branches as at 30 June 2021. The region continued to trial and invest in new branch formats and service concepts, which are the result of an ongoing focus on understanding end markets and customers. The business continues to take a long-term approach to growth in the US region, with the focus during FY21 on continuing to build on strong operational foundations while investing in growth capabilities across the business.

Group

Throughout FY21, the Group has maintained its focus on being brilliant at the fundamentals of distribution, creating and delivering on growth opportunities, and embedding a culture of innovation.

In ANZ, the business focussed on further digitising the customer's experience, to deliver the same world-class experience irrespective of when, where or how they want to do business. In the US, the focus remains on optimising the fundamentals of the business, while looking to pursue growth opportunities across markets and formats. Where appropriate, Reece looks to leverage and implement processes and strategies from the ANZ region across the US region.

The health and safety of the Reece team and customers is core to the Group's people promise. The ANZ business has digitised the safety and compliance processes. Safety is fundamental to the daily and weekly routines of the branch networks. Through this continued focus, Lost Time Injury Frequency Rates decreased by 20% in FY21. In the US, process innovation around operational excellence audits, led to a safer customer and team member experience. Additionally, the US team developed a COVID-19 reporting application to streamline communication, cleaning, isolation, and reopening processes for impacted branches, and to keep everyone as safe as possible during the pandemic.

Despite operational disruptions, branches remained open when possible. As such, the Group did not receive any government stimulus or support payments during FY21. Furthermore, due to the outstanding work of our people, the financial performance of the Group in FY21 has not been adversely impacted by COVID-19.

During FY21, the Group has continued to invest in the core business. The cost of doing business excluding depreciation, amortisation and business acquisition costs increased by 2.2% to \$1,052m (2020: \$1,029m).

Directors' Report

In FY21, Reece dedicated additional resources to innovation through the establishment of the Breakthrough Innovation Group ('BIG'). BIG will provide insights, capabilities and differentiated thinking to both the ANZ and US regions. BIG has a mandate that includes the creation and incubation of new products and services, corporate venture capital, innovation labs and creative 'outside in' thinking.

Inventory levels increased to \$1,138m up 17.6% on the previous year (2020: \$968m), representing higher levels of inventory and increased supply costs in both regions. The Group continues to work closely with its suppliers to manage and mitigate supply chain risk during the COVID-19 pandemic. As a result, the Group did not experience material supply chain disruptions during the year. Net working capital continues to be a focus with the net working capital ratio increasing from 18.4% to 19.1% at 30 June 2021.

The Group made a one-off payment against the US Term Loan B (TLB) debt (denominated in USD) in FY21, of \$260m AUD. The TLB is covenant light and partially hedged for interest rate and foreign currency changes. The net senior debt position of the Group at 30 June 2021 is \$528m including the impact of cash and derivative instruments. The leverage ratio (net debt plus leases divided by normalised EBITDA) decreased to 1.7x at 30 June 2021 (2020: 2.2x). Cash flows from operating activities decreased from \$601m to \$372m during the year, which was a result of increased working capital ratio due to higher inventory holdings and the unfavourable impact of foreign currency conversion.

The Board has declared a final dividend of 12 cents per share fully franked, taking the total dividends in respect of FY21 to 18 cents per share (2020: 12 cents per share). The final dividend will be paid on 27 October 2021 with the record date for entitlement of 13 October 2021.

Strategy

The Reece Group strategy comprises three key pillars, which come together to ensure we deliver on our customer promise of "Customised Service". These strategic priorities are:

- Brilliant Fundamentals – ensuring we continue to be brilliant at the fundamentals of trade distribution. This will involve continuing to improve the core of our business through an elevated focus on continuous improvement, ecommerce, and data;
- Investing in Growth – continuing to grow our business through expanding in adjacencies and markets where we can realise opportunities to gain market share. These opportunities are expected to be a mix of organic initiatives and acquisitions; and
- Breakthrough Innovation – represents our Group wide transformation approach. These strategies will be driven by the ANZ region and the platforms and knowledge will be leveraged over time into the US region. Key Breakthrough Innovation streams include talent density, increased digitisation of the customer experience, continued product innovation and new services, designing the supply chain of the future and embedding disruptive technologies throughout the business.

Significant Changes in the State of Affairs

None.

After Balance Date Events

Since the end of the financial year COVID-19 related restrictions have been put in place by a number of Australian state governments. Management continues to monitor the financial impact of these restrictions on operations.

Whilst the extent of which is uncertain at the date of this report we have not seen a material impact on the financial results of the Group.

No other matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group.

Risk identification and management

Effective risk management is essential for the long-term performance and sustainability of Reece, including protecting and enhancing the interests of shareholders, other key stakeholders and the broader community. The Board has delegated oversight of effective policies and procedures to the Audit and Risk Committee.

Set out below are our material risks which could impact Reece's ability to deliver its strategy or deliver financial results and a description of mitigation activities undertaken.

Risk: *Product Availability Risk*

Description: The risk of product not being supplied in a consistent manner due to key points of sensitivity across the supply chain and/or dependencies on key suppliers or geographies/countries where unavailability of products may result in a lack of product supply to meet demand needs.

Management Plans:

- Reece aims to have appropriate agreements in place with all major suppliers
- Ongoing program to ensure diversification of sourcing across multiple suppliers
- Ongoing program to ensure diversification of suppliers across multiple geographies
- Strategy of sourcing multiple products with similar features and specifications

Risk: *Product Failure Risk*

Description: The risk of product quality failures at any point across the supply chain resulting in injuries, product recalls and/or product liability or warranty claims. Reece may suffer loss as a result of claims for which it is not adequately insured.

Management Plans:

- Reece maintains quality assurance programs for its manufacturing partners
- Reece maintains an in-house testing facility to ensure all owned brand products meet quality standards
- Investment in training of staff and customers in the correct use and installation of products
- Negotiation of appropriate warranties with suppliers
- Maintenance of appropriate insurance policies

Risk: *Key personnel risk*

Description: Failure to appropriately succession plan for critical business roles and capability (across senior leaders, mid-level leaders etc.) which may lead to loss of knowledge and experience from skilled and/or specialised employees and impact Reece's ability to achieve its business objectives/strategy.

Directors' Report

Management Plans:

- Reece seeks to employ high quality people, who are appropriately remunerated
- Succession planning is a key focus of the Reece Limited Board, as well as the ANZ and US regional leadership teams

Risk: *Cyber security*

Description: The risk of deliberate targeting and/or automated attacks on critical IT infrastructure or systems by hackers either directly or via a third-party partner connection. These attacks which can lead to a disruption to operations, damage to equipment and/or loss of sensitive data. Reputational damage may also occur if hackers/cyber activists access systems or hijack client facing systems or websites.

Management Plans:

- Technology security policies and Business Continuity plans are in place, and are regularly updated and tested
- Appropriate environment testing, monitoring, and ongoing review of protocols
- Screening of supplier, customer, and vendor environments
- Ongoing employee training and alerts

Risk: *Changes in economic conditions, legislation, and regulation*

Description: A prolonged downturn in general economic conditions either globally or in any region where Reece operates may impact demand for our customers and thereby impacting demand for Reece products.

Management Plans:

- Agile processes to respond to changes in conditions which may cause an impact on demand for products
- Key economic indicators are monitored to assist planning and proactive management decision making

Risk: *Competition Risk*

Description: Reece operates in competitive markets which can be significantly impacted by local market forces such as disruptive product innovation, new entrants and changes in customer strategies and preferences. These factors impact prices and demand for our products.

Management Plans:

- Investment in future disruptive technology and innovation through BIG and our in-house technology team
- Innovation focus to source new products for our customers
- An elevated emphasis on continuous improvement, ecommerce, and data through our brilliant fundamental strategy.

Risk: *Health, safety, environment, and wellbeing*

Description: When health, safety, environment, and wellbeing are not properly managed there is a risk of potential harm or injury to Reece's employees, customers, contractors, suppliers, the broader community, negative environmental consequences, and wellbeing concerns.

Management Plans:

- Continued focus on occupational health and safety policies and procedures, audits, training, and awareness including monitoring KPIs

- Focusing our efforts to reduce Reece's environmental impact. This includes a commitment to be more transparent and accountable through future sustainability reporting
- Reece Cares supports our teams and customers to make a difference in the areas they believe matter most – including mental health, youth employment, progressing our commitment to Reconciliation and supporting their wellbeing.

Likely Developments

The Group will continue to pursue its operating strategy with the aim to create long-term shareholder value. The focus will be keeping team members and customers safe whilst providing essential services. The Directors take a long-term focus for the Group, which includes pursuing growth in the US and ANZ regions through investing in people, technology, and network operations.

Environmental Regulations

As the Group continues to grow, there is a strong commitment to sustainable ways of working and reducing environmental impact. The Reece Cares strategy incorporates a considered approach to sustainability.

This includes commitments to:

- Identify targets to reduce our impact
- Be accountable and transparent on progress through regular reporting
- Continue building a sustainable supply chain and address human rights risks
- Empower our customers to make sustainable product choices

Water is a scarce resource and the Reece product range incorporates innovative energy and water efficient solutions for business and home environments. Reece is dedicated to the installation of water-efficient solutions wherever appropriate and in the expansion or refurbishment of our operations. Continuous improvement is part of the Reece culture, which involves innovating and identifying efficiencies to reduce waste in branches and offices. Reece is a signatory to the Australian Packaging Covenant Organisation (APCO) and is committed to the goal of fully sustainable packaging by 2025. This involves working closely with suppliers to choose appropriate materials, creating efficiencies, and reducing packaging for products.

Each year, thousands of pallets carry essential products through our branches and distribution centres. The ANZ region has worked closely with our supply and distribution teams to extend the lifespan of transport infrastructure. Used pallets are returned to the distribution centres and made available for suppliers to collect following deliveries for reuse. This extends the life span of a pallet from one delivery to many, reducing demand for wood.

To help reduce the impact on the environment from product delivery to customers, the Group optimises traffic and maps data in Australia to manage driver journeys. Delivery route optimisation aims to save fuel and optimise fleet use.

The Group is registered under the National Greenhouse and Energy Reporting Act 2007, and reports energy consumption and greenhouse gas emissions for its Australian facilities.

Reece operations are subject to certain environmental regulations under Federal or State law. The Group is not aware of any significant breaches of environmental regulations during the year.

Directors' Report

Modern Slavery

The Reece Group opposes slavery in all its forms. In preparation for reporting in accordance with the Modern Slavery Act 2018, a Supply Chain Transparency Working Group was established to obtain a deeper understanding of the potential modern slavery risks in the supply chain. Our first modern slavery statement issued on 29 March 2021 and is available on the Reece Group website.

Dividends

Dividends paid or declared by Reece Limited since the end of the previous financial year were:

	(\$000's)
Final dividend recommended:	
The final dividend declared to be paid on 27 October 2021 is a fully franked dividend of 12 cents per share	77,518
Dividends paid during the year:	
An interim fully franked dividend of 6 cents per share was paid on 15 April 2021.	38,759
<i>In respect of the previous financial year:</i>	
A final fully franked dividend of 6 cents per share in respect of the year ended 30 June 2020 was paid on 28 October 2020.	38,759
	77,518

Share options

At the end of the financial year there were 837,943 options over unissued shares. The Group intends to purchase shares from the market to ensure there is not dilution associated with options that vest and are exercised into shares. No options were granted since the end of the financial year until the date of this report. Refer to the Remuneration Report for further details.

Indemnification and Insurance of Directors, Officers and Auditors

A deed of indemnity, insurance and access has been entered into with each Director, and with the Company Secretary of the Group.

Reece has not, during or since the financial year, indemnified or agreed to indemnify the auditor of Reece Limited against a liability incurred at the end of the financial year, as auditor.

During the financial year the Group paid a premium for Directors' and Officers' Liability insurance. Further disclosure is prohibited under the terms of the contract.

Reece Cares

Reece Cares supports our teams and customers to make a difference in the areas they believe matter most, including mental health, supporting youth employment, progressing our commitment to Reconciliation, and improving overall wellbeing.

The Reece Cares approach also considers our efforts to reduce our environmental impact, while supporting our customers to be proudly essential to communities most in need.

Reece Reconciliation

Reece Reconciliation is the Group's commitment to building relationships with Aboriginal and Torres Strait Islander Peoples. The approach is outlined in the Reconciliation Action Plan (RAP).

Reece Partners

Reece works on hero projects, with partners over three years, to make a difference towards the causes its people and customers care about.

Baker Heart and Diabetes Institute

Tradies are more likely to be at risk of heart disease than other occupations. Together, Reece and Baker Heart and Diabetes Institute are working to change the health of tradies through a pioneering online ticker test.

The Reach Foundation

In partnership with The Reach Foundation, Reece is helping to expand in-school Diverge workshops across Australia to help more young people reach their potential.

SANE Australia

Reece is supporting SANE to expand its helpline to reach more people with complex mental health issues.

Clontarf Foundation

Reece has partnered with the Clontarf Foundation to support 75 young Aboriginal and Torres Strait Islander men to attend Clontarf Academies, helping students complete school and providing employment opportunities and pathways to Reece or a trade.

Reece Gives

Employees have the opportunity to make a personal difference through the workplace giving platform, Reece Gives. One-off or recurring pre-tax donations can be deducted directly from an employee's pay to over 1500 charities. Reece matches donations up to \$500 per employee each year.

Reece Wellness

Reece Wellness is the Group's approach to mental health and wellbeing. We aim to support our people to be their best.

Disaster Recovery

Through floods, fires, cyclones and a pandemic, many communities have been impacted by disaster this year. Reece has supported its customers to assist with the rebuild, providing product and funding support to those most in need.

Introducing the Reece Foundation

Since 2017, over 50 communities locally and abroad have benefited from access to clean water and sanitation directly attributable to the work of our customers, supported by the Reece Grant.

In FY22 the Reece Grant will evolve to be the Reece Foundation – an independent charity dedicated to empowering trades to improve the lives of those who need it most.

Directors' Report

Information on Directors & Company Secretary



L. Alan Wilson

Executive Chair

Appointed to the Board 1969
General Manager 1970 – 1974
Deputy Chair 1973 – 2001
Managing Director 1974 – 2008
Appointed Executive Chair 2001

No other directorships of listed companies were held at any time during the three years prior to 30 June 2021.



Peter Wilson

Group Chief Executive Officer (CEO)

B.Comm (Melb), FAIM
Appointed to the Board 1997
General Manager Operations
2002 – 2004
Chief Operating Officer 2005 – 2007
Appointed Chief Executive Officer/
Managing Director 2008

No other directorships of listed companies were held at any time during the three years prior to 30 June 2021.



Tim Poole

Non-Executive Director
Independent

B.Comm (Melb)
Appointed to the Board July 2016

Deputy Chair
Chair of Audit and Risk Committee
Chair of Remuneration Committee
MORSCO Board of Managers

Aurizon Holdings Limited
McMillan Shakespeare Limited
Lifestyle Communities Limited
(resigned August 2019)



Megan Quinn

Non-Executive Director
Independent

GAICD
Appointed to the Board 2017

Member of Remuneration Committee
Member of Audit and Risk Committee
(effective June 2021)

City Chic Collective Limited
InvoCare Limited
Zip Co Limited (resigned
November 2017)



Andrew Wilson

Non-Executive Director

B.Bus (RMIT) ACMA / CGMA GAICD
Appointed to the Board
September 2018

Member of Remuneration Committee
(ceased June 2021)
Member of Audit and Risk Committee

No other directorships of listed companies were held at any time during the three years prior to 30 June 2021.



Bruce C. Wilson

Non-Executive Director

B.Comm (La Trobe)
Appointed to the Board
September 2016

Member of Remuneration Committee
Member of Audit and Risk Committee
(ceased June 2021)

No other directorships of listed companies were held at any time during the three years prior to 30 June 2021.



Chantelle Duffy

Company Secretary

B.Comm /Sci (La Trobe), CA
Appointed Company Secretary
1 July 2021

Directors' Report

Directors' meetings

The number of meetings of the Board of Directors and of each Board Committee held during the financial year as well as the number of meetings attended by each Director are detailed below. Effective from June 2021 the following changes were made to the Committees:

- Megan Quinn joined the Audit and Risk Committee
- Bruce C. Wilson retired from the Audit and Risk Committee
- Andrew Wilson retired from the Remuneration Committee

Director	Number of Directors Meetings Attended	Number of Directors Meetings Held Whilst in Office
Alan Wilson	6	6
Peter Wilson	6	6
Tim Poole	6	6
Bruce C. Wilson	6	6
Megan Quinn	6	6
Georgina Williams ¹	2	2
Andrew Wilson	6	6
Director	Number of Audit and Risk Committee Meetings Attended	Number of Audit and Risk Committee Meetings Held Whilst In Office
Tim Poole	5	5
Bruce C. Wilson	4	4
Georgina Williams ¹	1	1
Andrew Wilson	5	5
Megan Quinn	1	1
Director	Number of Remuneration Committee Meetings Attended	Number of Remuneration Committee Meetings Held Whilst In Office
Tim Poole	7	7
Bruce C. Wilson	7	7
Megan Quinn	7	7
Andrew Wilson	6	6

¹ Georgina Williams ceased being a Director on 29 October 2020.

