ASX Announcement
23 August 2022

FY22 Annual Report

Attached for release is Reece Limited's Annual Report for the 12 month period ended 30 June 2022.

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This announcement has been authorised by Chantelle Duffy, Company Secretary at the direction of the Reece Limited Board.

About the Reece Group

Reece Group is a leading distributor of plumbing, waterworks and HVAC-R products to commercial and residential customers through over 800 branches in Australia, New Zealand and the United States.

Established in 1920 and listed on the Australian Securities Exchange (ASX: REH), Reece Group has approximately 9,000 employees committed to improving the lives of its customers by striving for greatness every day.

For further information on Reece Group and its portfolio of businesses please visit group.reece.com/au.

Annual
Report
2022

One Reece

reece group™

We have navigated another year of disruption and change to deliver a strong result, demonstrating the resilience of our business.

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.

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Business Highlights

Reece at a glance

A market-leading distributor of plumbing, HVAC-R and waterworks products to commercial and residential customers.

Founded
1920

Growth and leadership
100+ yrs

Team members
9000+

Nationwide footprint in Australia
1997

Entered New Zealand
2006

Entered US
2018

Growing our branch footprint (branch numbers)

2000	100+
2005	200+
2010	400+
2015	500+
2022	800+

Our customers

Our business was built on serving the SME trade plumber. Today our customers include:

- SME trade
- Commercial trade
- Large homebuilders
- Civil projects and government bodies
- Commercial developers
- End consumers

To read more about how the customer is at the heart of our business, see page 14.

An international footprint

ANZ FY22 Revenue

$3,518m

Business areas

- Plumbing
- Bathrooms & Kitchens
- HVAC-R*
- Waterworks
- Irrigation & Pools

US FY22 Revenue

$4,136m

Business areas

- Plumbing
- Bathrooms & Kitchens
- HVAC-R
- Waterworks

All figures in this report are in Australian dollars, unless otherwise stated.
* Heating, ventilation, air conditioning and refrigeration

A multi-dimensional business

Technology

Marketing

Customer

Property & Financial

People

Logistics

Trading

A market-leading distributor

A trusted brand
with a differentiated customer proposition

Clear track record
100 years of growth and market leadership

Long term vision
stable ownership supports enduring approach

Operating in attractive markets
positive long-term fundamentals

A resilient model
weighted to less cyclical repair and re-model market

A diversified business
by geography, segment, customer and end market

FY22 View

Chair & Group CEO letter

At the conclusion of another record year for Reece, I have decided that FY22 will be my last as Chair of this great business. From September 2022, I will move to an Executive Director position on the Board, and continue providing expertise and mentorship at all levels of the business in an advisory role.

I am so proud of what Reece has become, from humble beginnings with two stores in Melbourne, we are now a global business with over 800 branches and 9000 people, all striving for greatness every day by focusing on our customers.

FY22 is another great example of this, as a long list of obstacles outside our control were navigated by the team with energy and commitment. I love what I do and look forward to continuing to help drive the success of this great business.

As we look ahead, we do not know how the environment will evolve. What we do know is that our trade customers have been at capacity for some time. We know they need our support, and everything we do is focused on making it easier for them to run their business. This will remain our focus in FY23.

The Board has declared a final dividend of 15 cents per share, fully franked, taking the dividend for the full year to 22.5 cents per share.

Alan Wilson
Executive Chair

A year we can be proud of

We have navigated another year of disruption and change in FY22 to deliver a strong result, with revenue up 22% to $7,654 million, and normalised EBITDA up 16% to $838 million. Net profit after tax was up 37% to $392 million.

Despite being hit by ongoing challenges, the team successfully navigated the ongoing pandemic, supply chain constraints and natural disasters to continue delivering for our customers, who were busier than ever.

We maintained our focus on the future and our vision to be the Trade's Most Valuable Partner. This was demonstrated by our move into our new Australian headquarters, 'The Works', which has been custom built for us, and was designed to enable innovation and collaboration as we seek to stay one step ahead of our customers. It was also an exciting year in the US as we prepared to roll out the Reece brand across the US network. Becoming 'One Reece' across three countries is a powerful and symbolic milestone, and we are looking forward to seeing the impact it will have.

As we look ahead, we know the macro-economic environment is complex, and we are prepared for a softening in our end markets. But Reece is a business that has always been managed for success over decades. I would like to take the opportunity to thank my father for his many years as Chair of the Board and his 40 years as CEO and Managing Director, as he moves to the ongoing roles of Executive Director on the Board and an advisory role in the business. We are fortunate that he will remain an active and committed contributor to Reece while making room for fresh perspectives and leadership on the Board.

Finally, I want to thank the team for their efforts in FY22. Their commitment to our customers is what makes Reece successful.

We are looking forward to another year of working towards our 2030 vision and delivering for our customers in FY23.

Peter Wilson
Group Chief Executive Officer
& Managing Director

To read more about our performance this year, see page 27.

Our Markets

A challenging year

FY22 has been another challenging year in our markets. Our customers were busier than ever, supply chains remained constrained and ongoing pandemic and weather event disruption continued to present issues.

260+

days spent in lockdown in Melbourne, home of Reece headquarters

COVID impact

As lockdowns around the world began to lift, prolonged restrictions continued well into the FY22 financial year in Australia and New Zealand. The tail end of the financial year saw significant absenteeism across labour markets impact us directly and indirectly.

7x

Increase cost of shipping a container in the 18 months following March 2020[1]

Supply chains constrained

Pandemic induced supply chain issues, which began in 2020, were compounded by the war in Ukraine in FY22. Supply chain management has been a key issue for businesses across sectors and around the globe and is likely to remain so in FY23.

3.9%

Australian unemployment at a 48-year low[2]

Trade at capacity and labour supply a challenge

Across our markets, systemic and pandemic-driven labour shortages have led to trades in our industry being at capacity. In Australia, almost a third of businesses were struggling to find workers at the conclusion of the financial year,[2] while in the US almost 47 million workers quit their jobs in 2021.[3]

Weather events

The Australian Bureau of Meteorology declared a La Nina event in November 2021. Record rain resulted in one of the country's worst-recorded flood disasters across the east coast, worsening supply chain and trade capacity issues and directly impacting on Reece's network and customers in the area.

8.6%

annual inflation rate in the US in May 2022, the largest 12-month increase since 1981.[5]

High inflation and rising interest rates

Surging global inflation has driven central banks to raise interest rates to soften demand. Australia and the US have recently seen some of the most aggressive interest rate hike activity since the early 1990's, while in New Zealand rates have been rising for some time. This is likely to impact housing market activity.

0.8%

US homeowner vacancy rate, the lowest since 1980.[4]

Underbuild of housing

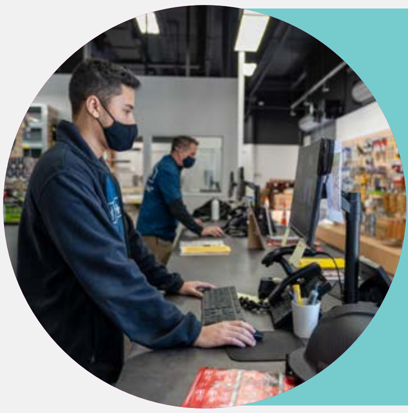
Long-term fundamentals are supportive of growth in our markets, driven by factors such as a shift in how the home is used post-pandemic, strong household formation rates and an underbuild of housing in the US following the global financial crisis.

Labour and supply ongoing challenge

Stretched supply chains and tight labour markets are anticipated to remain an issue for some time, impacting the ability to carry out building work, but potentially smoothing the delivery of backlogs.

Continued focus on infrastructure

Government policies in our markets continue to focus on upgrading and building out new infrastructure, providing a potentially positive backdrop in some of our end markets.

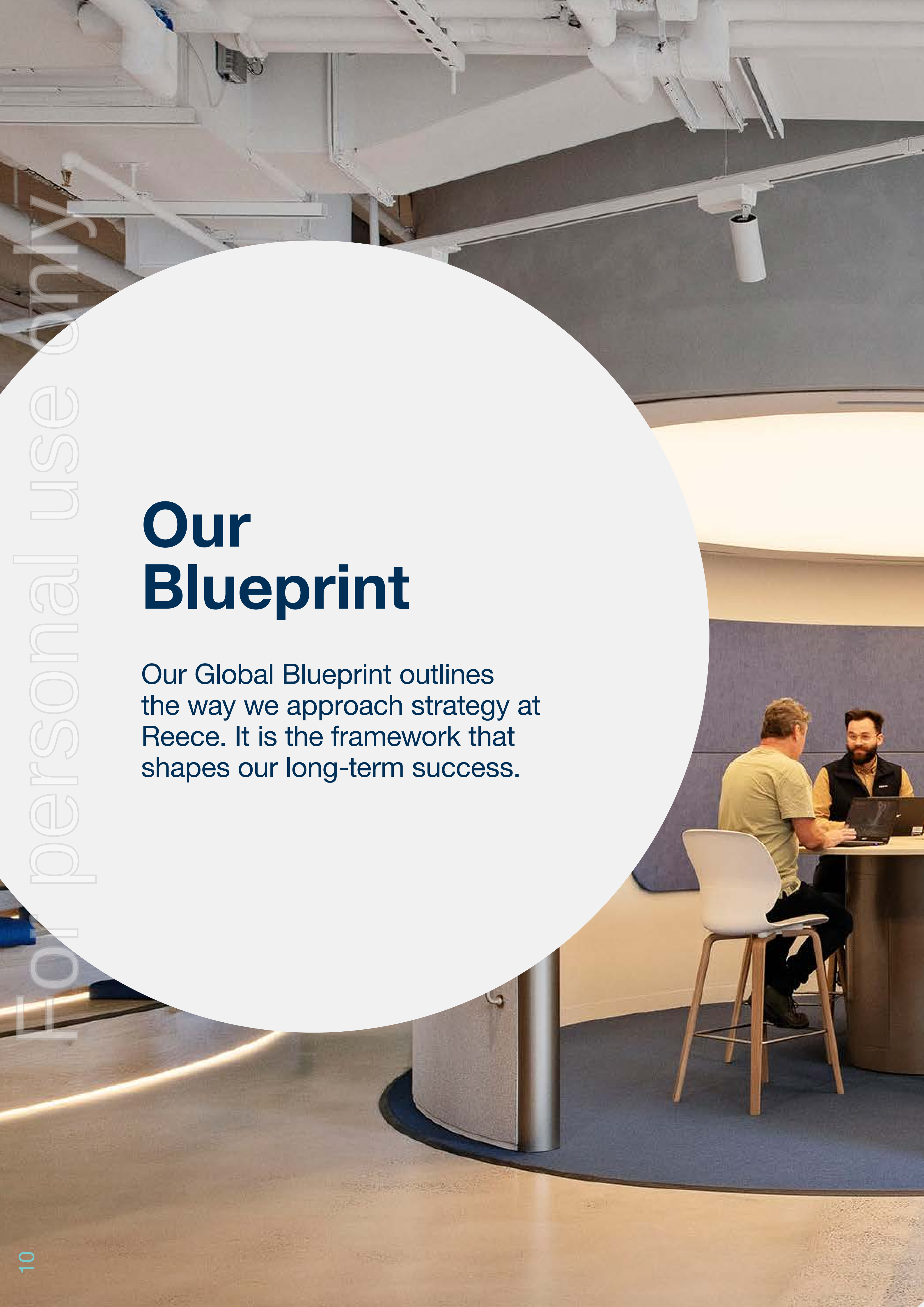


Supporting our team

COVID-19 had a big impact on our team. As essential workers, our branch network turned up in person every day to deliver our customised service promise, at a time when our industry was busier than ever.

We put a dedicated focus on supporting our people to be their best during this challenging time through health and wellbeing initiatives. We took a high compliance, high care approach to managing the growing impact of COVID, and knowing the team were stretched, we maintained our focus on safety, providing a COVID safe environment and completing over 17,000 safety walks.