Directors' Report

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in the remuneration report.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

Non-Audit Services

Non-audit services are approved by resolution of the Audit Committee to the Board. Non-audit services provided by the auditors of the Group during the year, KPMG, are detailed below. The Directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to any entity that is part of the Group are detailed below.

	2021 \$	2020 \$
Amounts paid and payable to KPMG for non-audit services:		
Taxation services - network firms	-	373,440
Other non-audit services - regulatory advisory services	11,385	-
	11,385	373,440

Rounding of Amounts

The parent entity and the Group have applied the relief available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the consolidated financial statements and in the directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Remuneration Report (Audited)

Letter from Remuneration Committee Chair

Dear shareholders,

I am pleased to present our Remuneration Report for FY21.

Reece is passionate about creating a values-driven and customer-focused organisation. We are determined to create a business for the long term, and this is reflected in the way we incentivise our leadership team. We design our remuneration to suit the needs of Reece, and with the objective of achieving our long-term goals.

During FY21 we have engaged with shareholders and other stakeholders to seek feedback on various aspects of our remuneration structure, policies and reporting. As a result, we have updated our Remuneration Report with additional disclosures regarding the remuneration structure for our senior executives, including additional detail on the structure of remuneration packages for the Group CEO and MD, and the underlying target metrics in our incentive plans.

During FY21 the Remuneration Committee reviewed the Reece long-term incentive (LTI) plan to ensure it is aligned with our focus on achieving our long-term goals while also enabling us to attract and retain key executives. We have decided to make several changes to improve the LTI plan, and these changes will be effective in relation to the next grant in FY22. Further, in FY22 we will consider additional enhancements to our LTI plan, including whether we introduce additional vesting hurdles.

We thank those stakeholders that provided input on our remuneration structure and reporting. We will continue to look for opportunities to improve the structure and transparency of our remuneration reporting where it is appropriate to do so. The Remuneration Committee will also continue to test the effectiveness of our remuneration structures, with shareholders and other stakeholders, in supporting the delivery of our strategy and providing remuneration outcomes aligned to the experience of shareholders.

FY21 performance and remuneration outcomes

Reece has continued to execute its long-term growth agenda and delivered another record result in FY21. Sales revenue increased by 4.3% to \$6,271m (2020: \$6,010m). Normalised EBITDA was up 10.9% to \$720m (2020: \$650m) and statutory net profit after tax grew 24.7% to \$286m (2020: \$229m). The Group did not directly receive any government stimulus or support payments during FY21. Furthermore, due to the outstanding efforts from our team, the financial performance of the Group has not been materially impacted by COVID-19. As a result, our senior leaders have delivered and exceeded many of the metrics established, which are reflected in the FY21 remuneration outcomes.

Changes during FY21

During FY21 the Board reduced the number of Remuneration Committee members from four to three, with the Committee now having a majority of independent Directors.

The Committee updated the earnings metric under the Group short term incentive plan (STI) to an EBITA (earnings before interest tax and amortisation) metric as part of the adoption of a different accounting standard (AASB 16) as we believe EBITA better reflects underlying operational performance.

As noted above, we have reviewed the Group's LTI plan and several changes will be made in respect of the FY22 LTI grant: executives will be granted share rights; the number of rights will be determined using a 'face value' calculation; the share price used in the face value calculation will be the volume weighted average price (VWAP) during the 20 day period immediately after the issue the Company's FY21 financial results; the EPS vesting hurdle range will be 5% (50% vesting) to 10% (100% vesting); and the vesting period will be four years. We believe these changes will increase our ability to attract and retain talent and enhance the alignment with Reece's long term strategy.

I would like to take this opportunity to thank all the employees at Reece for their commitment and contribution through what has again been an extraordinary year for the Company.

I invite you to read our full report, which outlines the remuneration structures and outcomes for FY21, and continue to welcome your feedback.



Tim Poole

Chair, Remuneration Committee

Remuneration Report (Audited)

Introduction

The Directors of Reece present the Remuneration Report for the financial year ended 30 June 2021. This report forms part of the Directors' Report and has been prepared and audited in accordance with section 300A of the *Corporations Act 2001* (Cth).

The table below details persons considered to be KMP during FY21 and their term as KMP.

Key Management Personnel (KMP)

KMP have the authority and responsibility for planning, directing and controlling the activities of Reece. This includes the Board of Directors and senior leaders of the Reece and MORSCO teams.

Name	Position	Term as KMP
Directors		
Alan Wilson	Executive Chair	Full financial year
Peter Wilson	Group Chief Executive Officer (CEO) and Managing Director (MD)	Full financial year
Tim Poole	Non-Executive Director and Deputy Chair	Full financial year
Bruce C. Wilson	Non-Executive Director	Full financial year
Megan Quinn	Non-Executive Director	Full financial year
Georgina Williams	Non-Executive Director	Ceased 29 October 2020
Andrew Wilson	Non-Executive Director	Full financial year
Executives		
Andrew Cowlshaw	Group Chief Financial Officer (CFO)	Full financial year
Gavin Street	CEO Australia and New Zealand (ANZ)	Full financial year
Sasha Nikolic	CEO United States (US)	Full financial year
Chip Hornsby	MORSCO Executive Chair	Full financial year

Our approach to remuneration

The Reece remuneration framework supports Reece's purpose and values. For Executives, remuneration is structured to reflect the individual's role in the business, individual and Company performance, and market context in relevant geographies.

Our remuneration philosophy

The graphic below outlines how the remuneration framework aligns Executives to Reece's strategic objectives.

Remuneration Report (Audited)

The Reece way

To improve the lives of our customers and our people by striving for greatness every day.



**Create customers
for life.**



**Discover
your best.**



**Grow as
a team.**



**Innovate
big and small.**



Try. Try. Try.



Own it.



**Keep it
simple.**



**Do the
right thing.**



Be humble.



**Write the
next chapter.**

Our remuneration principles



Strategically aligned

Aligning Executive remuneration with Reece's long-term business strategy to achieve beneficial outcomes for customers, shareholders and employees



Transparent

Providing a clear and transparent link between performance and rewards



Values-driven

Driving behaviours to create a culture that promotes safety, diversity and employee satisfaction



Right talent

Ensuring the remuneration structure and levels attract and retain the right people for the Reece business

Remuneration Report (Audited)

Our approach

Our values and remuneration principles are what have helped shape the Executive remuneration structure outlined below.

Element	Purpose of element	Approach
Fixed remuneration	To attract and retain the right talent through competitive fixed remuneration.	Set with reference to market benchmarks. Consists of base salary, superannuation and other non-cash benefits.
At-risk short-term incentive	To provide an incentive for Executives to achieve annual financial and non-financial targets aligned to core drivers of long-term sustainable performance.	Determined based on annual performance against Group or business unit targets (80%) and individual performance (20%). Paid in cash.
At-risk long-term incentive	To align Executive reward with the delivery of long-term strategic priorities and shareholder value creation.	The LTI approach is differentiated. Group and Australian Executives: share options or rights based on tenure and achieving EPS growth objectives. MORSCO Executives: cash incentive based on tenure and achieving EBITA growth objectives.

Changes to remuneration FY21

During FY21 the Board updated the earnings metric under the STI plan to an earnings before interest, tax and amortisation (EBITA) metric. It was the Board's view that EBITA is a more appropriate reflection of the underlying operational performance of Reece and MORSCO.

Remuneration governance

At Reece, remuneration is structured to reflect the individual's role in the business, the track record of individual and Company performance, and market context in relevant geographies. In particular:

- The Group CEO's package is currently more heavily weighted towards fixed remuneration and STI as a reflection of Mr Wilson's existing shareholding interests and his strong performance over many years. As the Company has recently introduced an LTI plan, any future increases in total remuneration for the Group CEO will be prioritised to the LTI.
- The Executive Chair plays a unique role in the business, providing significant industry and corporate knowledge and hands-on support on a day-to-day basis.
- For Executives new to the business, the Board will consider whether they participate in the Group's LTI plan after the Board has assessed performance over an initial period.

The graphic below outlines the remuneration governance framework between the governing bodies, stakeholders and external advisors of Reece. Executives in the Australian and US MORSCO businesses are subject to the same remuneration governance framework as set out below.

The Board

- Monitors the performance of the Executive.
- Approves the remuneration framework and ensures alignment with the company's purpose, values, strategic objectives and risk appetite.
- Appoints and removes the Group CEO, Company Secretary, Group CFO, CEO ANZ and CEO US.
- Reviews and, if appropriate, approves Remuneration Committee recommendations on remuneration arrangements.

The Remuneration Committee

- Reviews remuneration policies and strategies for Executives including the Group CEO and Executive Chair, utilising external benchmarking where appropriate.
- Designs the remuneration package for Executives.
- Determines the overall level of salary increases and performance-based incentives for the Group CEO.
- Sets Non-Executive Director remuneration.
- Oversees succession planning for Executives.
- Oversees Executive recruitment, retention and termination policies and procedures.

The Remuneration Committee is majority independent, this helps to manage any possible conflicts of interest.

Consultation with Shareholders and other Stakeholders

Remuneration Consultants and other External Advisors

The Board and / or the Remuneration Committee may, from time to time, appoint and engage independent advisors directly in relation to remuneration matters.

These advisors may:

- Review and provide recommendations on the appropriateness of the Group CEO and Executive remuneration.
- Provide independent advice, information and recommendations relevant to remuneration decisions.

During the year, the Board did not receive any remuneration recommendations from a remuneration consultant as defined by the *Corporations Act 2001* (Cth).

Management

Provides information relevant to remuneration decisions and makes recommendations to the Remuneration Committee. Obtains remuneration information from external advisors to assist the Remuneration Committee.

Remuneration Report (Audited)

Company performance and remuneration outcomes

This section outlines how Reece's performance is reflected in Executive remuneration outcomes.

Historical performance

The table below summarises key performance indicators (or performance objectives) over the previous five years.

In FY21, Reece delivered record financial performance. The metrics demonstrate an increase from prior years.

Financial Summary	FY21 (\$000's)	FY20 ¹ (\$000's)	FY19 ² (\$000's)	FY18 (\$000's)	FY17 (\$000's)
Sales revenue	6,270,706	6,009,878	5,463,787	2,688,576	2,429,307
Normalised Earnings Before Interest Tax Depreciation and Amortisation (EBITDA)	720,290	649,604	521,950	378,323	358,904
Normalised Earnings Before Interest Tax and Amortisation (EBITA)	535,980	457,015	-	-	-
Net profit after tax	285,595	228,999	202,100	224,620	211,791
Dividends declared	116,277	72,408	113,566	109,797	99,600
Performance-based incentives to Executives	6,309	4,666	3,973	4,075	2,982
Share price at end of financial year	23.61	9.19	9.76	12.65	8.31
EPS ³	44 cents	40 cents	36 cents	-	-

¹ Acquisition date of Todd Pipe Holdings, Inc was 1 October 2019 accordingly, the Group results from FY20 include Todd Pipe Holdings, Inc.

² Acquisition date of MORSCO was 2 July 2018 accordingly, the Group results from FY19 include MORSCO.

³ EPS is calculated based on weighted average number of shares on issue in FY20. EPS from 2019 has been disclosed due to the introduction of the LTI plan in FY20.

Take home remuneration (unaudited)

The table below outlines the received remuneration for Executive KMP during FY21. The statutory tables are provided in the Statutory Disclosures section of this report.

Executive	Fixed remuneration (\$000's)	Other benefits (\$000's)	STI awarded ¹ (\$000's)	Vested LTI ² (\$000's)	Total (\$000's)
Peter Wilson CEO and MD	2,130	136	2,164	-	4,430
Andrew Cowlshaw Group CFO	650	25	358	-	1,033
Gavin Street CEO ANZ	739	25	368	-	1,132
Chip Hornsby MORSCO Executive Chair	779	36	881	601	2,297
Sasha Nikolic MORSCO CEO US	701	400	847	651	2,599

¹ Reflects value STI earned in relation to the 2021 financial year.

² Reflects value of LTI vested in the 2021 financial year.

Remuneration Report

(Audited)

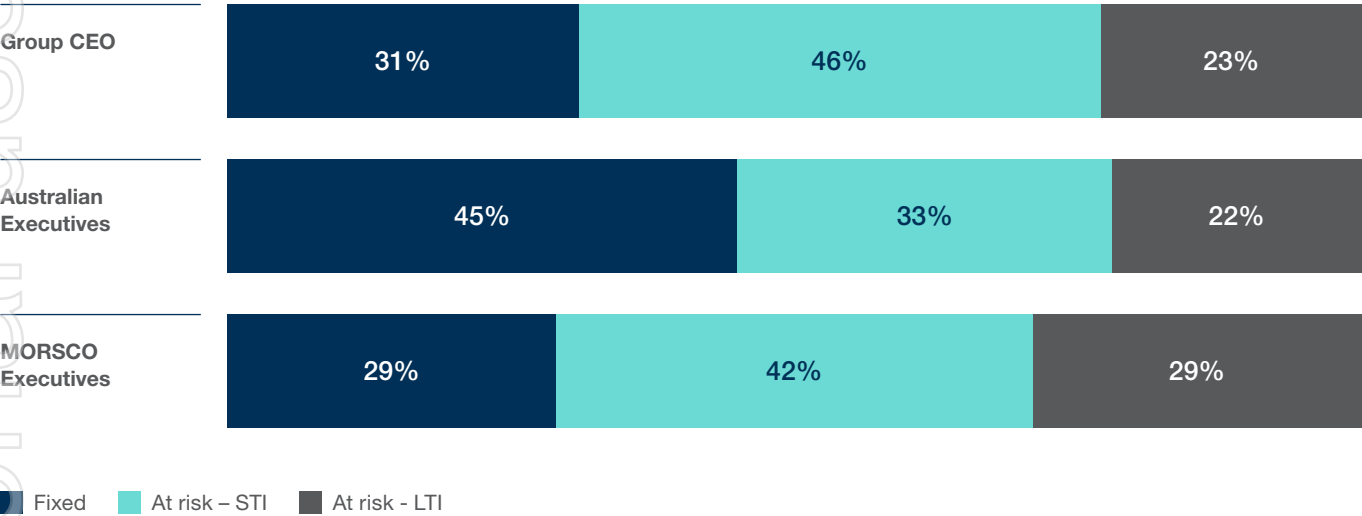
Remuneration mix

Remuneration mix for Executive KMP has been determined based on careful consideration of the individual's existing shareholding, and the remuneration elements more effective at incentivising each Executive KMP.

Given the existing shareholding of the Group CEO, there is already significant alignment to shareholder returns over the long term. As a result, remuneration is currently weighted more heavily to fixed and short-term cash components than typical in the market.

The graph below reflects the remuneration mix at maximum for Executive KMPs, based on the Company's policy.

The Group CFO was not eligible to participate in the LTI program during FY21.



The Group CFO was not eligible to participate in the LTI program during FY21.

Fixed remuneration

The Remuneration Committee undertakes benchmarking in comparing Director and Executive remuneration levels with a comparative group of Australian and international companies. Fixed remuneration is determined based on the skills and experience of the individual in the role.

The Remuneration Committee sets fixed remuneration levels competitively relative to market. Remuneration positioning is set to retain the right talent to enable the Group to deliver its long-term strategy and support returns to shareholders.

Executive Chair remuneration

The Executive Chair receives a salary, non-cash benefits and superannuation contributions and does not participate in any performance-based incentives. The majority of the non-cash benefits relate to the provision of a motor vehicle.

The Board is comfortable that the salary awarded to the Executive Chair is appropriate given the contribution of Mr Wilson as a member of the Board, as well as his leadership and industry experience.

Remuneration Report (Audited)

Executive KMP short-term incentive (STI)

The STI provides Executive KMP an opportunity to be rewarded for achievement of annual strategic objectives that align to the core drivers of sustainable performance for Reece.

The table below outlines the key elements of the STI structure for Executive KMP.