1. International Monetary Fund
2. Australian Bureau of Statistics
3. US Chamber of Commerce
4. United States Census Bureau
5. US Bureau of Labour Statistics



Our Blueprint

Our Global Blueprint outlines the way we approach strategy at Reece. It is the framework that shapes our long-term success.

Inspired by our purpose

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

Live the Reece Way

Our purpose and values guide our decisions and our actions, big and small.

Embrace our 2030 vision

We will be the Trade's Most Valuable Partner.

Execute strategic priorities

1. Brilliant fundamentals
2. Investing for growth
3. Delivering innovation

Deliver customer promise

Customised service – Works For You.

Our Purpose and Values

We are a purpose-led organisation. Together with our values, this is what we call The Reece Way.

Purpose

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

Values

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 Strategic Priorities

By executing these three strategic priorities, we will enable our 2030 vision of becoming the Trade's Most Valuable Partner.

Brilliant fundamentals

Being the best at the fundamentals of trade distribution.

Investing for growth

Investing to grow our footprint and build a stronger business for the future.

Delivering innovation

Innovating to stay one step ahead of our customers' needs.

2030 Vision

Trade's Most Valuable Partner.

Becoming the Trade's Most Valuable Partner

Our long-term success has been founded on the strong relationship we have with our customers.

We have a simple promise: to provide quality products and expertise quickly and seamlessly, so our customers get time back in their day, to complete more jobs and bill more work.

Our 2030 vision is about being their most valued partner in all aspects of their business. We want Reece to be the first place they go to when they need support, whether that is getting a product to site as quickly as possible, or helping them run their business more smoothly.

To read more about our customer-focused model, see page 5.

A winning customer proposition

Works for you.

Service your way

In it together

Sharing expertise

Driven by quality

Always innovating

Service your way

Launching maX in the US.

Scan me

For us, customer service is not one size fits all. This definitely held true for the launch of maX in the US.

To bring the service to life for our US customers, the local team conducted a series of design thinking and listening sessions with customers and team members where we identified common pain points and then talked through how we could use digital solutions to solve those problems. These findings became the basis for the features on the website.

As maX continues to grow in the US, we're constantly collecting feedback from customers and using that to build the product roadmap and prioritise advancements for the future.

"I'm actively working to grow my business, but the time I have during the day to manage the existing business is always a challenge. Using maX has been a game-changer for me, giving me the freedom to order stock when and where it works for me and my business. My favourite features are the real-time inventory and the ability to order stock and equipment in the evenings after a busy day."

Juan – Customer from Dallas Fort Worth.

"Using maX has been a game-changer for me."

In it together

Fortiline supports building mortgage-free homes for families of veterans and first responders.

Reece US's waterworks business, Fortiline, is supplying sewer, force main, water and reclaim pipe, valves, and fittings to the Let Us Do Good Village: a new neighbourhood that will provide mortgage-free homes for catastrophically injured veterans, as well as surviving families of fallen members of the military and first responders.

Groundbreaking for the Let Us Do Good Village took place in December 2021. The subdivision of more than 100 homes is planned for Land O' Lakes, Florida, on 75 acres donated by the Esther and Harold Mertz Foundation to the Stephen Siller Tunnel to Towers Foundation.

"When RIPA and Associates asked us to supply the Let Us Do Good job for the Tunnels to Towers project, we knew it was something we wanted to support. Our team in Tampa, Florida got to work to ensure we provided the highest quality materials that were both durable and reliable. It's a good feeling to know we played a role in helping give back to some of the amazing people that have sacrificed so much to protect our country."

Shawn Mason – Outside Sales,
Fortiline Waterworks

Sharing expertise

Lachie the Grad's Toilet Seat Finder.

Scan me

Reece graduates spend their first year working in branch, getting to know our business and our customers first-hand.

Finding the perfect replacement toilet seat for a customer is an odd but common problem faced by our branch team. Sounds simple, but finding the right hinge points, shape and dimensions for each unique pan can be a difficult and hands-on problem, taking up a lot of time for our people and our customers.

After spending time working on the trade counter, Reece graduate Lachlan Maxwell came up with an idea to streamline and make the process more efficient - The Toilet Seat Finder.

Working with teams from across the business, Lachie transformed his idea into an app. The Toilet Seat Finder is now available across the Reece Australia network, helping branches from across the country shortlist toilet seats to suit every toilet.

> "It was such a simple and small idea that was transformed into something useful because of our network's commitment to living our values. I'd encourage everyone to share their ideas with their immediate team and see where it takes you."
>
> Lachlan Maxwell – Reece Graduate

Driven by quality

The new >B< Press NZ range. It's now Kiwi as.

Customised service is our secret sauce, and that holds true in all markets we operate in.

>B< Press is widely used by Aussie plumbers and has since launched overseas in New Zealand and the United States. With excellent joint performance, flame-free installation and reliable design, >B< Press allows plumbers to install copper pipe more safely and efficiently than ever before.

Recognising the need to tailor our offering to the needs of local plumbers, Reece and Connex Banniger, joined forces once again to redesign our >B< Press copper fitting range so they fit even better with New Zealand's copper piping sizes. The >B< Press NZ range gives Kiwi plumbers time back in their day with an even more reliable system.

Since its launch in May 2022, Imagin3D has helped over 15,000 customers bring their dream bathroom to life.

imagin3D™

Always innovating

Turning Aussie bathroom ideas into reality with Imagin3D.

Scan me

At Reece, we work hard to be the Trade's Most Valuable Partner. We're continuing to invest in tech and advancements that will help them succeed in a digital world.

One third of Aussie renovators agree: not being able to visualise how products will fit and look in their home is the most frustrating aspect of a renovation.

To help the trade better communicate with their clients and allow them to explore what's possible, we developed a new 3D Bathroom Planner, Imagin3D.

Building on the success of our previous tool with customer insight, Imagin3D uses visualisation technologies and precise dimensions for space planning to produce quality renders of bathrooms, allowing us to assist customers in making decisions.

Imagin3D is a culmination of ideas and feedback, allowing us to support our customers to better picture their dream space.

> "The Reece Imagin3D Planner was better than we imagined it could be! It's so much easier to create a winning bathroom layout with this new tool. It's a game changer."
>
> Three Birds Renovations

Sustainability at Reece

At Reece, our approach to sustainability is grounded in our values. 'Do The Right Thing', 'Write the Next Chapter' and 'Own It' are all core values and give a sense of how we approach our work every day. We want to act with integrity in everything we do.

Our sustainability strategy

Our customer-led sustainability strategy aims to create positive sustainable change across three focus areas:

1 Sustainable Business

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

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.

2 Empowered Trade

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

Our Actions

- 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.

3 Resilient Communities

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

Our Actions

- Launch our second Reconciliation Action Plan, building respect, relationships and opportunities.
- Build 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.

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 customers feel supported to work sustainably.

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

Later in 2022 we will publish our first sustainability report, detailing our goals and commitments. We'll report progress against these goals annually.

> "Creating a world where everyone has access to clean water and sanitation."

Scan me

reece foundation

Working with tradies to create a better world

For most of us, water is a basic need and easily accessible. Sadly, this isn't the case for almost 2.3 billion people around the world.

Water is fundamental for quality of life, and trades play a vital role in providing access to this precious resource.

We believe everyone has the right to clean water, so in FY22 we launched The Reece Foundation, an independent charity in Australia, to work with volunteer tradies and partners to fund and initiate projects that provide clean water and sanitation to communities, both at home and abroad. We connect communities with trade skills to improve people's health and wellbeing.

Our first Reece Foundation project in July 2022 is supporting six Reece customers who have volunteered to travel to Cambodia to work with Community Generation, a non-profit organisation bringing clean and safe drinking water and sanitation to rural Cambodian communities. The Foundation is also supporting organisations working across New South Wales and Queensland in flood relief and recovery.

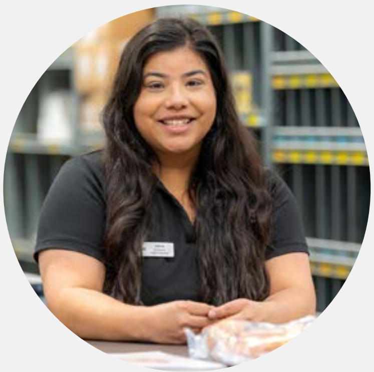
Enabling the future of Reece

Scan me

In 2022, we moved into The Works, our new custom-built headquarters in Australia.

In the pipeline since 2016, the building is a space for everyone at Reece. It will allow us to attract and retain talent, facilitate new ways of working, inspire collaboration and drive innovation, so that we can keep partnering with our branch network to do great things for our customers.

The Works is located in Cremorne, Melbourne, a historically blue-collar suburb with humble origins, like Reece. The area is now a tech and innovation hub. The Works will be a catalyst for the same process at Reece, underpinning our vision to be the Trade's Most Valuable Partner and helping us shape Reece's story over the next 100 years. The Works is an investment in our future.



A great place to work

Our purpose is to improve the lives of our customers and our people by striving for greatness every day.

This extends to all aspects of our business, and we aim to create a caring and supportive workplace for our team. In 2022, we were recognised in the Australia Financial Review's 'Best Places to Work' list, coming 6th in the Property, Construction and Transport industry.

FINANCIAL REVIEW BOSS BEST PLACES TO WORK

#6 in 2022 in Property, Construction and Transport sector.

“Reece is a great place to work and I’m excited to be a part of its future”

**Reece team member,
Reece Employee Engagement
Survey 2022**

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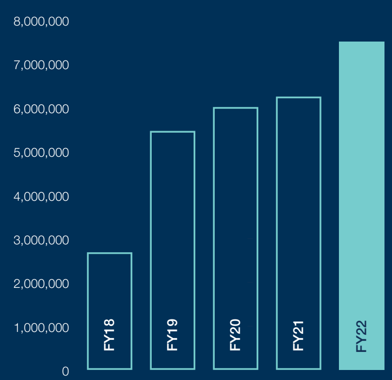
Business Review

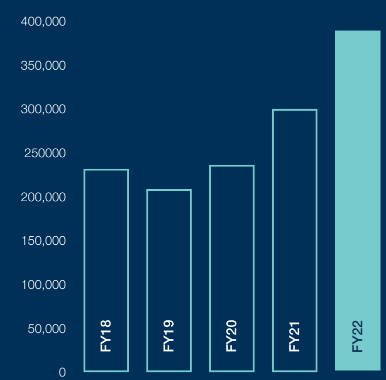
In a complex macro environment we maintained focus on our vision to becoming the Trade's Most Valuable Partner, by executing on the three pillars of our strategy.

FY22 Highlights

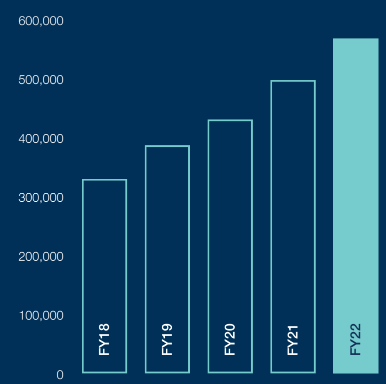
Sales Revenue ($000's)



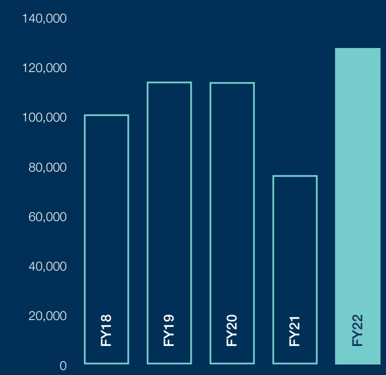
NPAT ($000's)



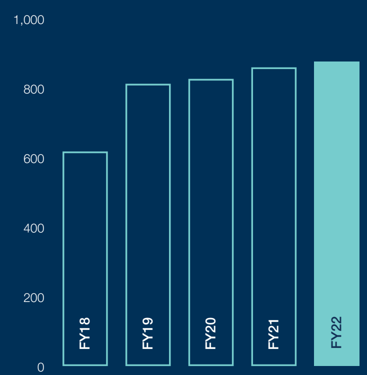
EBIT ($000's)



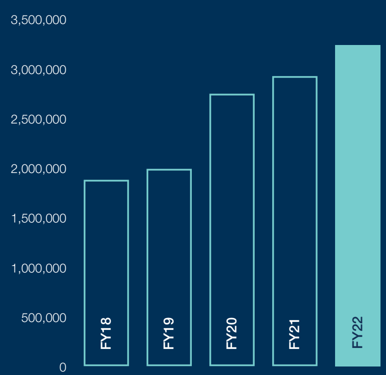
Dividends Paid ($000's)



Number of Branches



Net Assets ($000's)



Operational Review

Reece Limited[1] ('Reece') delivered another strong result in FY22.

Sales revenue increased 22% to $7,654m (2021: $6,271m) driven by demand and price inflation across all markets during the period. Normalised EBITDA[3] increased 16% to $838m (2021: $720m) and statutory net profit after tax increased 37% to $392m (2021: $286m).

Customer activity remained elevated across each region throughout FY22 as demand continued and a backlog of activity was worked through. Macroeconomic challenges were ongoing, in particular the widespread impact of inflation.

Disruption of global supply chains also persisted, compounded by geopolitical tensions in the second half of the year. We continued to work closely with suppliers and made a strategic investment in inventory, which enabled us to successfully avoid material supply chain disruptions for customers. Our inventory position increased to $1,528m at 30 June 2022 (2021: $1,138m), translating to an increased net working capital to sales ratio of 22%, up from 19% at 30 June 2021.

In a complex macro environment we maintained focus on our vision of becoming the Trade's Most Valuable Partner, by executing on the three pillars of our strategy; being brilliant at the fundamentals of distribution, investing for growth, and delivering innovation. During FY22, we focused in particular on the expansion and refurbishment of our branch network, updating and expanding our delivery vehicle fleet, deepening talent and capability in our teams, and investing in our technology platforms. With the easing of COVID-19 restrictions across regions, we took the opportunity to bring our people together to collaborate and focus on developing future leaders, creating high-performing teams and embedding The Reece Way.

In December 2021, we successfully refinanced our USD Term Loan B debt facilities with a $1,250m syndicated multi-currency revolving facility, which was further extended in March 2022 to $1,400m. The new facilities provide Reece with a diversity of maturity dates and flexibility to be drawn in either Australian or US dollars. We are compliant with the maintenance covenants of ≤3.5x Net Leverage Ratio[2] and ≥2.5x Interest Coverage Ratio at 30 June 2022, both of which are assessed and reported at each reporting date. Our net leverage ratio is 1.2x at 30 June 2022, down from 1.4x at 31 December 2021 under the new syndicated facility agreement. The facility provides us with the flexibility to support the strategic investment in working capital, capital expenditure and other innovation initiatives in line with our long-term strategy.

Review of Operations

	2022 ($000's)	2021 ($000's)	Variance %
Sales	7,654,047	6,270,706	22
Normalised EBITDA[3]	838,286	720,290	16
EBIT	578,204	492,572	17
Statutory net profit after tax	392,487	285,595	37
EPS (cents)	61	44	37
Total dividends per share (cents)	22.5	18.0	25

ANZ Region

In Australian and New Zealand (ANZ), sales revenue increased by 12% to $3,518m (2021: $3,154m). Normalised EBITDA was up 5% to $526m (2021: $502m) and EBIT grew 4% to $398m (2021: $381m).

COVID-19 restrictions had a significant operational impact in the first half of FY22, with lockdowns in various regions of Australia and New Zealand disrupting our customer base and network. We focused on ensuring a safe environment for our team and customers, and utilised the flexibility of our network to focus our resources on areas of high demand to deliver on our customer promise.

In line with our strategy, we focused on further digitising the customer's experience during the period, seeking to deliver the same world-class service experience irrespective of when, where or how our customers choose to interact with us. We continue to see customer engagement with our digital tools grow as these enhancements are rolled out.

We also focused on ensuring high standards across our network, with 33 branch refurbishments during the period. The Group's network footprint in ANZ increased to a total of 645 branches as at 30 June 2022 (2021: 642).

In December 2021, Marius Vermeulen was appointed CEO of the ANZ business and has renewed focus on the delivery of our 2030 strategy, embedding culture and building leadership capability in the team. In April 2022, we moved into 'The Works', our new purpose-built support centre in Australia. The building is a strategic investment to attract and retain talent, facilitate new ways of working, inspire collaboration and drive innovation so that we can keep partnering with our branch network to provide customised service for our customers, in line with our vision.

1. Reece Limited and its controlled entities
2. Net leverage ratios calculated pre-AASB 16 *Leases* in accordance with banking covenants
3. Normalised EBITDA is earnings before interest, tax, depreciation, amortisation and has been adjusted to exclude business acquisition costs, and finance income/(costs).

   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.

US Region

In the US region, sales revenue increased by 33% to $4,136m (2021: $3,117m), an uplift of 28% on a US dollar basis. The result was the outcome of elevated demand and price inflation. Normalised EBITDA increased by 43% to $312m (2021: $219m) and EBIT increased by 63% to $181m (2021: $111m).

The US region recognised a tax benefit that reduced income tax expense by $28m relating to valuation of inventory for tax purposes based on a last in first out (LIFO) methodology. In an inflationary environment, with a comparatively higher inventory balance, the LIFO adjustment increased from the 2021 tax benefit recognised of $15m.

We continue to take a long-term approach to investing to build a successful business in the US region, particularly focusing on delivering operational upgrades, embedding brilliant fundamentals, and building a culture and leadership team driven by our vision and values.

In FY22 we focused on building capability in the business and delivering training and development programs on trading fundamentals. We also built out the leadership team and launched a series of targeted programs for our managers to develop future leaders at all levels. We continue to enhance our employee value proposition to build a pool of future talent.

We maintained our focus on building scale in the network, growing our footprint organically and through bolt-on acquisitions to 204 (2021: 189). We also refurbished a further 11 stores. The establishment of new stores was impacted by COVID-19 in FY22, and we would anticipate the rate of rollout to increase in FY23. Having trialled a range of store formats and service concepts, we are pleased with the customer response to new branches opened in FY22.

We launched our online offer, maX, during the year, which has been developed specifically for the US market, and we will continue to enhance this platform for customers. We also introduced the Reece brand at a corporate level, which will progress to a rebrand of our physical network over coming years, starting with California in FY23.

Dividends

The Board has declared a final dividend of 15 cents per share fully franked, taking the total dividends in respect of FY22 to 22.5 cents per share (2021: 18 cents per share). The final dividend will be paid on 26 October 2022 with the record date for entitlement of 12 October 2022.

We took the opportunity to collaborate and focus on developing future leaders, creating high performing teams and embedding The Reece Way.

We continue to take a long-term approach to investing to build a successful business in the US region.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Corporate Governance Statement

The Reece Group is committed to good corporate governance practices.

The FY22 Corporate Governance Statement has been lodged separately and is available on the Reece Group website. The FY22 Corporate Governance Statement includes our principal risks, which have also been detailed in the Directors' Report on page 38.

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

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 2022.

Peter Wilson
Group Chief Executive Officer (Group 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 2022.

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
Reece US 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

The Lottery Corporation (appointed 1 June 2022)
City Chic Collective Limited
InvoCare Limited

Andrew Wilson
Non-Executive Director

B.Bus (RMIT) ACMA / CGMA GAICD
Appointed to the Board September 2018
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 2022.

Bruce C. Wilson
Non-Executive Director

B.Comm (La Trobe)
Appointed to the Board September 2016
Member of Remuneration Committee

No other directorships of listed companies were held at any time during the three years prior to 30 June 2022.

Chantelle Duffy
Company Secretary

B.Comm /Sci (La Trobe), CA
Appointed Company Secretary 1 July 2020

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 2022 ('FY22') 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 of America. The Group's businesses are supported by leading innovation and service solutions.

Directors' Meetings

The number of meetings of the Board of Directors ('The Board') and of each Board Committee held during the financial year as well as the number of meetings attended by each Director are detailed below. There were no changes made to the Committees during the period to the date of this report. Directors also attend meetings of Committees of which they are not a member. This is not reflected in the attendance table below.

Director	Board Meetings		Audit and Risk Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Alan Wilson	6	6	-	-	-	-
Peter Wilson	6	6	-	-	-	-
Tim Poole	6	6	5	5	4	4
Megan Quinn	6	6	5	5	4	4
Andrew Wilson	6	6	5	5	-	-
Bruce C. Wilson	6	6	-	-	4	4

(A) Number of Meetings Attended
(B) Number of Meetings Held Whilst In Office

Environmental Regulations

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.

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.

Directors' Report

Non-Audit Services

Non-audit services are approved by resolution of the Audit and Risk 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.

	2022 $	2021 $
Amounts paid and payable to KPMG for non-audit services:		
Other non-audit services – regulatory advisory services	38,375	11,385
	38,375	**11,385**

Other information

The following information, contained in other sections of this Annual Report, forms part of this Directors' Report:

- Operating and Financial Review detailed on pages 4 to 31 inclusive in the Annual Report.
- Details of dividends as outlined in Note 4.5 to the financial statements.
- Matters subsequent to the end of the financial period as outlined in Note 6.5 to the financial statements.
- Directors' interests in shares and performance rights as set out in Sections 8.3 and 8.5 of the Remuneration Report.
- Performance rights granted during the financial period as outlined in Note 6.2 the financial statements.
- Remuneration Report from pages 40 to 53.
- Auditors independence declaration on page 54.

Risk Approach

Management recognises that a wide range of risks exist across the Group, and that building a strong risk management culture is critical to delivering on the Group's vision and strategy. Risk management helps the Group to maintain and improve its competitive advantage, and is pivotal to the ongoing success of the business.

The following table outlines the Group's principal risks, material risk exposures, and how the Group seeks to manage them. By proactively anticipating risk, Reece are strongly positioned to mitigate associated threats, appropriately plan for contingencies, and take advantage of opportunities that benefit all stakeholders.

Our principal risks

Risks	Key drivers	Mitigations
Macroeconomic and competitor landscape The external risk environment continues to be influenced by uncertainties in the macroeconomic and geopolitical landscape, including international disputes and trade tensions, and broader environmental threats including extreme weather events and continued pandemic-induced slowdowns. Reece's competitive markets can also be impacted by local forces such as disruptive product innovation, new entrants, and changes in customer strategies and preferences.	– Economic and competitive market conditions. – Mounting geopolitical risk landscape. – Environmental factors including pandemics and extreme weather.	– Proactive monitoring of key economic indicators and the broader global landscape. – Agile processes and business continuity discipline to respond to changing conditions. – Focus on innovation and disruptive technology, including diversified products and services.
IT resilience and cyber security Reece recognises the criticality of protecting its systems, applications and data, and maximising its ability to recover rapidly in the event of a disruption. In particular, cyber security risks continue to pose an elevated threat to all organisations, including risks associated with major 'denial of service' type attacks, ransomware, malware and other malicious hacking activities, all of which can lead to a material disruption to operations.	– Increasing complexity and transformation of the IT environment. – Rapidly evolving cyber security risk landscape, including ransomware. – Technology changes including additional adoption of cloud technology.	– Appropriate IT environment testing, monitoring, and maintenance. – Dedicated cyber security team, strategy, and control environment. – Screening of all supplier, customer, and vendor IT environments.
Data and information privacy Data and information privacy is a growing priority for the business and its customers, and an area that is subject to increasingly stringent regulations. Privacy risk includes the risk of deliberate or inadvertent release of personal and/or sensitive information leading to a privacy breach, which may in turn trigger a non-compliance with relevant legislative requirements.	– Increasing volume and complexity of data. – Customer and regulator expectations. – Cyber security threats.	– Privacy policy, framework and supporting controls. – Dedicated data governance program, including training. – Robust and tested data breach response protocols.
Supply chain and transportation disruption Reece operates a global supply chain, which requires the continued ability to access, move and provide products to our end customers. Inherent dependencies on key suppliers or geographies can result in single-point sensitivities and disruption risk, including shortages or bottlenecks associated with geopolitical uncertainty, extreme weather, or pandemic-induced slowdowns.	– Single points of sensitivity in the supply chain. – Mounting global and geopolitical risk landscape. – Freight and transportation dependencies.	– Supply continuity strategies refined through the current COVID-19 disruption. – Robust contractual agreements and protections. – Ongoing program to ensure diversification of suppliers across multiple geographies.
People and talent Reece requires high-calibre talent centred on a deep level of bespoke industry expertise and knowledge. With retention and recruiting challenges expected to remain prominent due to tight labour markets and increased competition, we need to actively manage key talent risks within our broad portfolio of specialised skill sets.	– Competitive talent market where demand is exceeding supply. – Increasing expectations from the workforce in the current labour market. – Flexibility/agility in role design in the post-COVID-19 environment.	– Talent and succession planning to manage single points of sensitivity. – Remuneration structure reviews and benchmarking. – Leadership development programs and employee capability training.