How is performance measured?	Performance targets under the STI are set by the Remuneration Committee at the beginning of the financial year. The following diagram illustrates the calculations in determining the STI outcomes.																									
	<div><div><div>40%</div><div>EBITA</div></div><div>+</div><div><div>40%</div><div>Financial targets</div></div><div>+</div><div><div>20%</div><div>Individual targets</div></div><div>=</div><div><div>100%</div><div>STI outcome</div></div></div>																									
	Performance targets are set with reference to the Reece business strategy to achieve the long-term growth aspirations of the Group.																									
	<table><tr><th colspan="2">Australian-based Executives</th></tr><tr><td colspan="2">For group Executive KMP roles performance under the FY21 STI was measured against:</td></tr><tr><th>Weighting</th><th>Performance objective</th></tr><tr><td>40%</td><td>EBITA</td></tr><tr><td>40%</td><td>EBITA to sales margin Sales growth Sales to full-time employees Net Debt to EBITA Earnings Per Share</td></tr><tr><td>20%</td><td>Board assessment against individual targets</td></tr></table>	Australian-based Executives		For group Executive KMP roles performance under the FY21 STI was measured against:		Weighting	Performance objective	40%	EBITA	40%	EBITA to sales margin Sales growth Sales to full-time employees Net Debt to EBITA Earnings Per Share	20%	Board assessment against individual targets	<table><tr><th colspan="2">MORSCO Executives</th></tr><tr><td colspan="2">For MORSCO Executive KMP roles performance under the FY21 STI was measured against:</td></tr><tr><th>Weighting</th><th>Performance objective</th></tr><tr><td>40%</td><td>EBITA</td></tr><tr><td>40%</td><td>EBITA to sales margin Sales growth Sales to full-time employees Customer Net Promoter Score</td></tr><tr><td>20%</td><td>Board assessment against individual targets</td></tr></table>	MORSCO Executives		For MORSCO Executive KMP roles performance under the FY21 STI was measured against:		Weighting	Performance objective	40%	EBITA	40%	EBITA to sales margin Sales growth Sales to full-time employees Customer Net Promoter Score	20%	Board assessment against individual targets
Australian-based Executives																										
For group Executive KMP roles performance under the FY21 STI was measured against:																										
Weighting	Performance objective																									
40%	EBITA																									
40%	EBITA to sales margin Sales growth Sales to full-time employees Net Debt to EBITA Earnings Per Share																									
20%	Board assessment against individual targets																									
MORSCO Executives																										
For MORSCO Executive KMP roles performance under the FY21 STI was measured against:																										
Weighting	Performance objective																									
40%	EBITA																									
40%	EBITA to sales margin Sales growth Sales to full-time employees Customer Net Promoter Score																									
20%	Board assessment against individual targets																									
How much can an Executive earn?	<table><tr><th colspan="2">Australian-based Executives</th></tr><tr><td colspan="2">The Group CEO's performance-based STI at target is 100% of base salary with a maximum of 150%.</td></tr><tr><td colspan="2">The CEO ANZ and Group CFO's performance-based STI at target is 50% of base salary with a maximum of 75%.</td></tr></table>	Australian-based Executives		The Group CEO's performance-based STI at target is 100% of base salary with a maximum of 150%.		The CEO ANZ and Group CFO's performance-based STI at target is 50% of base salary with a maximum of 75%.		<table><tr><th colspan="2">MORSCO Executives</th></tr><tr><td colspan="2">The MORSCO Executive Chair and CEO's STI at target is 100% of base salary with a maximum of 150%.</td></tr></table>	MORSCO Executives		The MORSCO Executive Chair and CEO's STI at target is 100% of base salary with a maximum of 150%.															
Australian-based Executives																										
The Group CEO's performance-based STI at target is 100% of base salary with a maximum of 150%.																										
The CEO ANZ and Group CFO's performance-based STI at target is 50% of base salary with a maximum of 75%.																										
MORSCO Executives																										
The MORSCO Executive Chair and CEO's STI at target is 100% of base salary with a maximum of 150%.																										
	There is no payment in the event the minimum performance targets, as set by the Remuneration Committee annually, are not met.																									
How and when is it paid?	The STI is paid in cash within 90 days of finalisation of the Group's financial statements.																									


















Remuneration Report (Audited)




STI performance outcomes




The STI is 'at risk' remuneration subject to the achievement of pre-defined performance measures. The measures drive a continuous improvement culture, strengthen and grow our current business while continuing to innovate for the future. Individual performance targets relate to each specific role and measure an individual's contribution against a range of operational and

strategic performance measures. At the start of the performance year the Board determines the Group CEO & MD individual strategic measures. Relevant measures are cascaded to the Executives. The Individual targets relate to each specific role and measure an individual's contribution against a range of operational and strategic performance measures.

The table below outlines the STI performance outcomes for Executive KMPs for FY21.

Objective	ANZ FY21 outcomes	MORSCO FY21 outcomes	Group FY21 outcomes
Normalised EBITA Earnings before interest, tax and amortisation adopted in FY21 on the basis EBITA better reflects underlying operational performance after adoption of AASB 16 <i>Leases</i> in FY20			
Normalised EBITA to sales			
Sales growth			
Sales to full-time employees			
Net debt to normalised EBITA	NA	NA	
Customer Net Promoter Score	NA		NA
Board assessment against individual targets			

 Stretch
 Between Target & Stretch
 Target

 Between Target & Threshold
 Threshold
 Below Threshold

STI outcomes

The table below outlines the STI outcomes for Executives during FY21.

Executive	STI maximum opportunity (\$'000)	STI outcome as a percentage of maximum %	STI outcome as a percentage of target %	Actual STI (\$'000)
Peter Wilson Group CEO and MD	3,195	68	102	2,164
Andrew Cowlshaw Group CFO	488	73	110	358
Gavin Street CEO ANZ	554	67	100	368
Sasha Nikolic MORSCO CEO US	1,051	81	121	847
Chip Hornsby MORSCO Executive Chair	1,168	75	113	881

Remuneration Report (Audited)

Group Executive long-term incentive (LTI)

The LTI assists in the reward, retention and motivation of eligible participants and aligns the interests of eligible participants with shareholders of Reece.

The table below outlines the key elements of the LTI structure for Executives in relation to LTI grants made during FY21.

How is the LTI award structured?	The participants are granted share options, an entitlement to receive one ordinary share following vesting and upon exercise of share options.																			
How is performance measured?	<p>The LTI award has an EPS performance objective. EPS is measured on a compound annual growth rate (CAGR). EPS was selected as the performance condition as it provides a strong correlation with the creation of shareholder value.</p> <p>EPS for incentive purposes reflects audited statutory accounts. The Board in its discretion may make adjustments to incentive outcomes where it considers outcomes are not a reasonable reflection of Executive or Group performance. This discretion is unlikely to be used but is retained to deal with highly unusual circumstances.</p> <p>The awards will vest in accordance with the following vesting schedule:</p> <table><tr><th>EPS CAGR for the period</th><th>2020 grant</th><th>2021 grant</th><th>Level of vesting</th></tr><tr><td>Maximum</td><td>EPS CAGR \geq 10%</td><td>EPS CAGR \geq 8%</td><td>100%</td></tr><tr><td>Between threshold and maximum</td><td>5% \leq EPS CAGR \leq 10%</td><td>2% \leq EPS CAGR \leq 8%</td><td>Pro rata vesting on a straight line basis between 50% and 100%</td></tr><tr><td>Threshold</td><td>EPS CAGR $<$ 5%</td><td>EPS CAGR $<$ 2%</td><td>Nil</td></tr></table>				EPS CAGR for the period	2020 grant	2021 grant	Level of vesting	Maximum	EPS CAGR \geq 10%	EPS CAGR \geq 8%	100%	Between threshold and maximum	5% \leq EPS CAGR \leq 10%	2% \leq EPS CAGR \leq 8%	Pro rata vesting on a straight line basis between 50% and 100%	Threshold	EPS CAGR $<$ 5%	EPS CAGR $<$ 2%	Nil
EPS CAGR for the period	2020 grant	2021 grant	Level of vesting																	
Maximum	EPS CAGR \geq 10%	EPS CAGR \geq 8%	100%																	
Between threshold and maximum	5% \leq EPS CAGR \leq 10%	2% \leq EPS CAGR \leq 8%	Pro rata vesting on a straight line basis between 50% and 100%																	
Threshold	EPS CAGR $<$ 5%	EPS CAGR $<$ 2%	Nil																	
What is the performance period?	Share options are subject to vesting conditions over a five-year performance period.																			
How much can an Executive earn?	<p>The Group CEO is eligible to receive an annual LTI grant equivalent to 75% of base salary, subject to Board discretion.</p> <p>Other Australian-based Executives may be eligible to receive an LTI grant equivalent to 50% of base salary, subject to Board discretion.</p> <p>The Group CFO was not offered an LTI grant during the financial year. To date, Reece has not offered LTI grants to an Executive until their second year with the Company after a period of time has passed to assess the individual's performance.</p>																			
What are the vesting considerations?	<p>Share options will vest subject to achieving the performance objectives and provided the Executive remains continuously employed or engaged with the Group at all times from the grant date until the end of the five-year performance period.</p> <p>Share options that vest after the five-year performance period cannot be exercised for a further two-year period.</p>																			
How and when is it paid?	Share options may be exercised once exercise conditions have been met. The Company will settle exercised share options using market purchased shares. No new shares will be issued. The Board in its discretion may settle options in cash.																			
What happens if an Executive leaves?	If an Executive is considered a good leaver, they will be able to retain a proportion of their unvested share options, prorated for time and subject to performance testing.																			
What happens in a change of control?	In the event of a change of control, the Board has absolute discretion to determine how to deal with the Executive's unvested share options.																			

Remuneration Report (Audited)

MORSCO Executive long term incentive (LTI)

The MORSCO LTI plan has been structured to assist the transition period of the MORSCO business into the Reece Group. The LTI plan for MORSCO was established to incentivise Executives in the US business during a critical period of transformation. The Board will review the structure of LTI for the MORSCO leadership team in FY22. The table below outlines the key elements of the LTI structure for Executive KMP.

How is the LTI award structured?	For MORSCO Executives, the LTI is awarded in cash rather than share options. The plan was structured in this way to assist the transition of MORSCO into the Reece Group and to avoid potential adverse tax implications.
How is performance measured?	The metrics are based on achieving annual MORSCO EBITDA and sales revenue targets and ongoing employment with MORSCO as approved by the Remuneration Committee and the Board.
What is the performance period?	The cash award is subject to vesting conditions over the performance period end 30 June 2021 and an additional three and a half-year performance period for the US CEO. This is in line with the agreed period for initial business transformation post the acquisition of MORSCO.
How much can an Executive earn?	The MORSCO Executive Chair and CEO's long-term incentive has a target of 100% of base salary with a maximum of 150%.
What are the vesting considerations?	There is no payment if minimum performance objectives are not met, or the Executive resigns from the Company prior to the end of the plan.
How and when is it paid?	Once vesting conditions of the awards have been met, the eligible participant will receive a cash amount.
What happens if an Executive leaves?	If an Executive is considered a good leaver, they may be eligible to retain a proportion of their award based on the time that has elapsed between the grant date and when the Executive leaves Reece and also based on the performance of the Company and/or participant against targets at that time.
What happens in a change of control?	In the event of a change of control, the Board has absolute discretion to determine what amount of outstanding awards will be eligible for payment.

Executive service arrangements

The table below outlines Executive service arrangements.

Individual	Service agreement
Alan Wilson	Apart from statutory termination benefits, which include accrued leave entitlements, there are no arrangements in place to provide the Executive Chair with any additional retirement benefits. Notice period of six months for employee and employer.
Peter Wilson	Notice period of twelve months for employee and employer.
Gavin Street	Notice period of six months for employee and employer.
Andrew Cowlshaw	
Chip Hornsby	The MORSCO Executive Chair employment contract automatically extends for successive one-year periods with either party able to elect to not extend the employment contract. Where either party chooses not to extend the contract, both parties are required to provide written notice 90 days prior to the recurring annual renewal date.
Sasha Nikolic	<p>Apart from statutory termination benefits, which include accrued leave entitlements, there are no arrangements in place to provide the CEO US with any additional retirement benefits.</p> <p>The MORSCO CEO's contract will automatically extend for successive one-year periods with either party able to elect to not extend the employment contract. Where either party chooses not to extend the contract, both parties are required to provide written notice 30 days prior to the recurring annual renewal date.</p>

Share trading policy

The Reece share trading policy prohibits designated Reece personnel, which includes Executives and Directors, from entering into any arrangements that would have the effect of limiting their exposure relating to Reece shares, including vested Reece shares or unvested entitlements to Reece shares under Reece employee incentive schemes.

Remuneration Report (Audited)

Director remuneration

Non-Executive Directors (NED) fees include base fees and committee fees. The committee fees reflect the additional time commitment required for Board committees on which they may serve from time to time. The maximum fee pool amount available for Non-Executive Directors is \$1,000,000, as approved by shareholders at the 2016 Annual General Meeting.

Non-Executive Directors are not entitled to receive any performance-based incentives, non-cash benefits or retirement benefits other than statutory superannuation.

The table below sets out the fees for both substantial shareholders and Non-Executive Directors who are not-substantial shareholders. Fees are inclusive of superannuation.

Base fees	Annual fee
Deputy Chair	\$110,000
Independent NED	\$110,000
Substantial shareholder NED	\$90,000

The table below outlines the fees for Committee membership. We note that NED's with substantial shareholdings are not eligible to receive Committee Chair or Member fees.

Committee fee	Chair	Member
Audit and Risk Committee	\$40,000	\$15,000
Remuneration Committee	\$30,000	\$15,000
MORSCO Board of Managers	N/A	\$50,000

Statutory disclosures

The table below sets out the remuneration of Non-Executive Directors of Reece Group.

Non-Executive Directors		Salary and fees (\$000's)	Non-monetary and other benefits ¹ (\$000's)	Post-employment benefits (\$000's)	Total (\$000's)
Alan Wilson	FY21	1,413	43	22	1,478
	FY20	1,294	46	21	1,361
Tim Poole	FY21	210	-	20	230
	FY20	201	-	10	211
Bruce C. Wilson	FY21	82	-	8	90
	FY20	79	-	7	86
Megan Quinn	FY21	117	-	11	128
	FY20	109	-	10	119
Georgina Williams	FY21	38	-	4	42
	FY20	109	-	10	119
Andrew Wilson	FY21	82	-	8	90
	FY20	79	-	7	86
Remuneration totals	FY21	1,942	43	73	2,058
	FY20	1,871	46	65	1,982

¹ Reflects value of motor vehicle provided to the Executive Chair.

² Ms Georgina Williams ceased being a Director on 29 October 2020.

Remuneration Report (Audited)

Statutory disclosures

The table below sets out the remuneration of Executives of Reece Group.

Executives		Short-term benefits			Post employment benefits	Other long-term benefits	Share based payments	Total	Performance based
		Base salary	Short-term incentive	Non-monetary and other benefits	Superannuation	Long-term incentive	Option awards		
		(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	%
Peter Wilson	FY21	2,130	2,164	111	25	-	431	4,861	53
	FY20	2,130	2,024	135	25	-	192	4,506	49
Andrew Cowlshaw ¹	FY21	650	358	-	25	-	-	1,033	35
Chip Hornsby	FY21	779	881	36	-	601	-	2,297	65
	FY20	874	536	19	3	601	-	2,033	56
Gavin Street	FY21	739	368	-	25	-	10	1,142	33
	FY20	736	294	-	25	-	-	1,055	28
Sasha Nikolic	FY21	701	847	367	32	651	-	2,598	58
	FY20	754	637	270	36	382	-	2,079	49
Remuneration totals	FY21	4,999	4,618	514	107	1,252	441	11,931	53
	FY20	4,494	3,491	424	89	983	192	9,673	48

¹ Mr Andrew Cowlshaw joined Reece as Group CFO from 1 July 2020.

Executive LTI options plan outstanding

The LTI plan was introduced in FY20 and the Group CEO was issued with 267,588 share options (2020: 304,286). There were no share options exercised, vested, expired or forfeited as at 30 June 2021. The fair value of the share options granted in FY21 was \$5.97 to the Group CEO and MD, and for the CEO ANZ \$8.10, both of which were determined at the grant date in accordance with AASB 2 *Share-based payments*. The table below outlines each grant on foot for Executive KMP during the financial year.

Executive	Award	Grant date	Exercise price	Expiry date	Number of options	Fair value at grant date
Peter Wilson	FY21	29 October 2020	\$14.46	29 October 2035	267,588	\$1,597,500
	FY20	30 October 2019	\$10.06	30 October 2034	304,286	\$1,278,000
Gavin Street	FY21	29 April 2021	\$13.07	29 April 2026	81,126	\$657,119

Executive LTI cash plan outstanding

Sasha Nikolic was awarded an Executive LTI cash plan on 1 July 2018 with the performance period ending 31 December 2024. Payment of the LTI is subject to annual MORSCO EBITDA growth, annual sales revenue growth and continued employment with MORSCO. At target, the outstanding value of the six and a half year LTI for Sasha Nikolic is \$4,459,509, with the opportunity to increase this value by 88% in the event of exceptional outperformance against established targets.

Remuneration Report (Audited)

Equity movements

The table below outlines equity movements for Directors and Executives during the financial year, representing Ordinary Shares held in Reece Limited.

	Balance as at 30 June 2020	Equity received as remuneration	Equity purchased / disposed of	Balance as at 30 June 2021
Directors				
Alan Wilson	358,709,180	-	-	358,709,180
Tim Poole	15,865	-	-	15,865
Bruce C. Wilson ¹	120,168,788	-	-	120,168,788
Andrew Wilson ¹	120,168,788	-	-	120,168,788
Executives				
Peter Wilson ¹ Group CEO / MD	120,168,788	-	-	120,168,788
Andrew Cowlshaw Group CFO	9,868	-	-	9,868
Gavin Street CEO ANZ	26,316	-	-	26,316
Sasha Nikolic MORSCO CEO US	26,315	-	-	26,315

¹ Bruce C. Wilson, Andrew Wilson and Peter Wilson all have relevant interests in the shares set out in the various substantial holder notices lodged by Two Hills Holdings Pty Ltd by virtue of the Pre-Emptive Rights Agreement (Pre-Emptive Shares), even though they do not have the right to demand the Pre-Emptive Shares. These holdings have been included within the Director and Executive shareholdings.

During their term as KMP during FY21 Megan Quinn, Chip Hornsby and Georgina Williams did not hold any shares in Reece Limited. Georgina Williams ceased being a Director on 29 October 2020.

Remuneration Report (Audited)

AGMs

At our most recent Annual General Meeting, resolution to adopt the prior year Remuneration Report was put to the vote and at least 75% of "yes" votes were cast for adoption of the report. No comments were made on the remuneration report requiring consideration at the Annual General Meeting.

This concludes the Remuneration Report (Audited). Dated at Melbourne on 24 August 2021.

Signed in accordance with a resolution of Directors.



L.A. Wilson
Executive Chair



P.J. Wilson
Group Chief Executive Officer

Auditor's Independence Declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Reece Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Reece Limited for the financial year ended 30 June 2021 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink, appearing to be 'BW Szentirmay'.

BW Szentirmay

Partner

Melbourne

24 August 2021

KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Liability limited by a scheme approved under Professional Standards Legislation.

Contents

Consolidated financial statements

Statement of profit or loss and other comprehensive income

Statement of financial position

Statement of cash flows

Statement of changes in equity

1. Notes to the financial statements

1.1 Basis of preparation and accounting policies

2. Performance

2.1 Segment reporting

2.2 Sales revenue and other income

2.3 Finance income and finance cost

2.4 Earnings per share

2.5 Income tax

3. Assets and liabilities

3.1 Cash and cash equivalents

3.2 Trade and other receivables

3.3 Inventories

3.4 Leases

3.5 Property, plant, and equipment

3.6 Goodwill and intangible assets

3.7 Trade and other payables

3.8 Provisions

4. Capital management

4.1 Interest-bearing liabilities

4.2 Contributed equity and reserves

4.3 Dividends paid and proposed

5. Risk

5.1 Impairment of non-financial assets

5.2 Financial risk management

5.3 Financial instruments

6. Group

6.1 Business combinations

6.2 Subsidiaries

7. Other disclosures

7.1 Related party disclosures

7.2 Share-based payments

7.3 Auditor's remuneration

7.4 Other accounting policies

7.5 Subsequent events

Directors' declaration

Independent auditor's report

Shareholders' information

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2021

	Note	2021 (\$'000's)	2020 (\$'000's)
Revenue			
Revenue from sale of goods	2.2	6,270,706	6,009,878
Other income	2.2	11,102	3,863
		6,281,808	6,013,741
Less: Expenses			
Cost of sales		4,509,176	4,338,667
Employee benefits expense		735,663	699,161
Depreciation		184,310	188,670
Amortisation		43,236	43,778
Business acquisition costs		172	2,625
Other expenses		316,679	330,228
		5,789,236	5,603,129
Operating profit		492,572	410,612
Finance income	2.3	2,588	12,773
Finance cost	2.3	(114,877)	(110,880)
Profit before income tax expense		380,283	312,505
Income tax expense	2.5	94,688	83,506
Net profit for the year		285,595	228,999
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations, net of tax		(129,285)	22,907
Change in fair value of effective cash flow hedges, net of tax		58,815	(22,295)
Total comprehensive income, net of tax		215,125	229,611
Basic earnings per share	2.4	44 cents	40 cents
Diluted earnings per share	2.4	44 cents	40 cents

Consolidated Statement of Financial Position

For the year ended 30 June 2021

	Note	2021 (\$000's)	2020 (\$000's)
Current assets			
Cash and cash equivalents	3.1	828,966	1,004,708
Trade and other receivables	3.2	1,044,037	931,628
Inventories	3.3	1,138,117	967,510
Derivative financial instruments	5.3	1,029	-
Total current assets		3,012,149	2,903,846
Non-current assets			
Property, plant and equipment	3.5	624,099	655,214
Right-of-use assets	3.4	633,052	688,408
Investments in associates		14,468	1,718
Intangible assets	3.6	1,780,630	1,970,942
Deferred tax assets	2.5	53,671	49,808
Derivative financial instruments	5.3	-	73,949
Total non-current assets		3,105,920	3,440,039
Total assets		6,118,069	6,343,885
Current liabilities			
Trade and other payables	3.7	984,024	792,977
Lease liabilities		95,934	81,936
Interest-bearing liabilities	4.1	16,443	18,013
Deferred consideration	6.1	41,474	45,433
Current tax liability	2.5	32,304	34,431
Provisions	3.8	76,698	69,374
Derivative financial instruments	5.3	11,950	33,290
Total current liabilities		1,258,827	1,075,454
Non-current liabilities			
Long-term payables	3.7	14,886	31,408
Interest-bearing liabilities	4.1	1,319,173	1,747,219
Lease liabilities		574,321	633,732
Deferred tax payable	2.5	47,983	74,424
Provisions	3.8	4,958	5,444
Derivative financial instruments	5.3	9,812	26,318
Total non-current liabilities		1,971,133	2,518,545
Total liabilities		3,229,960	3,593,999
Net assets		2,888,109	2,749,886
Equity			
Contributed equity	4.2	1,246,918	1,246,918
Reserves	4.2	(39,470)	30,384
Retained earnings		1,680,661	1,472,584
Total equity		2,888,109	2,749,886

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Note	2021 (\$000's)	2020 ¹ (\$000's)
Cash flow from operating activities			
Receipts from customers		6,586,311	6,167,820
Payments to suppliers and employees		(6,022,709)	(5,394,230)
Interest received		2,584	2,509
Finance costs paid		(75,276)	(85,400)
Income tax paid		(119,274)	(89,737)
Net cash from operating activities	3.1	371,636	600,962
Cash flow from investing activities			
Purchase of property, plant, and equipment		(69,608)	(83,328)
Proceeds from sale of property, plant, and equipment		16,967	8,382
Purchase of intangibles		(3,031)	(27,436)
Purchase of controlled entities and investments, net of cash acquired		(12,248)	(177,121)
Net cash used in investing activities		(67,920)	(279,503)
Cash flow from financing activities			
Proceeds from borrowings		-	281,432
Repayments of borrowings		(276,365)	(158,150)
Proceeds from capital raising		-	642,069
Dividends paid	4.3	(77,518)	(113,566)
Payment of lease liabilities		(108,246)	(95,503)
Net cash from/(used in) in financing activities		(462,129)	556,282
Net (decrease)/increase in cash and cash equivalents		(158,413)	877,741
Net foreign exchange translation difference		(17,329)	(740)
Cash and cash equivalents at the beginning of the year		1,004,708	127,707
Cash and cash equivalents at the end of the year	3.1	828,966	1,004,708

¹ 'Receipts from customers' and 'Payments to suppliers and employees' have been restated to gross up for the impact of taxes. There is no impact to net cash from operating activities as previously reported.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Note	Contributed equity (\$000's)	Reserves (\$000's)	Retained earnings (\$000's)	Total equity (\$000's)
Balance as at 1 July 2019		604,849	29,580	1,357,151	1,991,580
Net profit for the year		-	-	228,999	228,999
Exchange differences on translation of foreign operations, net of tax		-	22,907	-	22,907
Change in fair value of effective cash flow hedges, net of tax		-	(22,295)	-	(22,295)
Total comprehensive income for the year, net of tax		604,849	30,192	1,586,150	2,221,191
Transactions with owners in their capacity as owners:					
Additional contributed equity		642,069	-	-	642,069
Share-based payments	7.2	-	192	-	192
Dividends paid	4.3	-	-	(113,566)	(113,566)
Total transactions with owners in their capacity as owners		642,069	192	(113,566)	528,695
Balance as at 30 June 2020		1,246,918	30,384	1,472,584	2,749,886
Balance as at 1 July 2020		1,246,918	30,384	1,472,584	2,749,886
Net profit for the year		-	-	285,595	285,595
Exchange differences on translation of foreign operations, net of tax		-	(129,285)	-	(129,285)
Change in fair value of effective cash flow hedges, net of tax		-	58,815	-	58,815
Total comprehensive income for the year, net of tax		1,246,918	(40,086)	1,758,179	2,965,011
Transactions with owners in their capacity as owners:					
Share-based payments	7.2	-	616	-	616
Dividends paid	4.3	-	-	(77,518)	(77,518)
Total transactions with owners in their capacity as owners		-	616	(77,518)	(76,902)
Balance as at 30 June 2021		1,246,918	(39,470)	1,680,661	2,888,109

Notes

For the year ended 30 June 2021

1. Notes to the financial statements

About this report

The financial report covers Reece Limited (the Group or Reece) and controlled entities as a Group. Reece Limited is a company limited by shares, incorporated, and domiciled in Australia. Reece Limited is a for-profit entity for the purpose of preparing the financial statements. The nature of the operations and principal activities of the Group are described in the segment information.

Statement of significant accounting policies

The following is a summary of significant accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The consolidated financial report of the Group for the year ended 30 June 2021 was authorised for issue in accordance with a resolution of the directors on 24 August 2021.

The financial report is a general purpose financial report that:

- has been prepared in accordance with Australian Accounting Standards, Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the Corporations Act 2001, and the financial report of the Group also complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board;
- has been prepared on the historical cost basis, except certain financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are the hedged items in fair value hedge relationships, which are otherwise carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged as modified by revaluations to fair value for certain classes of assets as described in the accounting policies;
- is presented in Australian dollars;
- presents reclassified comparative information where required for consistency with the current year's presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or before 1 July 2020. Refer to note 7.4 for further details; and
- does not early adopt Accounting Standards and Interpretations that have been issued or amended but are not yet effective unless specified in note 7.4.

Key judgements and estimates

In the process of applying the Group's accounting policies, management has made several judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

Note reference

- 2.5 Income tax
- 3.3 Inventories
- 3.4 Leases
- 3.5 Property, plant & equipment
- 5.1 Impairment of non-financial assets

COVID-19

The COVID-19 pandemic continues to impact economies worldwide. The Group operates in three geographic locations; Australia, United States and New Zealand. Where relevant, this information has been considered as part of management's significant judgements or estimates and the basis for these decisions as detailed in the notes to the financial statements.

Basis of consolidation

The consolidated financial statements are those of the Group, comprising the financial statements of the parent entity and of all entities which Reece Limited controlled from time to time during the year and at balance date. The group controls an entity when it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Details of the controlled entities are contained in note 6.2.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

Notes

For the year ended 30 June 2021

Foreign currency

Functional and presentation currency

The functional currencies of overseas subsidiaries are New Zealand dollars and United States dollars. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

Transactions and balances

As at reporting date, the assets and liabilities of overseas subsidiaries are translated into Australian dollars at the rate of exchange ruling at balance sheet date. Statements of profit or loss are translated at the average exchange rates for the year.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Differences arising on settlement or translation of monetary items are recognised in profit or loss except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in Other Comprehensive Income (OCI) until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Rounding amounts

The parent entity and the Group have applied the relief available under ASIC Corporations (Rounding in Financial/Directors Report) Instrument 2016/191 and accordingly, the amounts in the consolidated financial statements and in the Directors' Report have been rounded to the nearest thousand dollars, or in certain cases, the nearest dollar (where indicated).

Other accounting policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

1.1 Basis of preparation and accounting policies

The notes to the financial statements

The notes include information which is relevant to understand the financial statements and is material and relevant to the operations, financial position, and performance of the Group. Information is considered material and relevant if, for example:

- due to size or nature;
- understanding the results of the Group; or
- helps to explain the impact of significant changes in the Group's business, for example acquisitions.

The notes are organised into the following sections:

- 2. Performance:** provides information on the performance of the Group, including segment results, earnings per share and income tax;
- 3. Assets and liabilities:** provides detail of the assets used in the Group's operations and the liabilities incurred as a result;
- 4. Capital management:** provides detail about capital management for the Group and shareholder returns for the year;
- 5. Risk:** provides information on the Group's various financial risks, how these can impact the Group's financial position and performance, and how these risks are managed by the Group;
- 6. Group:** explains the Group structure and how changes may have affected the financial position or performance of the Group; and
- 7. Other disclosures:** this section provides other disclosures required by Australian Accounting Standards that are considered relevant to understanding the Group's financial performance or position.

Notes

For the year ended 30 June 2021

2. Performance

This section provides information on the performance of the Group, including segment results, earnings per share and income tax.

2.1 Segment reporting

Segment information is presented in a manner which is consistent with the internal reporting to the Group Chief Executive Officer who is the entity's chief operating decision maker for the purpose of performance assessment and resource allocation. The Group's segments are based on the geographical operation of the business and comprise:

- Australia and New Zealand (ANZ)
- United States of America (United States)

Reece Group is a distributor of plumbing, waterworks, and HVAC-R (heating, ventilation, air conditioning and refrigeration) products and these products are consistent in both geographic locations.

	ANZ		United States		Total	
	2021 (\$000's)	2020 (\$000's)	2021 (\$000's)	2020 (\$000's)	2021 (\$000's)	2020 (\$000's)
Revenue from sale of goods	3,153,799	2,887,847	3,116,907	3,122,031	6,270,706	6,009,878
Normalised EBITDA ¹	501,692	430,558	218,598	219,046	720,290	649,604
Income/(expenses)						
Depreciation	(116,780)	(113,960)	(67,530)	(74,710)	(184,310)	(188,670)
Amortisation	(3,594)	(2,229)	(39,642)	(41,549)	(43,236)	(43,778)
Business acquisition costs	-	(468)	(172)	(2,157)	(172)	(2,625)
Impairment expense	-	(3,919)	-	-	-	(3,919)
Finance income	2,588	12,773	-	-	2,588	12,773
Finance costs	(76,825)	(59,478)	(38,052)	(51,402)	(114,877)	(110,880)
Segment profit before tax	307,081	263,277	73,202	49,228	380,283	312,505
Income tax expense	(87,773)	(82,969)	(6,915)	(537)	(94,688)	(83,506)
Segment profit after tax	219,308	180,308	66,287	48,691	285,595	228,999
Current assets	1,740,985	1,750,681	1,271,164	1,153,165	3,012,149	2,903,846
Non-current assets	1,199,803	1,328,849	1,906,117	2,111,190	3,105,920	3,440,039
Total assets	2,940,788	3,079,530	3,177,281	3,264,355	6,118,069	6,343,885
Total liabilities	1,529,140	1,856,462	1,700,820	1,737,537	3,229,960	3,593,999

¹ Normalised EBITDA is earnings before interest, tax, depreciation, amortisation and has been adjusted to exclude business acquisition costs, FY20 impairment expense and finance income/(costs) - net.

Notes

For the year ended 30 June 2021

2.2 Sales revenue and other income

	2021 (\$000's)	2020 (\$000's)
Revenue from contracts with customers		
Revenue from sale of goods	6,270,706	6,009,878
Other income		
Interest received or due and receivable from other parties	2,584	2,505
Gain on disposal of property, plant and equipment and other assets	842	716
Gain on compulsory sale of freehold land and buildings	7,162	-
Bad debts recovered	514	642
	11,102	3,863
Total revenue and other income	6,281,808	6,013,741

Revenue from contracts with customers

The Reece Group is a distributor of plumbing, waterworks, and HVAC-R (heating, ventilation, air conditioning and refrigeration) products. Revenue from the sale of these products is recognised at the point in time when control of the product has transferred to the customer. Control of the product is transferred either when the customer picks up the product directly, or on delivery to the location specified by the customer.