Risks	Key drivers	Mitigations
Health, safety and well-being The health and safety of the Reece team and customers is core to the Group's people promise, and remains fundamental to the daily and weekly routines of our branch networks. Reece is committed to creating a safe working environment where people are protected from both physical and psychological harm.	– Inherent safety risks arising in the normal course of business. – Diverse network of physical infrastructure and equipment across sites. – Large motor vehicle fleet.	– Dedicated safety department, including supporting systems and controls. – Safety monitoring, inspection and training programs. – Formal incident and injury management processes.
Product quality and safety The supply of dependable and safe products is imperative to our customer promise. A product quality failure at any point across the supply chain could result in injuries, liability claims, and/or product recalls.	– Large portfolio of bespoke solutions sourced to meet customer needs. – Complex specifications and installation requirements for some products. – Some inherent reliance on the quality and control procedures of our suppliers.	– Robust quality assurance and testing programs. – Appropriate warranties and insurances. – Investment in training to ensure correct installation and use of our products.
Environmental, social, and corporate governance (ESG) Reece's operations must continue to maintain positive societal impacts, including appropriate action to respond to long-term climate and environmental changes, and a proactive stance on social responsibility. We also recognise the heightening regulatory environment, and the reputational risk associated with any failure against ESG reporting or disclosure obligations.	– Source of growing stakeholder expectations. – Depth and complexity of the supply chain. – Increasing regulatory landscape surrounding ESG.	– ESG governance framework in place, including a bespoke modern slavery roadmap. – Developing integrated reports and ESG targets. – Direct program oversight by the Reece Board.
Technological disruption and transformation Reece must keep pace with technological advancements that disrupt our operational and competitive landscape. Upcoming technologies, including industrial robotics and smart automation, have the potential to impact Reece and its broader markets, together with rapid developments in data science, machine learning and predictive modelling.	– Increasing speed and volume of technological disruption. – Changing consumer behaviours and expectations. – Impact of legacy infrastructure and environments.	– Technology strategy and roadmap. – Active pursuit of new and disruptive technologies through Reece's innovation programs. – Explicit budgeting for underlying technology infrastructure and capability improvement.
Legal and compliance landscape Reece must comply with a broad range of applicable laws and regulations, as well as its legally binding contracts and agreements, whilst also ensuring that any breaches (potential or actual) are identified and handled in a timely and proactive manner. The underlying complexity of regulatory and contractual obligations is also expanding as the Reece business grows, including expansion into new business ventures and adjacencies.	– Growing breadth and complexity of Reece's regulatory landscape. – Increasing regulatory scrutiny across a range of disciplines (e.g. ESG). – Large volume of bespoke contracts and agreements across the business.	– Dedicated in-house risk, procurement and legal personnel. – Outsourced subject-matter expertise as required. – Review of compliance via internal audit program.

Remuneration Report (Audited)

Letter from Remuneration Committee Chair

Dear fellow shareholders,

On behalf of the Board, I am pleased to present our Remuneration Report for FY22.

As noted last year, 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 structure incentive arrangements for our leadership team. We design our remuneration to suit the needs of Reece, and with the objective of achieving our long-term goals.

FY22 performance and remuneration outcomes

Reece has continued to execute its long-term growth strategy and delivered another record result in FY22. Sales revenue increased by 22% to $7,654m (2021: $6,271m, normalised EBITDA was up 16% to $838m (2021: $720m), EBITA was up 18% to $634m (2021: $536m) and statutory net profit after tax increased 37% to $392m (2021: $286m).

The Board declared a fully franked final dividend of 15 cents per share, resulting in total fully franked dividends of 22.5 cents per share in respect of FY22, an increase of 25% over FY21.

The Board believes the Company has performed extremely well and navigated a range of challenges during FY22, including supply chain disruptions, serious and prolonged weather events, COVID-19 disruptions, inflation, and staff shortages. The Board would like to recognise and thank all Reece Group employees for their commitment, dedication, and contribution through another extraordinary year for the Company.

The Board would also like to recognise the performance of the Group CEO and the senior leadership teams in ANZ and the US for continuing to execute Reece's long-term strategy and achieve important milestones notwithstanding the challenging external environment.

Due to the successful performance of our team in FY22, the Group and business unit financial metrics have largely been achieved or exceeded and the KMP individual metrics have achieved above target scores. As a result, the short-term incentive awards to our Group CEO and senior leaders in ANZ and the US for FY22 are between target and stretch.

Reece currently has three share-based long-term incentive (LTI) awards outstanding. The first of these awards will be tested for vesting at the completion of FY24.

Changes to remuneration framework

During the last few years, changes have been made to ensure the Reece LTI plan is aligned with our focus on achieving the Company's long-term goals while enabling us to attract and retain key executives. I would like to thank stakeholders who have provided feedback on our LTI plan and our remuneration structures and reporting more generally. We will continue to look for opportunities to improve and provide further transparency where it is appropriate to do so.

As indicated in our FY21 Remuneration Report, the LTI awarded to senior executives during FY22 was based on performance rights. The revised LTI plan reflects a more contemporary approach and is aligned with current regulations and market best practices, which are important in attracting and retaining talented executives. The number of rights granted in the revised LTI plan were determined using a 'face value' calculation and the share price used in the face value calculation was the volume weighted average price (VWAP) during the 20-day period immediately after the issue of the FY21 annual results. The performance rights have a four-year vesting period with an EPS CAGR hurdle. Additional detail is available in Section 6 of this report.

During FY22 the Remuneration Committee resolved to further enhance the Reece LTI plan with the introduction of a second vesting hurdle, Return on Capital Employed (ROCE). This change will be effective in relation to LTI awards made during FY23 and the vesting hurdles will be weighted equally between ROCE and EPS.

The Remuneration Committee will continue to test the effectiveness of our remuneration arrangements, including with shareholders and other stakeholders, in supporting the delivery of our strategy and providing remuneration outcomes aligned to the long-term experience of shareholders.

I invite you to read our full report, which outlines in further detail the remuneration structures and outcomes for FY22, and continue to welcome your feedback.

Yours faithfully,

Tim Poole
Chair, Remuneration Committee

Remuneration Report (Audited)

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1. Key Management Personnel
2. Remuneration overview
3. Remuneration governance
4. Company performance and remuneration outcomes
5. Executive KMP short-term incentive (STI) and performance outcomes
6. Executive KMP long-term incentive (LTI)
7. Non-Executive Director (NED) remuneration
8. Additional Statutory disclosures

The Directors present the Remuneration Report for the financial year ended 30 June 2022. 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)*.

Key Management Personnel ("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 ANZ and US businesses.

1. Key Management Personnel

The table below details persons considered to be KMP during FY22 and their term as KMP.

KMP	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
Andrew Wilson	Non-Executive Director	Full financial year
Executives		
Andrew Cowlishaw	Group Chief Financial Officer (CFO)	Full financial year
Gavin Street	CEO Australia and New Zealand (ANZ)	Ceased 10 December 2021
Marius Vermeulen	CEO Australia and New Zealand (ANZ)	Appointed 1 December 2021
Sasha Nikolic	CEO United States (US)	Full financial year
Chip Hornsby	Executive Chair United States (US)	Full financial year

Remuneration Report (Audited)

2. Remuneration overview

2.1 Our remuneration framework

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 performance, Company performance, and market context in relevant geographies.

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.

2.2 Our remuneration philosophy

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

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 behaviour 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)

2.3 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 and individual performance. Paid in cash to provide immediate reward and consistent with the highly effective Reece "profit share" model that has been a long-term driver of performance through the branch network.
At-risk long-term incentive	To align Executive reward with the delivery of long-term strategic priorities and shareholder value creation.	From FY23 will be based on the award of share rights based on tenure and achieving EPS and ROCE objectives. Some historical arrangements will remain in place (until expiry) for a small group of US Executives, which are cash incentives based on tenure and achieving EBITDA growth objectives.

3. 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, it is likely that 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 and Group CEO have 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 businesses are subject to the same remuneration governance framework as set out below.

The Board

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

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).*

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.

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)

4. Company performance and remuneration outcomes

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

4.1 Historical performance

The table below summarises key performance indicators (or performance objectives) over the previous five years. In FY22, Reece delivered record financial performance and an increase from prior years.

Financial Summary	FY22 ($000's)	FY21 ($000's)	FY20 ($000's)	FY19[1] ($000's)	FY18 ($000's)
Sales revenue	7,654,047	6,270,706	6,009,878	5,463,787	2,688,576
Normalised Earnings Before Interest Tax Depreciation and Amortisation (EBITDA)[2]	838,286	720,290	649,604	521,950	378,323
Normalised Earnings Before Interest Tax and Amortisation (EBITA)[3]	633,573	535,980	457,015	-	-
Net profit after tax	392,487	285,595	228,999	202,100	224,620
Dividends declared	145,346	116,277	72,408	113,566	109,797
Performance-based incentives to Executives	7,945	6,309	4,666	3,973	4,075
Share price at end of financial year	13.78	23.61	9.19	9.76	12.65
EPS[4]	61 cents	44 cents	40 cents	36 cents	-

1. Acquisition date of Reece US (previously MORSCO) was 2 July 2018; accordingly, the Group results from FY19 include Reece US.
2. Normalised EBITDA is earnings before interest, tax, depreciation, amortisation and has been adjusted to exclude business acquisition costs and finance income/(costs).
3. Normalised EBITA is earnings before interest, tax, amortisation and has been adjusted to exclude business acquisition costs and finance income/(costs).
4. 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.

4.2 Take home remuneration (unaudited)

The table below outlines the received remuneration for Executive KMP during FY22. The statutory tables are provided in the Statutory Disclosures section 8.2 of this report.