For customers who purchase on credit, a receivable is recognised only once the products are either picked up or delivered, when the right to consideration is unconditional.

Other income

Interest revenue is recognised on a time proportional basis considering the interest rates applicable to the financial assets.

2.3 Finance income and finance cost

	2021 (\$000's)	2020 (\$000's)
Finance income		
Realised foreign currency gain on financial asset	2,588	-
Unrealised foreign currency gain on financial assets	-	12,773
Total finance income	2,588	12,773
Finance cost		
Unrealised foreign currency (loss) on financial assets	(24,483)	-
Interest on debt and borrowings	(70,674)	(89,538)
Interest on lease liabilities	(19,720)	(21,342)
Total finance cost	(114,877)	(110,880)

Notes

For the year ended 30 June 2021

2.4 Earnings per share

	2021 (\$000's)	2020 (\$000's)
Earnings used in calculating basic and diluted earnings per share	285,595	228,999
	Thousands	Thousands
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	645,984	574,122
The earnings per share has been calculated on the weighted average of share capital during the year	Cents 44 cents	Cents 40 cents

Calculation methodology

Earnings per Share (EPS) is profit for the period from continuing operations attributable to ordinary equity holders of the Company, divided by the weighted average number of ordinary shares during the year.

Diluted EPS is calculated on the same basis except that it includes the impact of any potential commitments the Group has to issue shares in the future. For the period, the potential dilution to the

weighted average number of ordinary shares from employee performance rights was immaterial. Between the reporting date and the issue date of the Annual Report, there have been no transactions involving ordinary shares or potential ordinary shares that would impact the calculation of EPS disclosed in the table above.

All revenue is stated net of the amounts of goods and services tax (GST).

2.5 Income tax

	2021 (\$000's)	2020 (\$000's)
The components of tax expense:		
Consolidated profit or loss		
Current tax	135,343	111,972
Adjustments for current tax from prior periods	(10,351)	(30,494)
Deferred tax	(30,304)	2,028
Income tax expense reported in the statement of profit or loss	94,688	83,506
Reconciliation of tax expense and accounting profit		
Statutory net profit before tax	380,283	312,505
At Australia's statutory income tax rate of 30% (2020: 30%)	114,085	93,752
US inventory adjustment	(14,832)	(1,014)
Adjustments for current tax from prior periods	(10,351)	(30,494)
Effect of non-assessable income and non-deductible expenses for tax purposes	8,089	22,713
Difference in geographical tax rates	(2,303)	(1,451)
At the effective income tax rate of 25% (2020: 27%)	94,688	83,506

The major components of income tax expense in the consolidated statement of profit or loss are set out in the table above.

Notes

For the year ended 30 June 2021

2.5 Income tax (cont)

Current taxes

Current income tax expense is the tax payable on the current period's taxable income based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities. There are no income tax consequences attached to the payment of dividends in either 2021 or 2020 by the Group to its shareholders.

Deferred taxes

Deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The Group does not have any unbooked tax losses relating to foreign subsidiaries at 30 June 2021 (2020: nil).

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Key judgement

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax consolidation

Reece Limited (parent entity) and its Australian wholly owned subsidiaries have implemented the tax consolidation legislation and have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses for the tax consolidated group. The tax consolidated group has also entered into a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

The tax consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax consolidated group arising under the joint and several liability requirements of the tax consolidation system in the event of default by the parent entity to meet its payment obligations.

Goods and services tax (GST)

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Notes

For the year ended 30 June 2021

2.5 Income tax (cont)

	2021 (\$'000's)	2020 (\$'000's)
Deferred tax assets / (liabilities):		
Employee benefits	33,846	26,812
Depreciation of buildings and right-of-use assets	10,563	12,322
Losses available for offset against future taxable income	333	743
Net gain/(loss) on hedge of the net investment	(1,946)	(3,832)
Provisions	6,276	6,129
Capital leases	7,335	2,510
Intangible assets	(68,091)	(81,677)
Other deferred tax assets	18,637	13,324
Other deferred tax liabilities	(1,265)	(947)
Total deferred tax assets / (liabilities)	5,688	(24,616)
Movement in deferred tax balance:		
Balance at beginning of year	(24,616)	(4,514)
Deferred tax liability from business acquisition	-	(18,074)
Movement to the statement of financial position	30,304	(2,028)
Deferred tax balance at end of the year	5,688	(24,616)
Reconciliation to the statement of financial position		
Deferred tax balance	5,688	(24,616)
Set off of DTL that are expected to reverse in a future period	47,983	74,424
Deferred tax asset	53,671	49,808
Current tax payable / (receivable)		
Balance at beginning of the year	(6,379)	1,555
Current tax	135,343	111,972
Tax instalments paid	(119,274)	(89,737)
Over provision in prior year	(10,351)	(30,494)
Other	(4,477)	325
Current tax payable / (receivable) at end of the year	(5,138)	(6,379)
Reconciliation to the statement of financial position		
Current tax receivable	(5,138)	(6,379)
Set off of prepaid tax that are expected to reverse in a future period	37,442	40,810
Current tax liability	32,304	34,431

Notes

For the year ended 30 June 2021

3. Assets and liabilities

This section provides information on the assets used in the Group's operations and the liabilities incurred as a result.

3.1 Cash and cash equivalents

	2021 (\$'000's)	2020 (\$'000's)
Cash on hand	321	332
Cash on deposit	828,645	1,004,376
	828,966	1,004,708

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

	2021 (\$'000's)	2020 (\$'000's)
(a) Reconciliation of the net profit after tax to the net cash flows from operations:		
Profit for the period	285,595	228,999
<i>Adjusted for:</i>		
Add business acquisition costs	-	2,625
Add / (less) non-cash items:		
Profit or loss on sale or disposal of non-current assets	(8,004)	(716)
Depreciation	184,310	188,670
Amortisation	43,236	43,778
Interest expense on lease liabilities	19,720	21,342
Foreign exchange translation	(382)	51
Amounts set aside to provisions	5,745	3,103
Finance cost/ (income)	21,896	(12,773)
Goodwill impairment	-	3,919
Share based payment expense	616	192
Net cash flows from operations before change in assets and liabilities	552,732	479,190
Changes in assets and liabilities		
(Increase)/decrease in receivables	(165,021)	1,023
(Increase)/decrease in inventory	(206,291)	22,572
Increase /(decrease) in payables	214,967	63,323
Increase/(decrease) in income taxes payable	(2,414)	31,412
(Increase)/decrease in deferred tax assets	(3,867)	(10,301)
Increase/(decrease) in deferred tax liabilities	(18,470)	13,743
Adjustment to gross up cash flows for taxes ¹ reported in prior periods	-	-
Net cash flow from operating activities	371,636	600,962

¹ 'Receipts from customers' and 'Payments to suppliers and employees' have been restated to gross up for the impact of taxes. There is no impact to net cash from operating activities as previously reported.

Changes in assets and liabilities excludes the acquired assets and liabilities from acquisitions during the year but includes the subsequent movement from settlement dates.

Notes

For the year ended 30 June 2021

3.2 Trade and other receivables

	2021 (\$000's)	2020 (\$000's)
Trade receivables	992,041	878,506
Less: Allowance for expected credit losses	(11,075)	(9,309)
	980,966	869,197
Other receivables	44,253	46,551
Prepayments	18,818	15,880
Total trade and other receivables	1,044,037	931,628
Allowance for credit losses		
Opening balance at 1 July	(9,309)	(9,055)
Additions through business combination	-	(67)
Allowance for expected credit losses	(1,766)	(187)
Closing balance as at 30 June	(11,075)	(9,309)

Recognition and measurement

Trade receivables generally have terms of up to 30 days. They are recognised initially in accordance with the Group's revenue policy and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. Customers who wish to trade on credit terms are subject to extensive credit verification procedures. In addition, in Australia and New Zealand the Company holds an insurance policy against certain larger customers whereby the Company is compensated in the event of a customer default.

Receivable balances are monitored on an ongoing basis and the Group's historical exposure to bad debts is not significant. With respect to trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Impairment of trade receivables

Collectability and impairment of trade receivables and other debtors are assessed on an ongoing basis at a divisional level. The Group applies a simplified approach in calculating forward-looking expected credit losses (ECLs) for trade receivables. Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established an impairment provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group has no significant concentrations of credit risk, the trade receivables balance is spread across a large number of different customers. Due to the uncertainty arising from COVID-19, the Group has had regard to actual and expected cash collection and delinquency trends, and other relevant factors informed by experience since the commencement of the pandemic and allowing for the existence of credit insurance arrangements.

3.3 Inventories

	2021 (\$000's)	2020 (\$000's)
Finished goods, at lower of cost and net realisable value	1,138,117	967,510

Recognition and measurement

Inventories are measured at the lower of cost and net realisable value. Cost is based on the first-in first-out principle.

Key estimate

A provision has been recognised for the value of inventory that is likely to be sold below cost or otherwise disposed of at a loss. Management applies past experience, and judgement on the likely sell-through rates of various items of inventory to identify any excess or obsolete inventory.

Notes

For the year ended 30 June 2021

3.4 Leases

ROU assets

Amounts recognised in the statement of financial position and statement of profit or loss.

	Right-of-use assets		
	Property	Motor vehicles & other equipment	Total ROU
	(\$000's)	(\$000's)	(\$000's)
As at 1 July 2020	660,445	27,963	688,408
Additions	56,851	21,223	78,074
Reassessments	25,000	(7,282)	17,718
Disposals	(15,971)	(13,613)	(29,584)
Depreciation expense	(98,130)	(1,898)	(100,028)
Net foreign exchange impact	(19,721)	(1,815)	(21,536)
As at 30 June 2021	608,474	24,578	633,052

Leases

The Group leases various branches, warehouses, offices, motor vehicles and equipment. Rental contracts are typically fixed periods and may have extension options. Lease terms are negotiated on a lease by lease basis.

At contract inception the Group assesses whether a contract is or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group recognises lease liabilities to make lease payments and right-of-use (ROU) assets representing the right to use the underlying assets. Each lease payment is allocated between the liability and the finance cost.

For the leases of motor vehicles and equipment, the Group has elected not to separate non-lease components and will account for the lease and non-lease components as a single lease component. For property leases the Group will separate the non-lease components from lease components and the consideration in the contract is allocated to each lease and non-lease component based on their relative stand-alone selling prices.

ROU assets are recognised at cost at the start of the lease, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the asset as follows:

- Property 2 – 16 years
- Motor vehicles and equipment 2 – 4 years

In situations where ownership transfers to the Group at the end of the lease term, or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated life of the asset.

Lease liabilities

At the start of a lease, the Group recognises the present value of lease payments to be made over the lease term as a lease liability. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Where the Group is reasonably certain to exercise a purchase option or pay a penalty to terminate a lease, this is included in the lease payments. Variable lease payments that do not depend on an index or a rate are recognised as an expense. The variable lease payments expense not included in the lease liabilities and included in other expenses for FY21 was \$11.7m (2020: \$12.9m).

The present value of lease payments has been calculated by using the Group's incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. The weighted average borrowing rate applied is 3.02% (2020: 3.05%).

Subsequently, the lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in CPI) or a change in the assessment of an option to purchase the underlying asset.

Notes

For the year ended 30 June 2021

3.4 Leases (cont)

ROU assets (cont)

Short-term leases and leases of low value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property, motor vehicles and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are low value. Lease payments on short-term leases and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

COVID-19 rental concessions

The Group has adopted all practical expedients for rent concessions negotiated as a result of COVID-19. This allows the Group to elect not to account for changes in lease payments as

a lease modification where a change in lease payments to the revised consideration are substantially the same or less than the consideration for the lease preceding the change. In general, where lease payments were deferred for a specific number of months, the subsequent lease payments were proportionally increased which results in no overall change in total lease payments. In the small number of instances of rent concessions this effect was recognised as a variable lease payment and immaterial to the Group.

Non-cancellable lease commitments

The Group has various lease commitments and these leases have not yet commenced as at 30 June 2021. The future lease payments for these non-cancellable lease contracts are \$6.1m (2020: \$1.1m) within one year, \$24.3m (2020: \$16.8m) between one and five years and \$51.4m (2020: \$45.1m) thereafter.

Key judgement – lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. This includes consideration of the broader economics of the contract and not only contractual termination payments. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). For leases of warehouses, retail stores and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

3.5 Property, plant and equipment

Recognition and measurement

All classes of property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

Land is not depreciated. The depreciable amounts of all other fixed assets are depreciated on a straight-line basis over their estimated useful lives commencing from the time the asset is held ready for use. Fixtures, fittings, and equipment are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives for each class of assets are:

	2021	2020
Freehold Buildings	25 years	25 years
Fixtures, fittings, and equipment	2.5 to 20 years	2.5 to 20 years
Motor vehicles	5 to 8 years	5 to 8 years

Key judgement and estimate

Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the Group. Impairment triggers include declining product performance, technology changes, adverse changes in the economic or political environment or future product expectations. An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

Notes

For the year ended 30 June 2021

3.5 Property, plant and equipment (cont)

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

	2021 (\$000's)	2020 (\$000's)
Freehold land		
Carrying amount at beginning of year	172,820	173,467
Additions	3,269	-
Disposals	(1,952)	(440)
Net foreign currency exchange movements	(2,212)	(207)
Carrying amount at end of year	171,925	172,820
Buildings		
Carrying amount at beginning of year	85,403	86,735
Additions	4,666	4,905
Disposals	(731)	(524)
Depreciation	(5,889)	(5,751)
Net foreign currency exchange movements	(617)	38
Carrying amount at end of year	82,832	85,403
Fixtures, fittings & equipment		
Carrying amount at beginning of year	309,791	307,466
Additions	60,599	66,390
Disposals	(3,088)	(1,130)
Depreciation	(61,124)	(63,207)
Net foreign currency exchange movements	(9,465)	272
Carrying amount at end of year	296,713	309,791
Motor vehicles		
Carrying amount at beginning of year	87,200	96,341
Additions through business combinations	5	1,470
Additions	5,115	12,374
Disposals	(4,524)	(5,572)
Depreciation	(17,269)	(17,777)
Net foreign currency exchange movements	2,102	364
Carrying amount at end of year	72,629	87,200
Total property, plant and equipment		
Carrying amount at beginning of year	655,214	664,009
Additions through business combinations	5	1,470
Additions	73,649	83,669
Disposals	(10,295)	(7,666)
Depreciation	(84,282)	(86,735)
Net foreign currency exchange movements	(10,192)	467
Total carrying amount at end of year	624,099	655,214

In 2021, there was a gain on disposal of property, plant, and equipment of \$8.0m (2020: gain \$0.7m).

Notes

For the year ended 30 June 2021

3.6 Goodwill and intangible assets

	Goodwill	Brand names	Customer contracts and relationships	Trade names	Other intangible assets	Total
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Year ended 30 June 2021						
Cost	1,366,157	49,800	372,631	48,884	34,091	1,871,563
Accumulated amortisation and impairment	(3,919)	-	(57,875)	(21,526)	(7,613)	(90,933)
Net carrying amount	1,362,238	49,800	314,756	27,358	26,478	1,780,630
Movement						
Net carrying amount at beginning of the year	1,475,711	49,800	371,440	41,105	32,886	1,970,942
Additions	1,101	-	1,930	-	-	3,031
Disposals and impairments	-	-	-	-	-	-
Amortisation for the year	-	-	(28,047)	(10,544)	(4,645)	(43,236)
Net foreign currency exchange movement	(114,574)	-	(30,567)	(3,203)	(1,763)	(150,107)
Net carrying amount at end of year	1,362,238	49,800	314,756	27,358	26,478	1,780,630
Year ended 30 June 2020						
Cost	1,479,630	49,800	401,268	52,087	35,854	2,018,639
Accumulated amortisation and impairment	(3,919)	-	(29,828)	(10,982)	(2,968)	(47,697)
Net carrying amount	1,475,711	49,800	371,440	41,105	32,886	1,970,942
Movement						
Net carrying amount at beginning of the year	1,350,581	49,800	333,716	37,169	900	1,772,166
Additions	105,603	-	62,612	14,311	33,697	216,223
Disposals and impairments	(3,919)	-	-	-	-	(3,919)
Amortisation for the year	-	-	(29,828)	(10,982)	(2,968)	(43,778)
Net foreign currency exchange movement	23,446	-	4,940	607	1,257	30,250
Net carrying amount at end of year	1,475,711	49,800	371,440	41,105	32,886	1,970,942

Notes

For the year ended 30 June 2021

3.6 Goodwill and intangible assets (cont)

Goodwill

Goodwill acquired in a business combination is initially measured at cost. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill is not amortised but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Summary of useful lives:

Following initial recognition, intangible assets are carried at cost less amortisation and any impairment losses. Intangible assets with finite lives are amortised on a straight-line basis over their useful lives and tested for impairment whenever there is an indication that they may be impaired. The amortisation period and the amortisation method are reviewed at each financial year-end. Intangible assets with indefinite lives are tested for impairment in the same way as goodwill.