Executive	Fixed remuneration ($000's)	Other benefits[5] ($000's)	STI awarded[1] ($000's)	Vested LTI[2] ($000's)	Total ($000's)
Peter Wilson Group CEO	2,130	91	2,597	-	4,818
Andrew Cowlishaw Group CFO	717	27	375	-	1,119
Gavin Street CEO ANZ[3]	676	13	151	-	840
Marius Vermeulen CEO ANZ[4]	438	16	468	-	922
Chip Hornsby Executive Chair US	763	101	859	-	1,723
Sasha Nikolic CEO US	846	301	1,124	1,124	3,395

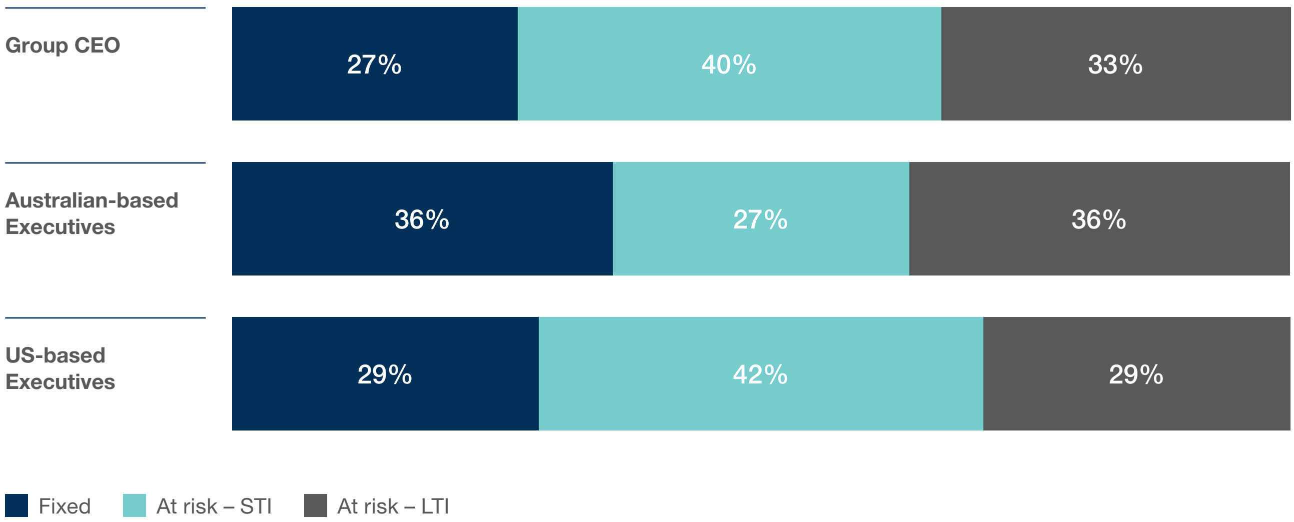
1. Reflects value of STI earned in relation to FY22.
2. Reflects value of LTI vested or paid in FY22.
3. Mr Gavin Street ceased being CEO ANZ on 10 December 2021. Fixed remuneration for FY22 includes payment of Mr Street's accrued annual and long service leave.
4. Mr Marius Vermeulen was appointed as CEO ANZ on 1 December 2021.
5. Mr Nikolic's other benefits payment represents a housing allowance provided during FY22.

4.3 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 providing an incentive for 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.



4.4 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.

4.5 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, guidance and deep industry experience.

5. Executive KMP short-term incentive (STI) and performance outcomes

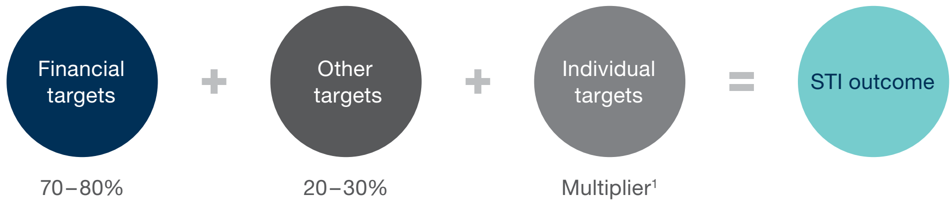
5.1 Executive KMP STI detail

The STI provides Executive KMP an opportunity to be rewarded for achievement of annual 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.



Performance targets are set with reference to the Reece business strategy to achieve the long-term growth aspirations of the Group.

KMP Executives

For KMP Executive roles, performance under the FY22 STI was measured against:

Performance objectives	
Financial targets	EBITA growth EBITA to sales margin EBITA to capital employed
Other targets	Other targets include growth in customer accounts, safety, sales per full-time employee and support centre cost control.
Individual targets	Board assessment of individual initiatives determines the multiplier for the final STI outcome. In FY22 these initiatives included succession planning, execution of Brilliant Fundamentals, innovation and technology development, supply chain initiatives, execution of Breakthrough Initiatives, new branch rollout and enterprise risk.

How much can an Executive earn?

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 has a maximum opportunity of 75%–100% of base salary.

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 completion of the Group's financial statements. The Remuneration Committee elects to pay all STIs in cash to provide timely reward to Executive KMP for achievement of annual objectives.

1. The multiplier has the ability to either increase or decrease the final STI outcome.

Remuneration Report (Audited)

5.2 STI performance outcomes

The STI is 'at risk' remuneration as it is 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 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 FY22.

Objective	Reece ANZ FY22 outcomes	Reece US FY22 outcomes	Group FY22 outcomes
Financial targets	Between Threshold & Target	Between Target & Stretch	Target
Other targets	Between Target & Stretch	Target	Target
Individual targets	Between Target & Stretch	Between Target & Stretch	Between Target & Stretch

- Stretch
- Between Target & Stretch
- Target
- Between Threshold & Target
- Threshold
- Below Threshold

5.3 STI outcomes

The table below outlines the STI outcomes for Executives during FY22.

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	3,195	81%	122%	2,597
Andrew Cowlishaw Group CFO	538	70%	105%	375
Marius Vermeulen CEO ANZ[1]	481	97%	107%	468
Sasha Nikolic CEO US	1,269	89%	125%	1,124
Chip Hornsby Executive Chair US	1,145	75%	101%	859

1. Mr Marius Vermeulen was appointed as CEO ANZ on 1 December 2021.

6. Executive KMP long-term incentive (LTI)

6.1 Australian-based Executive LTI detail

The LTI assists in the reward, retention and motivation of 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 FY22.

How is the LTI award structured?	The participants are granted performance rights, an entitlement to receive one ordinary share following vesting.
How is performance measured?	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. EPS for incentive purposes reflects audited statutory accounts. The Board in its discretion may adjust 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. The awards will vest in accordance with the following vesting schedule:

EPS CAGR for the period	2021 grant (EPS CAGR over measurement period)	2022 grant (EPS CAGR over measurement period)	Level of vesting
Maximum / stretch	≥ 8%	≥ 10%	100%
Between threshold and maximum	≥ 2% & ≤ 8%	> 5% & < 10%	Pro rata vesting on a straight line basis between 50% and 100%
Threshold	< 2%	5%	50% (2021: Nil)
Below threshold	N/A	< 5%	Nil

What is the performance period?	Performance rights are subject to the vesting conditions being assessed over a four-year performance period.
How much can an Executive earn?	The Group CEO is eligible to receive an annual LTI grant equivalent to 100% of base salary at target performance and 125% of base salary at stretch performance. Other Australian-based Executives may be eligible to receive an LTI grant equivalent to 50–100% of base salary.
What are the vesting considerations?	Performance rights will vest subject to achieving the performance objectives.
How and when is it paid?	Performance rights convert to ordinary shares after the vesting period if the performance conditions have been met. The Company will settle performance rights using market purchased shares. No new shares will be issued. The Board in its discretion may settle 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 performance rights, pro-rated for time served and subject to performance testing.
What happens in a change of control?	In the unlikely event of a change of control, the Board has absolute discretion to determine how to deal with the Executive's unvested performance rights.
What changes are expected in future periods?	During FY22 the Remuneration Committee resolved to further enhance the LTI plan with the introduction of a second vesting hurdle, Return on Capital Employed (ROCE) effective from FY23. New grants from FY23 will include two performance metrics: EPS is measured on a compound annual growth rate (CAGR) and average Return on Capital Employed, which are evenly weighted at 50% each.

6.2 US-based Executive LTI detail

The Reece US LTI plan has been structured to assist the transition period of the Reece US business into the Reece Group. The LTI plan for Reece US was established to retain and provide an incentive for Executives in the US business during a critical period of transition and transformation. The Board has reviewed the structure of LTI for the Reece US 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 Reece CEO US, the LTI is awarded in cash rather than performance rights. The plan was structured in this way to assist the transition of Reece US into the Reece Group.
How is performance measured?	The metrics are based on achieving annual Reece US EBITDA and sales revenue targets and ongoing employment with Reece US 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 until December 2024. This is in line with the agreed period for initial business transformation post the acquisition of Reece US.
How much can an Executive earn?	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 if 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, subject to the performance of the Company and/or the 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.
What changes are expected in future periods?	From FY23 Reece US executives will be invited to participate in the Reece Group LTI scheme. The participants will be granted performance rights with two performance metrics: EPS is measured on a compound annual growth rate (CAGR) and average Return on Capital Employed, which are evenly weighted at 50% each. The details of this plan are described in section 6.1.

6.3 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.
Andrew Cowlishaw	Notice period of six months for employee and employer.
Marius Vermeulen	Notice period of nine months for employee and employer.
Chip Hornsby	The Reece Executive Chair US 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	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. The Reece US 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.

7. Non-Executive Director (NED) 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. NED's 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 NED's which are inclusive of superannuation.

Base fees	Annual fee ($000's)
Deputy Chair NED	111
Independent NED	111
Substantial shareholder NED	90

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

Committee fee	Chair ($000's)	Member ($000's)
Audit and Risk Committee	40	15
Remuneration Committee	30	15
Reece US Board of Managers	N/A	50

8. Additional Statutory disclosures

8.1 NED remuneration outcomes

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	FY22	1,411	54	24	1,489
	FY21	1,413	43	22	1,478
Tim Poole	FY22	210	-	21	231
	FY21	210	-	20	230
Bruce C. Wilson	FY22	82	-	8	90
	FY21	82	-	8	90
Megan Quinn	FY22	128	-	13	141
	FY21	117	-	11	128
Georgina Williams[2]	FY22	-	-	-	-
	FY21	38	-	4	42
Andrew Wilson	FY22	82	-	8	90
	FY21	82	-	8	90
Remuneration totals	**FY22**	**1,913**	**54**	**74**	**2,041**
	FY21	**1,942**	**43**	**73**	**2,058**

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

2. Georgina Williams ceased being a NED on 29 October 2020.

Remuneration Report (Audited)

8.2 Executive remuneration outcomes

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 ($000's)	Short-term incentive ($000's)	Non-monetary and other benefits ($000's)	Superannuation ($000's)	Long-term incentive ($000's)	Awards ($000's)	($000's)	%
Peter Wilson	FY22	2,130	2,597	66	25	-	1,016	5,834	62
	FY21	2,130	2,164	111	25	-	431	4,861	53
Andrew Cowlishaw	FY22	717	375	-	27	-	165	1,284	42
	FY21	650	358	-	25	-	-	1,033	35
Chip Hornsby	FY22	763	859	101	-	-	-	1,723	50
	FY21	779	881	36	-	601	-	2,297	65
Gavin Street[1]	FY22	676	151	-	13	-	(10)	830	17
	FY21	739	368	-	25	-	10	1,142	33
Marius Vermeulen[2]	FY22	438	468	-	16	-	76	998	55
Sasha Nikolic	FY22	846	1,124	265	36	1,124	-	3,395	66
	FY21	701	847	367	32	651	-	2,598	58
Remuneration totals	**FY22**	**5,570**	**5,574**	**432**	**117**	**1,124**	**1,247**	**14,064**	**56**
	FY21	**4,999**	**4,618**	**514**	**107**	**1,252**	**441**	**11,931**	**53**

1. Gavin Street ceased being CEO ANZ on 10 December 2021. Mr Street's share options were forfeited upon cessation of employment. Fixed remuneration for FY22 includes payment of Mr Street's accrued annual and long service leave.
2. Marius Vermeulen was appointed as CEO ANZ on 1 December 2021.

8.3 Executive LTI plan outstanding

The LTI plan was introduced in FY20. In the current year the Group CEO was issued with 129,838 performance rights (2021: 267,588 share options). There were no share options or performance rights exercised, vested or expired as at 30 June 2022. Gavin Street's options were forfeited in December 2021. The fair value of the performance rights granted in FY22 was $18.01, which was 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	Vesting date	Expiry date	Number of options/ rights	Fair value at grant date
Peter Wilson	FY22 rights	28 October 2021	$Nil	1 July 2025	27 October 2036	129,838	$2,338,382
	FY21 options	29 October 2020	$14.46	30 June 2025	29 October 2035	267,588	$1,597,500
	FY20 options	30 October 2019	$10.06	30 June 2024	30 October 2034	304,286	$1,278,000
Andrew Cowlishaw	FY22 rights	28 October 2021	$Nil	1 July 2025	27 October 2036	36,574	$658,698
Marius Vermeulen	FY22 rights	28 October 2021	$Nil	1 July 2025	27 October 2036	29,259	$526,955

8.4 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 Reece US EBITDA growth, annual sales revenue growth and continued employment with Reece US. At target, the outstanding value of the six and a half year LTI for Sasha Nikolic is $5,177,794, with the opportunity to increase this value by up to 90% in the event of exceptional outperformance against established targets.

8.5 Equity movements

The table below outlines equity movements for Directors and Executives during the financial year. During their term as KMP in FY22 Megan Quinn and Chip Hornsby did not hold any shares in Reece Limited.

	Balance as at 30 June 2021	Equity received as remuneration	Equity purchased / disposed of	Balance as at 30 June 2022
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 Cowlishaw Group CFO	9,868	-	-	9,868
Gavin Street[2] CEO ANZ	26,316	-	-	26,316
Marius Vermeulen[3] CEO ANZ	-	-	200	200
Sasha Nikolic 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.
2. Gavin Street ceased being CEO ANZ on 10 December 2021. The closing balance of the shareholding reflects the number of shares held by Mr Street on the day he ceased being a KMP.
3. Marius Vermeulen was appointed as CEO ANZ on 1 December 2021.

8.6 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)

8.7 AGMs

At our most recent Annual General Meeting, a 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 23 August 2022.

Signed in accordance with a resolution of Directors.

L.A. Wilson
Executive Chair

P.J. Wilson
Group Chief Executive Officer

Auditor's Independence Declaration

KPMG

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 2022 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.

KPMG

KPMG

BW Szentirmay

Partner

Melbourne

23 August 2022

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2022

	Note	2022 ($000's)	2021 ($000's)
Revenue			
Revenue from sale of goods	2.2	7,654,047	6,270,706
Other revenue	2.2	31,362	11,816
	2.2	**7,685,409**	**6,282,522**
Cost of sales	2.3	(5,515,083)	(4,509,176)
Selling and administrative expenses		(1,592,122)	(1,280,774)
Earnings before interest and tax		**578,204**	**492,572**
Finance costs (net)	2.3	(68,803)	(112,289)
Profit before income tax expense		**509,401**	**380,283**
Income tax expense	2.5	(116,914)	(94,688)
Net profit for the year		**392,487**	**285,595**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations, net of tax		137,811	(129,285)
Change in fair value of effective cash flow hedges, net of tax		26,851	58,815
Total comprehensive income, net of tax		**557,149**	**215,125**
Basic earnings per share	2.4	61 cents	44 cents
Diluted earnings per share	2.4	61 cents	44 cents

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	2022 ($000's)	2021 ($000's)
Current assets			
Cash and cash equivalents	3.1	220,483	828,966
Trade and other receivables	3.2	1,367,503	1,044,037
Inventories	3.3	1,528,411	1,138,117
Derivative financial instruments	4.3	6,719	1,029
Total current assets		**3,123,116**	**3,012,149**
Non-current assets			
Property, plant and equipment	3.5	729,405	624,099
Right-of-use assets	3.4	763,515	633,052
Investments in associates		21,326	14,468
Intangible assets	3.6	1,906,340	1,780,630
Deferred tax assets	2.5	63,872	53,671
Total non-current assets		**3,484,458**	**3,105,920**
Total assets		**6,607,574**	**6,118,069**
Current liabilities			
Trade and other payables	3.7	1,215,975	984,024
Lease liabilities		118,644	95,934
Interest-bearing liabilities	4.1	-	16,443
Deferred consideration		1,451	41,474
Current tax liability	2.5	30,783	32,304
Provisions	3.8	93,208	76,698
Derivative financial instruments	4.3	-	11,950
Total current liabilities		**1,460,061**	**1,258,827**
Non-current liabilities			
Long-term payables	3.7	8,011	14,886
Interest-bearing liabilities	4.1	1,090,088	1,319,173
Lease liabilities		694,196	574,321
Deferred tax payable	2.5	29,625	47,983
Provisions	3.8	4,724	4,958
Derivative financial instruments	4.3	-	9,812
Total non-current liabilities		**1,826,644**	**1,971,133**
Total liabilities		**3,286,705**	**3,229,960**
Net assets		**3,320,869**	**2,888,109**
Equity			
Contributed equity	4.4	1,246,918	1,246,918
Reserves	4.4	126,769	(39,470)
Retained earnings		1,947,182	1,680,661
Total equity		**3,320,869**	**2,888,109**

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Note	2022 ($000's)	2021 ($000's)
Cash flow from operating activities			
Receipts from customers		7,968,613	6,586,311
Payments to suppliers and employees		(7,539,222)	(6,022,709)
Interest received		537	2,584
Finance costs paid		(42,143)	(75,276)
Interest repayments on leases		(21,689)	(19,720)
Income tax paid		(144,310)	(119,274)
Net cash from operating activities	3.1(a)	**221,786**	**351,916**
Cash flow from investing activities			
Purchase of property, plant, and equipment		(184,232)	(69,608)
Proceeds from sale of property, plant, and equipment		12,180	16,967
Payment for intangible assets		(15,874)	(3,031)
Purchase of controlled entities and investments, net of cash acquired		(93,055)	(12,248)
Net cash used in investing activities		**(280,981)**	**(67,920)**
Cash flow from financing activities			
Proceeds from borrowings		1,076,620	-
Repayments of borrowings		(1,418,388)	(276,365)
Dividends paid	4.5	(125,966)	(77,518)
Payment of lease liabilities		(106,928)	(88,526)
Net cash used in financing activities		**(574,662)**	**(442,409)**
Net decrease in cash and cash equivalents		(633,857)	(158,413)
Net foreign exchange translation difference		25,374	(17,329)
Cash and cash equivalents at the beginning of the year		828,966	1,004,708
Cash and cash equivalents at the end of the year	3.1	**220,483**	**828,966**

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

	Note	Contributed equity ($000's)	Reserves ($000's)	Retained earnings ($000's)	Total equity ($000's)
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		**-**	**(70,470)**	**285,595**	**215,125**
Transactions with owners in their capacity as owners:					
Share-based payments	6.2	-	616	-	616
Dividends paid	4.5	-	-	(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**
Balance as at 1 July 2021		**1,246,918**	**(39,470)**	**1,680,661**	**2,888,109**
Net profit for the year		-	-	392,487	392,487
Exchange differences on translation of foreign operations, net of tax		-	137,811	-	137,811
Change in fair value of effective cash flow hedges, net of tax		-	26,851	-	26,851
Total comprehensive income for the year, net of tax		**-**	**164,662**	**392,487**	**557,149**
Transactions with owners in their capacity as owners:					
Share-based payments	6.2	-	1,577	-	1,577
Dividends paid	4.5	-	-	(125,966)	(125,966)
Total transactions with owners in their capacity as owners		**-**	**1,577**	**(125,966)**	**(124,389)**
Balance as at 30 June 2022		**1,246,918**	**126,769**	**1,947,182**	**3,320,869**

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 2022 was authorised for issue in accordance with a resolution of the directors on 23 August 2022.

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 2021. Refer to note 6.4 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 6.4.

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	Recoverability of deferred tax assets and US inventory tax adjustment
3.2	Impairment of trade receivables
3.3	Valuation of inventories
3.4	Lease term
3.5	Impairment of property, plant & equipment
3.6	Impairment of non-financial assets

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 5.1.

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.

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 information on 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. ***Group:*** explains the Group structure and how changes may have affected the financial position or performance of the Group; and
6. ***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.

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	
	2022 ($000's)	**2021 ($000's)**	**2022 ($000's)**	**2021 ($000's)**	**2022 ($000's)**	**2021 ($000's)**
Revenue from sale of goods	3,518,308	3,153,799	4,135,739	3,116,907	7,654,047	6,270,706
Government grant BAC income[2]	21,560	711	-	-	21,560	711
Normalised EBITDA[1]	526,247	501,692	312,039	218,598	838,286	720,290
Expenses						
Depreciation	(123,160)	(116,780)	(81,553)	(67,530)	(204,713)	(184,310)
Amortisation	(5,518)	(3,594)	(48,000)	(39,642)	(53,518)	(43,236)
Business acquisition costs	-	-	(1,851)	(172)	(1,851)	(172)
Finance costs (net)	(20,740)	(74,237)	(48,063)	(38,052)	(68,803)	(112,289)
Segment profit before tax	376,829	307,081	132,572	73,202	509,401	380,283
Income tax expense	(111,613)	(87,773)	(5,301)	(6,915)	(116,914)	(94,688)
Segment profit after tax	**265,216**	**219,308**	**127,271**	**66,287**	**392,487**	**285,595**
Current assets	1,379,128	1,740,985	1,743,988	1,271,164	3,123,116	3,012,149
Non-current assets	1,323,661	1,199,803	2,160,797	1,906,117	3,484,458	3,105,920
Total assets	**2,702,789**	**2,940,788**	**3,904,785**	**3,177,281**	**6,607,574**	**6,118,069**
Total liabilities	**1,195,103**	**1,529,140**	**2,091,602**	**1,700,820**	**3,286,705**	**3,229,960**

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

2. Boosting Apprenticeship Commencements (BAC) income. Refer to note 2.2 for further information.

Notes

For the year ended 30 June 2022

2.2 Revenue

	2022 ($000's)	2021 ($000's)
Revenue from contracts with customers		
Revenue from sale of goods	7,654,047	6,270,706
Other revenue		
Gain on disposal of property, plant and equipment and other assets	6,149	842
Gain on compulsory sale of freehold land and buildings	-	7,162
Bad debts recovered	242	514
Government grant BAC income	21,560	711
Other income	3,411	2,587
	31,362	**11,816**
Total revenue	**7,685,409**	**6,282,522**

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.

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

Other revenue

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

During the year Reece Australia Pty Ltd (a wholly owned subsidiary of the Group) received a wage subsidy for Boosting Apprenticeship Commencements (BAC) supporting businesses and Group Training Organisations to take on new apprenticeships and trainees, to build a pipeline of skilled workers to support sustained economic recovery.

Government grants are only recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received.

2.3 Expenses

	2022 ($000's)	2021 ($000's)
Cost of sales	5,515,083	4,509,176
Employee benefits expenses	871,038	735,663
Depreciation	204,713	184,310
Amortisation	53,518	43,236
Finance costs		
Unrealised foreign currency (gain)/loss on financial assets	6,484	24,483
Realised foreign currency (gain)/loss on financial assets	(6,037)	(2,588)
Interest (income)/expense on debt and borrowings	46,667	70,674
Interest expense on lease liabilities	21,689	19,720
Total finance costs (net)	**68,803**	**112,289**

The major expenses forming part of the Consolidated Statement of Profit or Loss and Other Comprehensive Income are set out in the table above.

2.4 Earnings per share

	2022 ($000's)	2021 ($000's)
Earnings used in calculating basic and diluted earnings per share	392,487	285,595
	(000's)	**(000's)**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	645,984	645,984
	Cents	**Cents**
The earnings per share has been calculated on the weighted average of share capital during the year	61 cents	44 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.

2.5 Income tax

	2022 ($000's)	2021 ($000's)
The components of tax expense:		
Current tax	146,531	135,343
Adjustments for current tax from prior periods	(1,058)	(10,351)
Deferred tax	(28,559)	(30,304)
Income tax expense reported in the statement of profit or loss	**116,914**	**94,688**

Reconciliation of tax expense and accounting profit		
Statutory net profit before tax	509,401	380,283
At Australia's statutory income tax rate of 30% (2021: 30%)	152,820	114,085
US inventory adjustment for LIFO	(27,570)	(14,832)
Adjustments for current tax from prior periods	(1,058)	(10,351)
Effect of non-assessable income and non-deductible expenses for tax purposes	(3,284)	8,089
Difference in geographical tax rates	(3,994)	(2,303)
At the effective income tax rate of 23% (2021: 25%)	**116,914**	**94,688**

The major components of income tax expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income are set out in the table above.

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 2022 or 2021 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 2022 (2021: 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.

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.

Key judgement – Recoverability of deferred tax assets

Future 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.

Key judgement – US inventory tax adjustment

For local US taxation purposes, the US segment values inventories using the last-in, first-out ('LIFO') method. Judgement is required in the determination of indices used for evaluating price level changes applied to the inventory on hand. With the assistance of Management's expert, an annual LIFO assessment is prepared for US GAAP reporting and tax purposes, in line with the IRS conformity rule (Treas. Reg. 1.472-2(e)).