These intangible assets are amortised over their useful economic lives and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

	2021	2020
Goodwill	Indefinite	Indefinite
Brand names	Indefinite	Indefinite
Customer contracts and relationships	10 to 16 years	10 to 16 years
Trade names	5 – 20 years	5 – 20 years
License	10 years	10 years

3.7 Trade and other payables

	2021 (\$000's)	2020 (\$000's)
Current		
Trade payables	688,327	591,932
Other payables and accruals	295,697	201,045
	984,024	792,977
Non-current	14,886	31,408

Trade payables are non-interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes

For the year ended 30 June 2021

3.8 Provisions

	Employee benefits (\$000's)	Warranty (\$000's)	Other (\$000's)	Total (\$000's)
As at 1 July 2020	72,145	1,444	1,229	74,818
Provided/(utilised)	6,856	(1)	(17)	6,838
As at 30 June 2021	79,001	1,443	1,212	81,656
Current	74,043	1,443	1,212	76,698
Non-current	4,958	-	-	4,958

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) because of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Warranty provisions

The Group provides warranties for general repairs of defects that existed at the time of sale, as required by law. Provisions related to these assurance-type warranties are recognised when the product is sold, or the service is provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

Employee benefits

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

Notes

For the year ended 30 June 2021

4. Capital management

This section provides details about capital management for the Group and shareholder returns for the year.

The Group's capital management strategy aims to ensure the Group has continued access to funding for current and future business activities by maintaining a mix of equity and debt financing, while maximising returns to shareholders.

Capital is managed through the following:

- Amount of ordinary dividends paid to the shareholders
- Raising capital
- Repaying or raising debt in line with ongoing business requirements and growth opportunities aligned the Group's strategic direction.

4.1 Interest-bearing liabilities

	30 June 2021 (\$000's)	30 June 2020 (\$000's)
Term loan – current	16,443	18,013
Term loan ¹ – non-current	1,319,173	1,747,219
Total interest-bearing liabilities	1,335,616	1,765,232

¹ The maturity date of the term loan is January 2027.

The term loan is a fully secured USD borrowing under the Syndicated Facility with the carrying value of the borrowings translated at the spot rate at period end date. The term loan is secured by the Group. It is subject to both foreign currency and interest rate hedging instruments (refer to note 5.2).

All loans and borrowings are initially recognised at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

4.2 Contributed equity and reserves

	2021 (\$000's)	2020 (\$000's)
Issued and paid up capital		
Ordinary shares fully paid: 645,984,181 (2020: 645,984,181)	1,246,918	1,246,918

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called.

Capital management

When managing capital, management's objective is to ensure the Group continues as a going concern as well as to maintain returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cash flows.

During FY21, the Group paid dividends of \$77.5m (2020: \$113.6m).

Notes

For the year ended 30 June 2021

4.2 Contributed equity and reserves (cont)

	2021 (\$000's)	2020 (\$000's)
Asset revaluation reserve (historic revaluation of properties)	461	461
General reserve	51	51
Capital profits reserve (historic profits from sale of property)	2,491	2,491
Foreign currency translation reserve (translation of foreign entities)	(23,149)	106,136
Cash flow hedge reserve	(20,132)	(78,947)
Share-based payment reserve	808	192
Total reserves	(39,470)	30,384

Reserves

Cash flow hedge reserve

The hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge relationship. Refer to note 5.2 for further detail on cash flow hedges.

Share-based payment reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to note 7.2 for further details of these plans.

4.3 Dividends paid and proposed

	2021 (\$000's)	2020 (\$000's)
<i>Dividends paid during the reporting period:</i>		
Final dividend of 6 cents per share fully franked for the year ended 30 June 2020 (June 2019: 14.25 cents per share fully franked) paid 29 October 2020 (2019: 30 October 2019)	38,759	79,917
Interim dividend of 6 cents per share fully franked for the year ended 30 June 2021 (June 2020: 6 cents per share fully franked) paid 15 April 2021 (2020: 26 March 2020)	38,759	33,649
Dividends paid	77,518	113,566
<i>Dividends declared after the reporting period and not recognised:</i>		
Final dividend of 12 cents per share fully franked for the year ended 30 June 2021 (June 2020: 6 cents per share fully franked) to be paid 27 October 2021 (2020: 28 October 2020)	77,518	38,759
Dividend franking account		
Balance of franking account at year end adjusted for franking credits arising from payment of income tax and franking debits arising from dividends paid.	671,771	639,944
Impact on the franking account of dividends recommended by the directors since the year end but not recognised as a liability at year end.	(33,222)	(16,611)
	638,549	623,333

Notes

For the year ended 30 June 2021

5. Risk

This section provides information on the Group's various financial risks, how these can impact the Group's financial position and performance, and how these risks are managed by the Group.

5.1 Impairment of non-financial assets

The Group tests property, plant and equipment and intangible assets for impairment to ensure they are not carried above their recoverable amounts:

- at least annually for goodwill; and
- where there is an indication that assets may be impaired (which is assessed at least at each reporting date).

These tests are performed by assessing the recoverable amount of each individual asset, or if this is not possible, the recoverable amount of the cash generating unit (CGU) to which the asset belongs. CGUs are the lowest levels at which assets are grouped

and generate separately identifiable cash inflows. The recoverable amount, measured at the asset or CGU level, is the higher of fair value less costs of disposal, or value in use (VIU). VIU calculations are based on the discounted cash flows expected to arise from the asset or CGU.

Intangible assets with indefinite lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The carrying amount of goodwill and brand names allocated to each of the CGUs are:

	Goodwill		Brand names	
	2021 (\$000's)	2020 (\$000's)	2021 (\$000's)	2020 (\$000's)
MORSCO Inc ('MORSCO')	1,201,319	1,314,792	-	-
Actrol Parts Pty Ltd ('Actrol')	119,326	119,326	29,100	29,100
A.C. Components Pty Ltd ('Metalflex')	28,949	28,949	20,200	20,200
Other	12,644	12,644	500	500
	1,362,238	1,475,711	49,800	49,800

The Group performed its annual impairment test in June 2021 and June 2020 in respect of the prior year, applying the following assumptions:

	Terminal growth rate		Discount rate (pre-tax)	
	2021 %	2020 %	2021 %	2020 %
MORSCO Inc ('MORSCO')	2.5	2.5	9.1	8.4
Actrol Parts Pty Ltd ('Actrol')	2.5	2.5	11.4	11.5
A.C. Components Pty Ltd ('Metalflex')	2.5	2.5	11.5	11.7
Viadux Pty Ltd ('Viadux')	2.5	2.5	12.7	12.5

The recoverable amounts, as at 30 June 2021, have been determined based on a value in use calculation using cash flow projections from financial budgets prepared by senior management covering a five-year period. The projected cash flows have been updated to reflect current economic forecasts and business growth opportunities. The respective recoverable amounts are estimated to exceed the carrying value of the MORSCO CGU by \$199m (2020: \$310m), the Actrol CGU by \$110m (2020: \$10m), the Metalflex CGU by \$16m (2020: \$5m) and the Viadux CGU by \$4m (2020: nil).

Notes

For the year ended 30 June 2021

5.1 Impairment of non-financial assets (cont)

Key estimate and judgement – assumptions for impairment testing

The COVID-19 pandemic has adversely impacted economic activity and disrupted many businesses. Management have referenced current economic data for the building and construction industry, and their experience to date to reflect the estimated impact of COVID-19 in the five-year forecasting period for each CGU as part of the Group's FY21 impairment testing. The five-year forecast for each CGU includes a modest increase in gross margins and continued cost restraint.

The calculation of value in use for all CGUs is most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Terminal growth rate

Gross margins – Gross margins are based on average values achieved in the last twelve months and reflect a modest increase over the forecast period for anticipated efficiency improvements.

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money, individual risks of the underlying assets that have not been incorporated in the cash flow estimates, and the comparable companies that operate broadly in the distribution of manufacturing of plumbing materials or water systems. The discount rate calculation is based on the specific circumstance of the Group and is derived from its weighted average cost of capital ('WACC'). The WACC considers debt, equity and leases. The cost of equity is derived from the expected return on investment by the Group's shareholders. The cost of debt is based on the interest-bearing financial liabilities the Group is obliged to service and the costs of leases is based on the interest-bearing lease liabilities for each CGU. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows to reflect a post-tax discount rate.

Terminal growth rates – Terminal growth rates are based on published industry research.

The estimated recoverable amounts for each of the CGU's exceeded their carrying amounts. Management has identified that a reasonably possible adverse change in certain key assumptions (gross margins, discount rates and terminal growth rates) could cause the carrying amount to exceed the recoverable amounts for MORSCO and Viadux. The discount rate would need to change by 49 basis points before the recoverable amount of MORSCO would be equal to the carrying amount. The discount rate would need to change by 80 basis points before the recoverable amount of Viadux would be equal to the carrying amount.

The terminal growth rate would need to change by 80 basis points before the recoverable amount of MORSCO would be equal to the carrying amount.

Notes

For the year ended 30 June 2021

5.2 Financial risk management

The following note outlines the Group's exposure to and management of financial risks. These arise from the Group's requirement to access financing (bank loans and overdrafts), from the Group's operational activities (cash, trade receivables and payables) and from instruments held as part of the Group's risk management activities (derivative financial instruments).

The Group is exposed to a variety of financial risks, including; foreign currency risk, interest rate risk, liquidity risk and credit risk relating to its ongoing business operations. The Board has overall responsibility for identifying and managing operational and financial risks. The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures, and does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Maturity analysis

The table below details the consolidated entity's remaining undiscounted principal and interest cash flows and their contractual maturity based on the earliest date on which the consolidated entity is required to pay.

Financial liabilities

		Floating interest rate	1 year or less	1 to 2 years	2 – 5 years	More than 5 years	Non- interest bearing	Carrying amount	Weighted average effective interest rate
		(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	%
Interest-bearing liabilities	2021	336,680	-	-	998,936	-	-	1,335,616	4.39
	2020	341,656	-	-	1,423,576	-	-	1,765,232	5.06
Trade payables	2021	-	-	-	-	-	984,024	984,024	-
	2020	-	-	-	-	-	792,977	792,977	-
Long-term payables	2021	-	-	-	-	-	14,886	14,886	-
	2020	-	-	-	-	-	31,408	31,408	-
Derivatives related to net debt ¹	2021	-	12,658	9,906	-	-	-	21,762	-
	2020	-	11,630	11,978	14,857	-	-	35,606	-
Lease liabilities ²	2021	-	113,036	108,614	284,418	252,452	-	670,255	3.02
	2020	-	115,333	112,762	291,719	295,623	-	715,668	3.05
Deferred consideration	2021	-	41,474	-	-	-	-	41,474	1.75
	2020	-	45,433	-	-	-	-	45,433	1.75
Total financial liabilities	2021	336,680	167,168	118,520	1,283,354	252,452	998,910	3,068,017	
	2020	341,656	172,396	124,740	1,730,152	295,623	824,385	3,386,324	

¹ Contractual cash flows for 2021 were \$22,564,000 and for 2020 were \$38,465,000.

² Contractual cash flows for 2021 lease liabilities were \$670,253,000 (2020: \$815,437,000).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's foreign currency risk arises from interest-bearing liabilities, net investments, and other transactions denominated in currencies other than Australian dollars; consequently, exposures to exchange rate fluctuations arise. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward foreign exchange contracts and cross currency interest rate swaps (vanilla and structured with options).

Forward foreign exchange contracts (FECs)

The Group enters into forward foreign exchange contracts to manage the foreign currency transaction risk associated with anticipated sales and purchases transactions. The Group reviews its currency risk on a regular basis, considering renewal of existing positions, future commitments and budgeted requirements. Budgeted foreign currency requirements are determined over a rolling 12-month period and forward exchange positions are taken in consideration of those requirements in accordance with the Group's Foreign Exchange Management Policy. The Group utilises a mixture of forward foreign exchange contracts and direct purchase of foreign currency to manage its foreign currency transaction exposure.

The full amount of the foreign currency the Group will be required to pay or purchase when settling the forward foreign exchange contracts should the counterparty not pay the currency it is committed to deliver at balance date was \$55,256,264 (2020: \$169,892,835).

Notes

For the year ended 30 June 2021

5.2 Financial risk management (cont)

At balance date, the details of outstanding forward exchange contracts are:

Settlement	Sell Australian dollars		Average exchange rate	
	2021 (\$000's)	2020 (\$000's)	2021 \$	2020 \$
Buy United States Dollars				
Less than 6 months	33,469	82,006	0.77	0.67
6 months to 1 year	-	65,989	-	0.67
Buy Euros				
Less than 6 months	19,482	21,119	0.64	0.60
Buy Japanese Yen				
Less than 6 months	2,306	779	84.57	70.06
6 months to 1 year	-	-	-	-

Foreign currency exchange contracts

If the exchange rate was to increase by 10% from the rates used to determine the fair values as at the reporting date, then the impact for the year would be an unfavourable movement in the reserve of \$5.1m (2020: \$15.1m). If the exchange rate was to decrease by 10% from the rates used to determine the fair values as at the reporting date, then the impact for the year would be a favourable movement in the reserve of \$6.3m (2020: \$18.5m).

Cross currency interest rate swaps (CCIRS)

The Group is exposed to foreign currency risk from interest-bearing liabilities denominated in United States Dollars (USD). At 30 June 2021, a portion of these interest-bearing liabilities were hedged using cross currency interest rate swaps. As a result, the impact of a strengthening or weakening of the AUD will have a minimal impact on profit or loss or equity.

The following table details the cross-currency interest rate swaps outstanding at the end of the reporting period.

	Average contracted fixed interest rate		Notional principal amount (USD)		Fair value (AUD)	
	2021 %	2020 %	2021 (\$000's)	2020 (\$000's)	2021 (\$000's)	2020 (\$000's)
Receive floating USD pay fixed AUD						
Less than 1 year	5.19	5.02	455,000	650,000	(985)	(16,449)
1 to 2 years ⁽ⁱ⁾	-	5.17	-	650,000	-	73,949
2-5 years	-	-	-	-	-	-
5 years or more	-	-	-	-	-	-
					(985)	57,500

⁽ⁱ⁾ The Group has the option to early terminate the CCIRS in September 2021 which has been assumed in the table.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing liabilities with variable interest rates where interest rate movements can impact the Group's cash flow exposures. The risk is managed using interest rate swaps (IRS) and CCIRS contracts.

Interest rate risk also arises from short-term cash deposits. During 2021 and 2020, the Group held both fixed and variable rate deposits. The Group reviews its interest rate exposure from cash deposits monthly, considering both short-term and long-term deposit rates.

At 30 June 2021, if interest rates had changed +/-1% from the year-end rates, with all other variables held constant, the effect on post-tax profit for the year would have been immaterial.

Interest rate swaps (IRS)

The Group enters into derivative financial instruments to manage its exposure to interest rates. Under an interest rate swap, the Group agrees to exchange the difference between the contracted fixed and floating rate interest amounts determined on a notional principal amount. The effect is to minimise cash flow exposure to changes in interest rates.

Notes

For the year ended 30 June 2021

5.2 Financial risk management (cont)

	Average contracted fixed interest rate		Notional principal amount (USD)		Fair value (AUD)	
Receive floating pay fixed	2021 %	2020 %	2021 (\$000's)	2020 (\$000's)	2021 (\$000's)	2020 (\$000's)
Less than 1 year	5.01	5.01	296,000	335,750	(10,965)	(9,287)
1 to 2 years	5.01	5.01	296,000	296,000	(9,812)	(11,763)
2 to 5 years	-	5.01	-	296,000	-	(14,556)
					(20,777)	(35,606)

The table below shows the impact of 100bps movement (net of hedging) in the interest rate curve on the consolidated entity's profit and equity after tax for both derivatives and non-derivative financial instruments at 30 June 2021, with all other variables held constant.