Inventories are recognised in accordance with International Financial Reporting Standards. Refer to note 3.3 for the accounting policy. The Group recognises the tax impact resulting from the LIFO adjustment as a component of income tax expense.

2.5 Income tax (cont.)

	2022 ($000's)	2021 ($000's)
Deferred tax assets / (liabilities)		
Employee benefits	44,446	33,846
Depreciation of buildings and right-of-use assets	6,839	10,563
Losses available for offset against future taxable income	2,315	333
Net loss on hedge of the net investment	-	(1,946)
Provisions	10,687	6,276
Capital leases	8,446	7,335
Intangible assets	(65,923)	(68,091)
Other deferred tax assets	29,855	18,637
Other deferred tax liabilities	(2,418)	(1,265)
Total deferred tax assets / (liabilities)	**34,247**	**5,688**
Movement in deferred tax balance:		
Balance at beginning of year	5,688	(24,616)
Recognised in profit or loss statement	28,559	30,304
Deferred tax balance at end of the year	**34,247**	**5,688**
Reconciliation to the statement of financial position		
Deferred tax balance	34,247	5,688
Set off of DTL that are expected to reverse in a future period	29,625	47,983
Deferred tax asset	**63,872**	**53,671**
Current tax payable / (receivable)		
Balance at beginning of the year	(5,138)	(6,379)
Current tax	146,531	135,343
Tax instalments paid	(144,310)	(119,274)
Over provision in prior year	(1,058)	(10,351)
Other	2,323	(4,477)
Current tax payable / (receivable) at end of the year	**(1,652)**	**(5,138)**
Reconciliation to the statement of financial position		
Current tax receivable	(1,652)	(5,138)
Set off of prepaid tax that are expected to reverse in a future period	32,435	37,442
Current tax liability	**30,783**	**32,304**

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

	2022 ($000's)	2021 ($000's)
Cash on hand	338	321
Cash on deposit	220,145	828,645
	220,483	**828,966**

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.

	2022 ($000's)	2021 ($000's)
(a) Reconciliation of the net profit after tax to the net cash flows from operations:		
Profit for the period	**392,487**	**285,595**
Add / (less) non-cash items:		
Profit or loss on sale or disposal of non-current assets	(6,149)	(8,004)
Depreciation	204,713	184,310
Amortisation	53,518	43,236
Foreign exchange translation	(1,777)	(381)
Unrealised and realised foreign currency (gain)/loss on financial assets	447	21,895
Share based payment expense	1,577	616
Net cash flows from operations before change in assets and liabilities	**644,816**	**527,267**
Changes in assets and liabilities		
(Increase)/decrease in receivables	(256,094)	(165,021)
(Increase)/decrease in inventory	(319,091)	(206,291)
Increase /(decrease) in payables	163,388	214,967
Increase /(decrease) in provisions	14,461	5,745
Increase/(decrease) in income taxes payable	4,251	(2,414)
(Increase)/decrease in deferred tax assets	(10,306)	(3,867)
Increase/(decrease) in deferred tax liabilities	(19,639)	(18,470)
Net cash flow from operating activities	**221,786**	**351,916**

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

3.2 Trade and other receivables

	2022 ($000's)	2021 ($000's)
Trade receivables	1,327,673	992,041
Less: Allowance for expected credit losses	(32,596)	(11,075)
	1,295,077	**980,966**
Other receivables	49,384	44,253
Prepayments	23,042	18,818
Total trade and other receivables	**1,367,503**	**1,044,037**

Allowance for expected credit losses		
Opening balance at 1 July	(11,075)	(9,309)
Movement in allowance for expected credit losses	(21,521)	(1,766)
Closing balance as at 30 June	**(32,596)**	**(11,075)**

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.

Key judgement – Impairment of trade receivables

Due to economic and operational factors including price inflation, increased interest rates and supply-chain constraints, the Group acknowledges a level of uncertainty in industries in which our customers operate. The Group has had regard to actual and forecast cash collection and delinquency trends, and other relevant factors informed by experience and allowing for the existence of credit insurance arrangements in assessing the allowance. Following the assessment, the Group's allowance for expected credit losses increased in FY22. The Group has no significant concentrations of credit risk, the trade receivables balance is spread across a large number of different customers.

3.3 Inventories

	2022 ($000's)	2021 ($000's)
Finished goods, at lower of cost and net realisable value	1,587,909	1,166,147
Less: Allowance for slow moving or obsolete inventory	(59,498)	(28,030)
	1,528,411	**1,138,117**

Allowance for slow moving or obsolete inventory		
Opening balance at 1 July	(28,030)	(19,302)
Movement in allowance for slow moving or obsolete inventory	(31,468)	(8,728)
Closing balance as at 30 June	**(59,498)**	**(28,030)**

Recognition and measurement

Inventories are measured at the lower of cost and net realisable value, less an allowance for slow moving or obsolete inventory. Cost is based on the weighted average cost principle. The Group holds finished goods only, purchased from suppliers for the purpose of distribution to trade and retail customers. The majority of inventory held by the Group is of a similar nature such as pipes, valves and fittings.

Key judgement – Valuation of inventories

Due to elevated inventory levels and prevailing inflation, the provision for slow moving or obsolete inventory was increased in FY22.

An allowance is recognised for the value of inventory that may 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. This assessment requires consideration of the aging and condition of products on hand, level of inventory on hand, inventory turnover and current market conditions impacting inventory levels and pricing. In assessing the allowance, management also takes into consideration the Group's business strategy with respect to maintaining adequate inventory to meet market demand.

3.4 Leases

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

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 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 & other 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.

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 FY22 was $14.8m (2021: $11.7m).

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.

3.4 Leases (cont.)

Right-of-use (ROU) assets

Reconciliations of the carrying amounts of ROU assets at the beginning and end of the current financial year.

	2022 ($000's)	2021 ($000's)
Property		
Carrying amount at beginning of year	608,474	660,445
Additions	155,086	56,851
Reassessments	53,029	25,000
Disposals	(12,739)	(15,971)
Depreciation	(107,549)	(98,130)
Net foreign exchange impact	25,710	(19,721)
Carrying amount at end of year	**722,011**	**608,474**
Motor vehicles & other equipment		
Carrying amount at beginning of year	24,578	27,963
Additions	30,504	21,223
Reassessments	6	(7,282)
Disposals	(2,166)	(13,613)
Depreciation	(13,447)	(1,898)
Net foreign exchange impact	2,029	(1,815)
Carrying amount at end of year	**41,504**	**24,578**
Total ROU assets		
Carrying amount at beginning of year	633,052	688,408
Additions	185,590	78,074
Reassessments	53,035	17,718
Disposals	(14,905)	(29,584)
Depreciation	(120,996)	(100,028)
Net foreign exchange impact	27,739	(21,536)
Total carrying amount at end of year	**763,515**	**633,052**

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.

Notes

For the year ended 30 June 2022

3.4 Leases (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.

Non-cancellable lease commitments

The Group has various lease commitments entered into before 30 June 2022, that have not yet commenced as at 30 June 2022. The future lease payments for these non-cancellable lease contracts are $1.9m (2021: $6.1m) within one year, $8.3m (2021: $24.3m) between one and five years and $25.7m (2021: $51.4m) thereafter.

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:

	2022	2021
Buildings	25 years	25 years
Fixtures, fittings & 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 – impairment of property, plant and equipment

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.

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.

	2022 ($000's)	2021 ($000's)
Freehold land		
Carrying amount at beginning of year	171,925	172,820
Additions	42,473	3,269
Disposals	(51)	(1,952)
Net foreign currency exchange movements	3,330	(2,212)
Carrying amount at end of year	**217,677**	**171,925**
Buildings		
Carrying amount at beginning of year	82,832	85,403
Additions	14,688	4,666
Disposals	(346)	(731)
Depreciation	(6,571)	(5,889)
Net foreign currency exchange movements	501	(617)
Carrying amount at end of year	**91,104**	**82,832**
Fixtures, fittings & equipment		
Carrying amount at beginning of year	296,713	309,791
Additions through business combinations	129	-
Additions	107,117	60,599
Disposals	(2,561)	(3,088)
Depreciation	(59,665)	(61,124)
Net foreign currency exchange movements	4,537	(9,465)
Carrying amount at end of year	**346,270**	**296,713**
Motor vehicles		
Carrying amount at beginning of year	72,629	87,200
Additions through business combinations	68	5
Additions	19,954	5,115
Disposals	(3,073)	(4,524)
Depreciation	(17,481)	(17,269)
Net foreign currency exchange movements	2,257	2,102
Carrying amount at end of year	**74,354**	**72,629**
Total property, plant and equipment		
Carrying amount at beginning of year	624,099	655,214
Additions through business combinations	197	5
Additions	184,232	73,649
Disposals	(6,031)	(10,295)
Depreciation	(83,717)	(84,282)
Net foreign currency exchange movements	10,625	(10,192)
Total carrying amount at end of year	**729,405**	**624,099**

In 2022, there was a gain on disposal of property, plant, and equipment of $6.1m (2021: $8.0m).

3.6 Goodwill and intangible assets

Reconciliations of the carrying amounts of goodwill and intangible assets at the beginning and end of the current financial year.

	2022 ($000's)	2021 ($000's)
Goodwill		
Carrying amount at beginning of year	1,362,238	1,475,711
Additions through business combinations	5,147	-
Additions	-	1,101
Net foreign currency exchange movements	109,858	(114,574)
Carrying amount at end of year	**1,477,243**	**1,362,238**
Brand names		
Carrying amount at beginning of year	49,800	49,800
Carrying amount at end of year	**49,800**	**49,800**
Customer contracts and relationships		
Carrying amount at beginning of year	314,756	371,440
Additions through business combinations	8,274	-
Additions	9,044	1,930
Amortisation	(29,231)	(28,047)
Net foreign currency exchange movements	27,382	(30,567)
Carrying amount at end of year	**330,225**	**314,756**
Trade names		
Carrying amount at beginning of year	27,358	41,105
Additions through business combinations	413	-
Additions	1,395	-
Amortisation	(15,411)	(10,544)
Net foreign currency exchange movements	1,428	(3,203)
Carrying amount at end of year	**15,183**	**27,358**
Software		
Carrying amount at beginning of year	-	-
Additions	15,874	-
Amortisation	(2,247)	-
Carrying amount at end of year	**13,627**	**-**
Other intangible assets		
Carrying amount at beginning of year	26,478	32,886
Amortisation	(6,629)	(4,645)
Net foreign currency exchange movements	413	(1,763)
Carrying amount at end of year	**20,262**	**26,478**
Total intangible assets		
Carrying amount at beginning of year	1,780,630	1,970,942
Additions through business combinations	13,834	-
Additions	26,313	3,031
Amortisation	(53,518)	(43,236)
Net foreign currency exchange movements	139,081	(150,107)
Total carrying amount at end of year	**1,906,340**	**1,780,630**

3.6 Goodwill and intangible assets (cont.)

Intangible assets with indefinite lives 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.

Summary of useful lives:

	2022	2021
Goodwill	Indefinite	Indefinite
Brand names	Indefinite	Indefinite
Customer contracts and relationships	10 – 16 years	10 – 16 years
Trade names	3 – 20 years	5 – 20 years
License	10 years	10 years
Software	3 – 5 years	N/A

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	
	2022 ($000's)	2021 ($000's)	2022 ($000's)	2021 ($000's)
MORSCO Inc ('Reece US')	1,316,535	1,201,319	-	-
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	12,433	12,644	500	500
	1,477,243	**1,362,238**	**49,800**	**49,800**

The Group performed its annual impairment test applying the following assumptions:

	Terminal growth rate		Discount rate (pre-tax)	
	2022 %	2021 %	2022 %	2021 %
MORSCO Inc ('Reece US')	2.5	2.5	10.7	9.1
Actrol Parts Pty Ltd ('Actrol')	2.5	2.5	11.9	11.4
A.C. Components Pty Ltd ('Metalflex')	2.5	2.5	12.0	11.5

The recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial budgets prepared by senior management. The projected cash flows have been updated to reflect current economic forecasts and business growth opportunities.