Interest rate sensitivity	2021 (\$000's)	2020 (\$000's)
Increase in interest rate +100bps		
(Loss) after tax	-	(5,062)
Equity	7,453	24,389
Decrease in interest rate +100bps		
Gain/(loss) after tax	(3,141)	9,765
Equity	(3,708)	(25,274)

Changes in liabilities arising from financing activities

1 July 2020	Cash flows		Foreign exchange movement	Changes in fair values	New leases, reassessments and disposals	30 June 2021
	Proceeds	Repayments				
(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Interest-bearing liabilities	1,765,232	-	(276,365)	(153,251)	-	1,335,616
Lease liabilities ¹	715,668	-	(93,025)	(27,187)	74,799	670,255
Total liabilities from financing activities	2,480,900	-	(369,390)	(180,438)	74,799	2,005,871

1 July 2019	Cash flows		Foreign exchange movement	Changes in fair values	New leases, reassessments and disposals	30 June 2020
	Proceeds	Repayments				
(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Interest-bearing liabilities	1,609,297	141,622	(18,046)	32,359	-	1,765,232
Lease liabilities	674,220	-	(86,815)	(1,907)	130,170	715,668
Total liabilities from financing activities	2,283,517	141,622	(104,861)	30,452	130,170	2,480,900

¹ Repayments for lease liabilities are presented net of interest expense.

Notes

For the year ended 30 June 2021

5.2 Financial risk management (cont)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Credit risk for cash deposits is the risk of incurring a loss because of a default by a counterparty bank or financial institution that has accepted a deposit from the Group. The Group endeavours to mitigate this risk by managing counterparty concentration risk and providing a framework of counterparty limits to meet operational requirements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the derivative transaction contract to meet their obligations. The credit risk exposure to forward exchange contracts and cross currency interest rate swaps is the fair value of these contracts. All derivative financial instruments are with our major international banking partner, all of which have a minimum credit rating of BBB+.

At balance date, the maximum exposure to credit risk, excluding the value of any collateral or other security, to recognised financial assets is the carrying amount of those assets, net of any impairment as disclosed in the Consolidated statement of financial position and notes to the financial statements.

Except for its local and international bankers, the Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group.

Liquidity risk

Liquidity risk refers to the risk that the Group has insufficient liquidity to meet its financial obligations when they fall due. The Group's risk management includes maintaining sufficient cash and the availability of funding via an adequate amount of credit facilities.

Financing facilities

The syndicated revolver facility covenant requires that the net leverage ratio must not exceed 3.75x until 30 June 2021, after which it must not exceed 3.50x. Furthermore, the net leverage ratio is to be tested if the revolver usage is greater than 30% at the end of any half-year reporting period.

Bank facilities are secured by Deed of Negative Pledge. The Group has access to the following lines of credit: Total facilities available and unused at 30 June 2021.

		2021 (\$'000's)	2020 (\$'000's)
Senior secured Term Loan B	facility	1,335,616	1,765,232
	unused	-	-
Bank overdraft	facility	931	934
	unused	931	934
Syndicated revolver	facility	199,521	218,563
	unused	199,521	218,563
Bank guarantees	facility	28,647	28,647
	unused	11,624	13,865
Trade refinance & documentary letters of credit/surrenders	facility	8,393	10,213
	unused	2,333	6,848
Credit cards	facility	9,456	8,038
	unused	8,404	7,365
Total	facility	1,582,564	2,031,627
	unused	222,813	247,575

Hedge accounting

Recognition

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and an effective hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The consolidated entity or subsidiary designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in either:

- Cash flow hedges: hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions; or
- Net investment hedges: hedges of a net investment in a foreign operation.

Notes

For the year ended 30 June 2021

5.2 Financial risk management (cont)

Hedge accounting

At the inception of the hedging transaction, the consolidated or subsidiary entity documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated or subsidiary entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Discontinuation of hedge is not voluntary and is only permitted if:

- The risk management objective has changed;
- There is no longer an economic relationship between the hedged item and the hedging instrument; or
- The credit risk is dominating the hedge relationship.

Cash flow hedges

As a portion of the Group's debt is denominated in a currency other than Australian dollars, and issued at variable interest rates, the consolidated entity has entered into cross currency swaps and interest rate swaps to mitigate currency and interest rate exposures. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI and accumulated in reserves in cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'finance income' or finance cost' line items. Ineffectiveness can potentially arise from timing differences, for example, differences in the timing of settlement between the hedging instrument and hedged item or structured option features within derivative instrument not reflected in the hedged item.

The amount accumulated in OCI (cash flow hedge reserve) is reclassified to profit or loss in the same period that the hedged cash flow affects profit or loss. If the derivative no longer meets the criteria for hedge accounting, for example if it expires, is sold, terminated, exercised or the designation is revoked, then hedge accounting is discontinued prospectively and the balance in equity is reclassified to profit or loss when the forecast transactions occurs.

Net investment hedges

The consolidated entity seeks to mitigate the effect of its foreign currency operations exposure by borrowing in United States dollars. The entity which undertakes the majority of the consolidated entity's borrowing activities has an Australian dollar functional currency. Where considered appropriate, the USD denominated debt is designated as a hedge of a net investment in foreign operations.

Exchange gains or losses upon subsequent revaluation of USD denominated borrowings are recognised through OCI and deferred in equity in the foreign currency translation reserve and will be released to the profit or loss if the foreign operation is sold. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other gains and losses' line item. As at 30 June 2021, USD borrowings of US\$5.8m were designated as a net investment in foreign operations (2020: US\$17m, the debt amortises over the term).

If the exchange rate was to increase by 10 percent from the rates used to determine the fair values as at the reporting date, then the impact (net of hedging) for the year would be an decrease in equity of \$0.7m after tax (2020: \$1.9m).

If the exchange rate was to decrease by 10 percent from the rates used to determine the fair values as at the reporting date, then the impact (net of hedging) for the year would be an increase in equity of \$0.9m after tax (2020: \$2.3m).

Notes

For the year ended 30 June 2021

5.2 Financial risk management (cont)

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

	Cash flow hedges					Net investment hedge
30 June 2021	USD FECs (\$000's)	EUR FECs (\$000's)	JPY FECs (\$000's)	USD CCIRS (\$000's)	USD IRS (\$000's)	USD Debt (\$000's)
Notional amount	33,469	19,482	2,306	606,262	393,722	7,715
Carrying amount of the hedging instrument						
- Assets	828	160	41	-	-	-
- Liabilities	-	-	-	(985)	(20,777)	(7,715)
Total carrying amount of the hedging instrument	828	160	41	(985)	(20,777)	(7,715)
Change in value of hedging instrument	3,434	418	76	(56,067)	14,829	2,097
Change in value of hedged item	(3,434)	(418)	(76)	62,188	(15,279)	(2,097)
Change in value of the hedging instrument recognised in reserve ⁽ⁱ⁾	3,434	418	76	43,380	14,829	2,097
Hedge ineffectiveness recognised in profit or loss ⁽ⁱⁱ⁾	-	-	-	(21,710)	-	-
Amount reclassified from hedge reserve to profit or loss ⁽ⁱⁱⁱ⁾	-	-	-	(77,737)	-	-

Notes

(i) Hedge effectiveness is the extent to which the changes in fair value of the hedging instrument offsets changes in the fair value of the hedged item.

(ii) Hedge ineffectiveness is the extent to which the changes in the cash flows of the hedging instrument are greater or less than the hedged item. Sources of ineffectiveness include the effect of credit risk on the hedging instrument and structured option features in a derivative instrument, not reflected in the hedged risk. A positive number represents a gain in the Consolidated statement of profit or loss and other comprehensive income.

(iii) FX spot translation on the hedged risk is recognised in unrealised profit or loss to offset the hedged item FX translation.

Notes

For the year ended 30 June 2021

5.3 Financial instruments

Financial assets and liabilities measured at fair value.

The table below provides information about how the Group determines the fair value of various derivative financial instruments used for managing financial risk. As at 30 June 2021 and 30 June 2020, all derivative financial instruments were determined by a third party based on observable market inputs and categorised as Level 2 financial instruments using Discounted Cash Flows and standard option models. There were no transfers between categories during the period.

The carrying amount of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair value.

	30 June 2021		30 June 2020	
	Current (\$000's)	Non-current (\$000's)	Current (\$000's)	Non-current (\$000's)
Financial assets				
Cash	828,966	-	1,004,708	-
Trade and other receivables	1,044,037	-	931,628	-
Derivative financial instruments assets				
- Forward foreign exchange contracts	1,029	-	-	-
- Cross currency swap contracts	-	-	-	73,949
- Interest receivable	-	-	-	-
Total financial instruments assets at fair value	1,874,032	-	1,936,336	73,949
Financial liabilities				
Trade and other payables	984,024	14,886	792,977	31,408
Borrowings	16,443	1,319,173	18,013	1,747,219
Lease liabilities	95,934	574,321	81,936	633,732
Derivative financial instruments liabilities				
- Interest rate swap contracts	10,965	9,812	9,287	26,318
- Forward foreign exchange contracts	-	-	2,899	-
- Cross currency swap contracts	985	-	16,450	-
- Interest payable	-	-	4,654	-
Total financial instruments liabilities at fair value	1,108,351	1,918,192	926,216	2,438,677

Notes

For the year ended 30 June 2021

6. Group

This section explains the Group structure and how changes may have affected the financial position or performance of the Group.

6.1 Business combinations

There have been no material acquisitions in FY21.

Deferred consideration

On 1 October 2019 the Group acquired 100% of Todd Pipe Holdings, Inc, and its controlled entities (Todd Pipe). As part of the purchase agreement with the former owners of Todd Pipe, deferred consideration of US\$30m is payable in cash on 31 December 2021. The deferred consideration is classified as a current liability in the balance sheet. As at 30 June 2021, the value is \$41.5m.

Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

The consideration transferred is determined as the aggregate of fair values of assets given, equity issued, and liabilities assumed in exchange for control. Deferred consideration payable is measured at fair value.

Goodwill is recognised initially at cost, being the excess over the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), less the fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Acquisition related costs are expensed as incurred.

Notes

For the year ended 30 June 2021

6.2 Subsidiaries

The Company, which is the ultimate parent of the Group, is incorporated in Australia. Subsidiaries are consolidated from the date of acquisition, being the date the Company obtains control, and continue to be consolidated until the date that such control ceases.

Control exists where the Company has the power to govern the financial and operating policies of the entity to obtain benefits from its activities. Set out below are the subsidiaries within the Group. All entities controlled by the Company at 30 June 2021 were incorporated in Australia and are wholly-owned unless stated otherwise.

	Country of Incorporation	Ownership percentage 2021	Ownership percentage 2020
Name of entity		%	%
Parent entity Reece Limited			
Controlled entities of Reece Limited			
1. Reece Australia Pty Ltd	Australia	100%	100%
2. Plumbing World Pty Ltd	Australia	100%	100%
3. Reece Project Supply Pty Ltd	Australia	100%	100%
4. Reece International Pty Ltd	Australia	100%	100%
5. Reece New Zealand Limited	New Zealand	100%	100%
6. Actrol Parts Holdings Pty Ltd	Australia	100%	100%
7. Actrol Parts Finance Pty Ltd	Australia	100%	100%
8. Actrol Parts Pty Ltd	Australia	100%	100%
9. A.C. Components Pty Ltd	Australia	100%	100%
10. Metalflex Pty Ltd	Australia	100%	100%
11. Metalflex Regional Pty Ltd	Australia	100%	100%
12. Metalflex (S.A.) Pty Ltd	Australia	100%	100%
13. Metalflex (W.A.) Pty Ltd	Australia	100%	100%
14. Air Plus Pty Ltd	Australia	100%	100%
15. The Creative Plane Pty Ltd	Australia	100%	100%
16. Viadux Holdco Pty Ltd	Australia	100%	100%
17. Viadux Bidco Pty Ltd	Australia	100%	100%
18. Viadux Pty Ltd	Australia	100%	100%
19. Laddr Finance Pty Ltd	Australia	100%	0%
20. Hamilton HoldCo, LLC	Delaware (United States)	100%	100%
21. Hamilton BidCo, Inc	Delaware (United States)	100%	100%
22. Patriot Supply Holdings LLC	Delaware (United States)	100%	100%
23. Patriot Supply Intermediate, Inc	Delaware (United States)	100%	100%
24. MORSCO Inc	Delaware (United States)	100%	100%
25. MORSCO Supply LLC	Texas (United States)	100%	100%
26. Fortline LLC	North Carolina (United States)	100%	100%
27. Fortline Inc	South Carolina (United States)	100%	100%
28. Todd Pipe Holdings, Inc	California (United States)	100%	100%
29. Todd Pipe & Supply, LLC	California (United States)	100%	100%
30. LegendMRO, LLC	California (United States)	100%	100%

Notes

- (i) All shareholdings are of ordinary shares
- (ii) Controlled entities 1 to 4 and 6 to 19 carry out business in Australia only
- (iii) Controlled entity 5 carries out business in New Zealand only
- (iv) Controlled entities 20 to 30 carry out business in the United States of America only
- (v) All corporations' financial years end on 30 June

Notes

For the year ended 30 June 2021

6.2 Subsidiaries (cont)

Deed of Cross Guarantee

All entities listed in the table above, except for Reece New Zealand Limited, Laddr Finance, US incorporated entities including MORSCO and Todd Pipe are parties to a deed of cross guarantee under which each company guarantees the debts of the others. Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, the wholly owned subsidiaries listed in the table above, except for Reece New Zealand Limited and MORSCO are relieved from the Corporations Act requirement to prepare a financial report and director's report.

A Consolidated statement of profit or loss and other comprehensive income and statement of financial position, comprising the Company and controlled entities subject to the deed, after eliminating all transactions between parties to the Deed of Cross Guarantee is set out as follows:

	2021 (\$000's)	2020 (\$000's)
Revenue		
Revenue	3,017,313	2,780,744
Other income	18,159	11,176
	3,035,472	2,791,920
Less: Expenses		
Cost of sales	2,043,519	1,880,842
Employee benefits expense	352,136	320,833
Depreciation and amortisation	114,862	111,061
Business acquisition costs	-	468
Other expenses	149,416	170,604
	2,659,933	2,483,808
Operating profit	375,539	308,112
Finance income	2,588	12,254
Finance cost	(76,284)	(59,005)
Profit before income tax expense	301,843	261,361
Income tax expense	86,127	83,037
Net profit for the year	215,716	178,324
Other Comprehensive Income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign debt, net of tax	7,417	(21,634)
Change in fair value of effective cash flows, net of tax	43,987	6,211
Total comprehensive income	267,120	162,901
Basic earnings per share	33 cents	31 cents
Diluted earnings per share	33 cents	31 cents
Movements in Retained Earnings		
Retained earnings at the beginning of the financial year	1,411,623	1,346,865
Profit for the year	215,716	178,324
Dividends paid	(77,518)	(113,566)
Retained Earnings at end of financial year	1,549,821	1,411,623

Notes

For the year ended 30 June 2021

6.3 Subsidiaries (cont)

Deed of Cross Guarantee (cont)

	2021 (\$000's)	2020 (\$000's)
Current assets		
Cash and cash equivalents	662,969	801,834
Receivables	409,207	365,512
Inventories	600,616	532,752
Derivative financial instruments	1,029	-
Total current assets	1,673,821	1,700,098
Non-current assets		
Investments and receivables	1,474,116	1,451,294
Property, plant, and equipment	511,216	548,285
Right-of-use assets	332,771	369,805
Intangible assets	239,011	242,605
Deferred tax assets	52,533	48,992
Derivative financial instruments	-	73,949
Total non-current assets	2,609,647	2,734,930
Total assets	4,283,468	4,435,028
Current liabilities		
Payables	410,189	361,038
Lease liabilities	52,243	49,239
Current tax payable	31,240	13,230
Interest-bearing liabilities	16,443	16,611
Provisions	72,499	65,278
Derivative financial instruments	985	21,876
Total current liabilities	583,599	527,272
Non-current liabilities		
Long-term payable	781	799
Lease liabilities	299,121	334,575
Interest-bearing liabilities	594,246	954,507
Deferred tax liabilities	1,975	3,861
Provisions	4,954	5,440
Total non-current liabilities	901,077	1,299,182
Total liabilities	1,484,676	1,826,454
Net assets	2,798,792	2,608,574
Equity		
Contributed equity	1,246,918	1,246,918
Reserves	2,053	(49,967)
Retained earnings	1,549,821	1,411,623
Total equity	2,798,792	2,608,574

Reece Limited	2021 (\$000's)	2020 (\$000's)
Summarised statement of financial position		
Assets		
Current assets	380,000	635,978
Non-current assets	1,453,214	1,191,611
Total assets	1,833,214	1,827,589
Liabilities		
Current liabilities	589,959	577,723
Non-current liabilities	-	-
Total liabilities	589,959	577,723
Net assets	1,243,255	1,249,866
Equity		
Contributed equity	1,246,918	1,246,918
Retained earnings	(4,507)	2,719
Reserves	844	229
Total equity	1,243,255	1,249,866
Summarised statement of comprehensive income		
Profit for the year	78,951	114,544
Total comprehensive income for the year	78,951	114,544
Parent entity guarantees		
Bank overdraft	931	934
Secured term loan b	1,335,616	1,765,232
Syndicated revolver	199,521	218,563

Notes

For the year ended 30 June 2021

7. Other disclosures

This section provides information on other items requiring disclosure by Australian Accounting Standards and other regulatory pronouncements.

7.1 Related party disclosures

Parent entity

The ultimate parent entity of the Group is Reece Limited, which is domiciled and incorporated in Australia. Intercompany transactions, assets, and liabilities between entities within the Group have been eliminated in the consolidated financial statements.

Terms and conditions of transactions with related parties

The Group's policy is that sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the reporting date are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2021, the Group has not recognised a provision for expected credit losses relating to amounts owed by related parties (2020: \$nil).

True Pillars Pty Ltd (20.2% ownership) and FieldPulse Pty Ltd (26.1% ownership) both became associates of Reece Ltd during the year. There have been no material contributions to net profit, and there have been no transactions other than the provision of equity capital between Reece Ltd and its associates during the year.

Transactions with Directors and Key Management Personnel

The names of each person holding the position of Director of Reece Limited during the financial year were:

L.A. Wilson, P.J. Wilson, T.M. Poole, B.C. Wilson, M.L. Quinn, G. Williams and A.W. Wilson. Key Management Personnel included G.W. Street, S. Nikolic, C.A.S. Hornsby and A. Cowlshaw.

Employee benefits of \$13,807,129 (2020: \$11,501,491) and superannuation benefits of \$179,295 (2020: \$156,624) were made to the Directors' and other Key Management Personnel.

Transactions with Directors

Director of Reece, Mr B.C. Wilson has a beneficial interest in an entity that sold plumbing and building supplies to the Group. Goods purchased from this entity during the year total \$4,893,419 (2020: \$4,282,647) of which \$446,297 (2020: \$425,460) was owing at year end.

Director of Reece, Mr L.A. Wilson has a beneficial interest in entities that lease premises to the Group. Lease rentals paid to these entities during the year were \$234,542 (2020: \$638,797).

7.2 Share-based payments

Employee option plan

The Reece Limited Long-Term Incentive Plan was established by the Board and the grant under the Plan was approved by shareholders at the Annual General Meeting on 30 October 2019. The plan is designed to provide long-term incentives for employees to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the discretion of the Remuneration Committee by recommendation to the Board.

No individual has a contractual right to participate in the plan or receive any guaranteed benefits.

The amount of options that will vest depends upon compound growth targets achieved for EPS over a five-year period. Once vested, the options can be exercised on and from the two-year anniversary of the vesting date and remain exercisable for a period of eight years. The options granted under the plan are for no consideration and carry no voting rights. Once vested, the option holder is entitled to a dividend equivalent payment during the two-year holding period (period between Grant Date and Exercise Date of the Award) which will be equal to the aggregate dividend that would have been payable for each share. When exercisable, each option is convertible into one ordinary share. The exercise price of the options is based on the weighted average price at which Reece Limited's shares are traded on the Australian Stock Exchange over the ten trading days prior to the date of the grant.

There were 837,943 options granted under the plan since 30 October 2019. No options have been exercised, forfeited, vested, or expired during the period.

Fair value of options granted

In FY20 the Group CEO was issued with 304,286 options based on a grant date fair value of \$4.20.

In FY21 the Group made two grants under the Plan:

- On 29 October 2020 (grant date), the Group CEO was issued with 267,588 options based on grant date fair value of \$5.97.
- On 29 April 2021 (grant date), senior executives were issued with 266,069 options with a grant date fair value of \$8.10.

In accordance with AASB 2 Share-based payments, the EPS vesting condition is considered non-market.

The vesting conditions (and the probability of achieving the conditions) are reflected in the estimation of the number of instruments expected to vest.

The fair value at grant date of the options granted during the year was determined using conventional Black Scholes Model that considers the inputs below:

Notes

For the year ended 30 June 2021

7.2 Share-based payments (cont)

Employee option plan

The inputs for the options granted during the year ended 30 June 2021 included:

	FY21 CEO grant	FY21 Executive grant ¹
Exercise price	\$14.46	\$13.07
Grant date	29 October 2020	29 April 2021
Vesting date	30 June 2025	30 June 2025
Expiry date	29 October 2035	30 April 2036
Share price at grant date	\$14.27	\$20.29
Expected price volatility of the company's shares	25.0%	25.0%
Expected dividend yield	0.0%	1.14%
Risk-free interest rate	1.08%	1.72%

¹ Clarification of the offer to senior executives under the Reece LTI plan in November 2020 was made and approved by the Board in April 2021, the Board honoured the November 2020 exercise price as previously communicated to the senior executives.

The expected price volatility is based on historic volatility (based on the remaining life of the options) adjusted for any expected changes to future volatility due to publicly available information.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transaction recognised during the period as part of employee benefit expense was \$616,052 (2020: \$191,700).

7.3 Auditor's remuneration

	2021 (\$)	2020 (\$)
Audit/review fees	1,458,919	1,582,478
Amounts paid and payable to KPMG for non-audit services:		
Taxation services – network firms	-	373,440
Other non-audit services - regulatory advisory services	11,385	-
	11,385	373,440

Notes

For the year ended 30 June 2021

7.4 Other accounting policies

This section provides other disclosures required by Australian Accounting Standards that are considered relevant to understanding the Group's financial performance or position.

Investments in associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are accounted for in the relevant parent entity financial statements using the cost method and in the Group's financial statements using the equity method of accounting, after initially being recognised at cost.

Changes in accounting policies

The Group has applied for the first-time certain standards and amendments, which are effective for annual reporting periods on or after 1 July 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

Accounting standards issued but not yet operative

The AASB has issued several new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below.

Amendments to AASB 101: Classification of Liabilities as Current or Non-current

The amendments to AASB 101 provide additional clarification of liabilities as current or non-current, specifically:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of the liability not impact its classification

The amendments are applicable retrospective from 1 July 2023 for the Group. The Group is currently assessing the impact the amendments have on current practice.

International Financial Reporting Standards Interpretations Committee final agenda decisions not yet adopted

In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, configuration or customisation costs in a cloud computing arrangement. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Group's accounting policy has historically been to expense all costs related to cloud computing arrangements in the statement of profit or loss and other comprehensive income, and therefore, the Group's preliminary analysis indicates that the impact of the decision is not material.

7.5 Subsequent events

Since the end of the financial year COVID-19 related restrictions have been put in place by a number of Australian state and New Zealand governments. Management continue to monitor the financial impact of these restrictions on operations. Whilst the extent of which is uncertain at the date of this report we have not seen a material impact on the financial results of the Group. If restrictions in Australia were to tighten for a prolonged period, this could lead to a material impact.

There has been no other matters or circumstances, which has arisen since 30 June 2021, that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2021, of the Group, or the results of those operations, or
- the state of affairs, in financial years subsequent to 30 June 2021, of the Group.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 65 to 101 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards and the Corporations Regulations 2001, and other mandatory professional reporting requirements;
- (b) As stated in note 1 the consolidated financial statements also comply with International Financial Reporting Standards; and
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2021 and of its performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Reece Limited will be able to pay its debts as and when they become due and payable.

The Company and the group entities identified in note 6.2 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

This declaration has been made after receiving the declarations required to be made by the Group Chief Executive Officer and Group Chief Financial Officer to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ending 30 June 2021.

This declaration is made in accordance with a resolution of the directors.

Dated at Melbourne on 24 August 2021.



L.A. Wilson
Executive Chair



P.J. Wilson
Group Chief Executive Officer



Independent Auditor's Report

To the shareholders of Reece Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Reece Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2021
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report



Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of goodwill and intangible assets (\$1.78bn)

Refer to Note 3.6 *Goodwill and Intangible Assets* and Note 5.1 *Impairment of non-financial assets* to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group's annual testing of goodwill and intangible assets given the size of the balance (being 29% of total assets) and the ongoing estimation uncertainty associated with the business disruption and economic impact of the COVID-19 pandemic.</p> <p>The Group has a number of different operating businesses which have significant goodwill recorded.</p> <p>The Group assesses the valuation of goodwill and intangible assets via detailed value in use modelling, which contain a number of assumptions.</p> <p>We focussed on the significant forward-looking assumptions the Group applied in the value in use models, including:</p> <ul style="list-style-type: none">• Forecast operating cash flows - the ongoing market volatility and uncertainty arising from COVID-19, and the uncertainty of their continuation increase the possibility of goodwill and intangible assets being impaired, and the risk of inaccurate cash flow forecasts.• Forecast growth rates and terminal growth rates – some of the Group's models are sensitive to small changes in these assumptions, reducing available headroom. This drives additional audit effort specific to their feasibility and consistency of application to the Group's strategy.• Discount rate - these are complex in nature and vary according to the specific	<p>Working with our valuation specialists, our procedures included:</p> <ul style="list-style-type: none">• Assessing the appropriateness of the value in use methodology applied by the Group to perform the annual test of goodwill and intangible assets for impairment against the requirements of the accounting standards.• Assessing the integrity of the value in use models used, including the accuracy of the underlying calculation formulas.• Considering the sensitivity of the models by varying key assumptions, such as forecast growth rates and discount rates, within a reasonably possible range. We considered the interdependencies of key assumptions when performing the sensitivity analysis and what the Group consider to be reasonably possible. We did this to identify those CGUs at higher risk of impairment and to focus our further procedures, including the identification of areas of estimation uncertainty and reasonably possible changes in key assumptions.• Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models.• Meeting with management and those charged with governance to understand the ongoing impact of COVID-19 on the Group and the industry in which it operates, including any changes in the Group's plans and operating model.• Challenging the Group's key forecast cash flow and growth assumptions. We compared forecast growth rates and terminal growth



risks of each Cash Generating Unit (CGU), the primary regions they operate in, and the modelling approach to incorporating risks into the cash flows or discount rates. Some of the Group's modelling is sensitive to small changes in the discount rate.

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.

rates to published studies of industry trends and expectations, and considered differences to the Group's operations. We used our knowledge of the Group, its past performance, business and customers, and our industry experience.

- Checking the consistency of forecast cash flows and the growth rates to the Group's stated plan and strategy, and our experience regarding the feasibility of these in the industry and economic environment in which it operates including related COVID-19 considerations.
- Analysed the Group's CGU model discount rates used against publicly available data of a group of comparable entities, independently developing discount rate ranges using publicly available data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in.
- Assessing the Group's determination of CGU carrying values for consistency with the assumptions used in the forecast cash flows and the requirements of the accounting standards.
- Assessing the disclosures in the financial report using understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Reece Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Independent Auditor's Report



Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Reece Limited for the year ended 30 June 2021, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 49 to 62 of the Directors' report for the year ended 30 June 2021.

Our responsibility is to express an opinion on the

Independent Auditor's Report



Remuneration Report, based on our audit conducted in
accordance with *Australian Auditing Standards*.

A handwritten signature in blue ink that reads 'KPMG' in a stylized, cursive font.

KPMG

A handwritten signature in blue ink, appearing to be 'BW Szentirmay', written in a cursive style.

BW Szentirmay

Partner

Melbourne

24 August 2021

Shareholders Information

In accordance with Section 4.10 of the Australian Stock Exchange Limited Listing Rules, the directors provide the following information.

Shareholding analysis

Distribution of shareholders

At 5 August 2021, the distribution of shareholdings was as follows:

Size of Shareholding	Number of Shareholders
1 – 1,000	3,334
1,001 – 5,000	2,287
5,001 – 10,000	643
10,001 – 100,000	519
Over 100,000	109
Holdings of less than a marketable parcel	-
	6,892

Substantial shareholdings

The number of shares held by the substantial shareholders listed in the Company's register of substantial shareholders as at 5 August 2021 were:

Shareholder	Number of Shares
John Gay Wilson ¹	362,013,785
Leslie Alan Wilson ¹	358,709,180
Bruce Walter Campbell Wilson ¹	336,665,823
Wilaust Holdings Pty Ltd ¹	313,050,000
Two Hills Holding Pty Ltd ¹	120,168,788
AustralianSuper Pty Ltd	40,123,317

¹ Many of these substantial shareholdings relate to the same shares.

Class of shares and voting rights

At 5 August 2021, there were 6,892 holders of ordinary shares of the Company. All the issued shares in the capital of the parent entity are ordinary shares and each shareholder is entitled to one vote per share

Shareholders Information

Twenty largest shareholders, as at 5 August 2021:

Shareholder	Number of Shares	% Held
L.T. Wilson Pty Ltd	157,200,000	24.33%
HSBC Custody Nominees (Australia) Limited	64,393,671	9.97%
J P Morgan Nominees Australia Limited	63,605,400	9.85%
L.T.W. Holdings Pty Ltd	60,000,000	9.29%
Warramunda Investments Pty Ltd	48,645,000	7.53%
Geronimo Custodian Pty Ltd	25,580,080	3.96%
Glentemp Custodian Pty Ltd	24,820,366	3.84%
J.G.W. Investments Pty Ltd	16,801,600	2.60%
W.A.L. Investments Pty Ltd	16,801,600	2.60%
Austral Hardware Pty Ltd	14,925,000	2.31%
Austral Hardware (Healesville) Pty Ltd	12,000,000	1.86%
Addawarra Nominees Pty Ltd	11,550,000	1.79%
Citicorp Nominees Pty Limited	9,520,943	1.47%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED FLORIZEL INVESTMENTS PTY LTD	9,400,000	1.46%
Wilaust Holdings Pty Ltd	8,730,000	1.35%
Florizel Investments Pty Ltd	7,401,600	1.15%
Australian Foundation Investment Company Limited	7,201,316	1.11%
National Nominees Limited	7,176,935	1.11%
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	7,057,845	1.09%
Argo Investments Ltd	5,687,741	0.88%
John G. Wilson	4,671,819	0.72%

The twenty members holding the largest number of shares together held a total of 90.28% of the issued capital.

Reece Limited

A.B.N. 49 004 313 133

Controlled Entities Reece Limited

Reece Australia Pty Ltd
A.B.N. 84 004 097 090

Plumbing World Pty Ltd
A.B.N. 99 004 910 829

Reece Project Supply Pty Ltd
A.B.N. 54 100 065 307

Reece International Pty Ltd
A.B.N. 11 100 278 171

Reece New Zealand Limited
Company No. 1530569

Actrol Parts Holdings Pty Ltd
A.B.N. 98 142 644 488

Actrol Parts Finance Pty Ltd
A.B.N. 21 142 653 889

Actrol Parts Pty Ltd
A.B.N. 93 142 654 564

A.C. Components Pty Ltd
A.B.N. 69 134 588 935

Metalflex Pty Ltd
A.B.N. 18 007 133 057

Metalflex Regional Pty Ltd
A.B.N. 50 142 651 509

Metalflex (S.A.) Pty Ltd
A.B.N. 88 084 260 837

Metalflex (W.A.) Pty Ltd
A.B.N. 98 105 291 263

Air Plus Pty Ltd
A.B.N. 33 135 270 718

The Creative Plane Pty Ltd
A.B.N. 50 092 585 058

Viadux Holdco Pty Ltd
A.B.N. 51 603 303 368

Viadux Bidco Pty Ltd
A.B.N. 42 603 305 326

Viadux Pty Ltd
A.B.N. 75 087 415 745

Laddr Finance Pty Ltd
A.B.N. 52 651 284 187

Hamilton HoldCo, LLC
Company Number 6843365

Patriot Supply Holdings Inc
Company number 45-4808005

Patriot Supply Intermediate Inc
Company number 45-3852987

MORSCO Inc
Company number 75-0450550

MORSCO Supply, LLC
Company number 75-2588495

Fortiline, LLC
Company number 56-2136499

Fortiline, Inc
Company number 57-0819190

Todd Pipe Holdings, Inc
Company number 82-5080186

Todd Pipe & Supply, LLC
Company number 27-0938208

LegendMRO, LLC
Company number 47-3650938

Directors

Alan Wilson (Executive Chair)

Peter Wilson (Chief Executive Officer /
Managing Director)

Tim Poole

Bruce C. Wilson

Megan Quinn

Andrew Wilson

Company Secretary

Chantelle Duffy

Bankers

National Australia Bank

Commonwealth Bank of Australia

Bank of New Zealand

Bank of America

JP Morgan Chase

Solicitors

Lander & Rogers

Mills Oakley Lawyers

DLA Piper

Auditors

KPMG

Registered Office

118 Burwood Highway
Burwood, Victoria, 3125
Telephone (03) 9274 0000
Facsimile (03) 9274 0197

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford, Victoria, 3067
Telephone (03) 9415 5000
Facsimile (03) 9473 2500

Stock Exchange Listing

Reece Limited shares are listed on the Australian
Stock Exchange ASX Code: REH

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Reece Limited will be held virtually at 2pm on Thursday, 28 October, 2021.

For personal use only