3.6 Goodwill and intangible assets (cont.)

Impairment of non-financial assets

Key estimate and judgement – assumptions for impairment testing

On an annual basis management develops a 3-year business plan which is used to underpin the assumptions in the impairment testing. Assumptions from the third year of the 3-year business plan are held consistent for 2 additional years to allow management to perform impairment testing on a 5-year forecast. Management has referenced current economic data for the building and construction industry, and it's experience to date to reflect the estimated impact of market conditions in the forecasting period for each CGU as part of the Group's FY22 impairment testing. Business plans have regard to the ongoing impacts of COVID-19 and other market-specific economic factors impacting the business including inflation, rising interest rates and supply chain constraints.

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

– Gross margins
– Discount rates
– Terminal growth rates

Gross margins – gross margins are based on average values achieved in the last twelve months. Reece US reflects a strategic investment over the next couple of years, with modest gross margin increases in later forecast years. Gross margins have been maintained in the current and prior year notwithstanding challenging market conditions due to COVID-19 and other macro-economic factors.

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 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 Reece US and Metalflex. The discount rate would need to change by 29 basis points before the recoverable amount of Reece US would be equal to the carrying amount. The discount rate would need to change by 18 basis points before the recoverable amount of Metalflex would be equal to the carrying amount.

The terminal growth rate would need to change by 52 basis points before the recoverable amount of Reece US would be equal to the carrying amount. The terminal growth rate would need to change by 34 basis points before the recoverable amount of Metalflex would be equal to the carrying amount.

3.7 Trade and other payables

	2022 ($000's)	2021 ($000's)
Current		
Trade payables	853,972	688,327
Other payables and accruals	362,003	295,697
	1,215,975	**984,024**
Non-current	8,011	14,886

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

3.8 Provisions

	Employee benefits ($000's)	Warranty ($000's)	Other ($000's)	Total ($000's)
As at 1 July 2021	79,001	1,443	1,212	81,656
Provided/(utilised)	16,095	(3)	183	16,276
As at 30 June 2022	**95,096**	**1,440**	**1,395**	**97,932**
Current	90,372	1,440	1,395	93,208
Non-current	4,724	-	-	4,724

Provisions

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.

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.

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 FY22, the Group paid dividends of $126m (2021: $77.5m).

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 with the Group's strategic direction.

4.1 Interest-bearing liabilities

	2022 ($000's)	2021 ($000's)
Loan – current	-	16,443
Loan – non-current	1,090,088	1,319,173
Total interest-bearing liabilities	**1,090,088**	**1,335,616**

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.

In December 2021, the Group successfully refinanced the USD Term Loan B debt facilities with a $1,250 million unsecured syndicated multi-currency revolving facility, which was further extended in March 2022 to $1,400 million. The new facilities provide Reece with a diversity of maturity dates and flexibility to be drawn in either Australian or US dollars. The facilities are dependent upon compliance with maintenance covenants of ≤3.5x Net Leverage Ratio and ≥2.5x Interest Coverage Ratio which are assessed and reported at each reporting date. The syndicated facility includes 3 components, displayed in the following table:

Facility	Term	Drawn USD ($000's)	Drawn AUD ($000's)	Total drawn AUD ($000's)	Limit AUD ($000's)	Ancillary facilities AUD ($000's)	Maturity date
A	Three year revolving credit facility	-	-	-	114,025	35,975	16 December 2024
B	Four year revolving credit facility	105,000	130,000	282,417	350,000	-	16 December 2025
C	Five year revolving cash advance facility	558,000	-	809,987	900,000	-	16 December 2026

4.2 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.

4.2 Financial risk management (cont.)

Financial liabilities

		1 year or less ($000's)	1 to 2 years ($000's)	2 to 5 years ($000's)	More than 5 years ($000's)	Non-interest bearing ($000's)	Carrying amount ($000's)	Weighted average effective interest rate %
Interest-bearing liabilities	**2022**	-	-	1,090,088	-	-	1,090,088	4.75
	2021	-	-	1,335,616	-	-	1,335,616	4.39
Trade payables	**2022**	-	-	-	-	1,215,975	1,215,975	-
	2021	-	-	-	-	984,024	984,024	-
Long-term payables	**2022**	-	-	-	-	8,011	8,011	-
	2021	-	-	-	-	14,886	14,886	-
Derivatives related to net debt [1]	**2022**	-	-	-	-	-	-	-
	2021	12,658	9,906	-	-	-	21,762	-
Lease liabilities [2]	**2022**	138,587	134,503	320,783	324,017	-	812,840	2.87
	2021	113,036	108,614	284,418	252,452	-	670,255	3.02
Deferred consideration	**2022**	1,451	-	-	-	-	1,451	3.00
	2021	41,474	-	-	-	-	41,474	1.75
Total financial liabilities	**2022**	**140,038**	**134,503**	**1,410,871**	**324,017**	**1,223,986**	**3,128,365**	
	2021	167,168	118,520	1,620,034	252,452	998,910	3,068,017	

1. Contractual cash flows for 2022 were $Nil (2021: $22,564,000).
2. Contractual cash flows for 2022 lease liabilities were $917,890,000 (2021: $670,255,000).

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 $139,718,963 (2021: $55,256,264).

4.2 Financial risk management (cont.)

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

Settlement	Sell Australian dollars		Average exchange rate	
	2022 ($000's)	2021 ($000's)	2022 $	2021 $
Buy United States Dollars				
Less than 6 months	98,109	33,469	0.74	0.77
Buy Euros				
Less than 6 months	34,996	19,482	0.66	0.64
6 months to 1 year	1,463	-		
Buy Japanese Yen				
Less than 6 months	4,349	2,306	87.37	84.57
6 months to 1 year	801	-	-	-

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 $9.3m (2021: $5.1m). 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 $11.4m (2021: $6.3m).

Cross currency interest rate swaps (CCIRS)

In the previous year, the Group was exposed to foreign currency risk from interest-bearing liabilities denominated in United States Dollars (USD). A portion of these interest-bearing liabilities were hedged using cross currency interest rate swaps. The Group took up the option to early terminate the CCIRS during FY22. There were no cross-currency interest rate swaps outstanding at the end of the reporting period (2021: $455,000,000 outstanding at an average contracted fixed interest rate of 5.19% for less than one year, with a fair value of $985,000).

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.

Interest rate risk also arises from short-term cash deposits. During 2022 and 2021, 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 2022, if interest rates increased by 1% from the year-end rates, with all other variables held constant, the effect on post-tax profit for the year would have been an unfavourable impact of $7.7m. If interest rates decreased by 1% from the year-end rates, with all other variables held constant, the effect on post-tax profit for the year would have been a favourable impact of $7.7m.

Interest rate swaps (IRS)

The Group previously entered 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. There were no interest rate swaps outstanding at the end of the reporting period (2021: $296,000,000 outstanding at an average contracted fixed interest rate of 5.01% for less than one year, with a fair value of $10,965,000; and $296,000,000 outstanding at an average contracted fixed interest rate of 5.01% for 1 to 2 years, with a fair value of $9,812,000).

4.2 Financial risk management (cont.)

Changes in liabilities arising from financing activities

	1 July 2021	Cash flows		Foreign exchange movement	New leases, reassessments and disposals	30 June 2022
	($000's)	Proceeds ($000's)	Repayments ($000's)	($000's)	($000's)	($000's)
Interest-bearing liabilities	1,335,616	1,076,620	(1,418,388)	98,556	-	1,092,404
Lease liabilities [1]	670,255	-	(106,928)	29,342	220,171	812,840
Total liabilities from financing activities	**2,005,871**	**1,076,620**	**(1,525,316)**	**127,898**	**220,171**	**1,905,244**

	1 July 2020	Cash flows		Foreign exchange movement	New leases, reassessments and disposals	30 June 2021
	($000's)	Proceeds ($000's)	Repayments ($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] Repayments for lease liabilities are presented net of interest expense.

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

In December 2021, the Group successfully refinanced the USD Term Loan B debt facilities with a $1,250 million syndicated multi-currency revolving facility, which was further extended in March 2022 to $1,400 million. Maintenance covenants for the syndicated multi-currency revolving facilities include ≤ 3.5x Net Leverage Ratio and ≥ 2.5 Interest Coverage Ratio. Refer to Note 4.1 for further information.

4.2 Financial risk management (cont.)

Total facilities available and unused at 30 June 2022

		2022 ($000's)	2021 ($000's)
Syndicated revolving credit facility – Facility A	facility	114,025	-
	unused	114,025	-
Syndicated revolving credit facility – Facility B	facility	350,000	-
	unused	67,583	-
Syndicated revolving cash advance facility – Facility C	facility	900,000	-
	unused	90,013	-
Senior secured Term Loan B	facility	-	1,335,616
	unused	-	-
Bank overdraft	facility	902	931
	unused	902	931
Syndicated revolver	facility	-	199,521
	unused	-	199,521
Bank guarantees	facility	20,000	28,647
	unused	5,421	11,624
Trade refinance & documentary letters of credit/surrenders	facility	13,523	8,393
	unused	7,976	2,333
Credit cards	facility	9,806	9,456
	unused	7,936	8,404
Other ancillary facilities	facility	5,975	-
	unused	5,975	-
Total	**facility**	**1,414,231**	**1,582,564**
	unused	**299,831**	**222,813**

4.2 Financial risk management (cont.)

Hedge accounting

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.

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

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 cost line item. 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 2022, USD borrowings of US$663m were designated as a net investment in foreign operations (2021: US$5.8m).

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

			Cash flow hedges	Net investment hedge
30 June 2022	**USD FECs ($000's)**	**EUR FECs ($000's)**	**JPY FECs ($000's)**	**USD Debt ($000's)**
Notional amount	90,530	38,019	5,150	962,404
Carrying amount of the hedging instrument				
- Assets	6,760	272	-	-
- Liabilities	-	-	(313)	(962,404)
Total carrying amount of the hedging instrument	**6,760**	**272**	**(313)**	**(962,404)**
Change in value of hedging instrument	5,932	112	(353)	34,583
Change in value of hedged item	(5,932)	(112)	353	(34,583)
Change in value of the hedging instrument recognised in reserve[i]	5,932	112	(353)	34,583

[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.

4.3 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 2022 and 30 June 2021, 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 2022		30 June 2021	
	Current ($000's)	**Non-current ($000's)**	**Current ($000's)**	**Non-current ($000's)**
Financial assets				
Cash	220,483	-	828,966	-
Trade and other receivables	1,367,503	-	1,044,037	-
Derivative financial instruments assets				
- Forward foreign exchange contracts	6,719	-	1,029	-
Total financial instruments assets at fair value	**1,594,705**	**-**	**1,874,032**	**-**
Financial liabilities				
Trade and other payables	1,215,975	8,011	984,024	14,886
Borrowings	-	1,090,088	16,443	1,319,173
Lease liabilities	118,644	694,196	95,934	574,321
Derivative financial instruments liabilities				
- Interest rate swap contracts	-	-	10,965	9,812
- Cross currency swap contracts	-	-	985	-
Total financial instruments liabilities at fair value	**1,334,619**	**1,792,295**	**1,108,351**	**1,918,192**

4.4 Contributed equity and reserves

	2022 ($000's)	**2021 ($000's)**
Issued and paid up capital		
Ordinary shares fully paid: 645,984,181 (2021: 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.

4.4 Contributed equity and reserves (cont.)

	2022 ($000's)	2021 ($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)	114,662	(23,149)
Cash flow hedge reserve	6,719	(20,132)
Share-based payment reserve	2,385	808
Total reserves	**126,769**	**(39,470)**

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.

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 6.2 for further details of these plans.

4.5 Dividends paid and proposed

	2022 ($000's)	2021 ($000's)
Dividends paid during the reporting period:		
Final dividend of 12 cents per share fully franked for the year ended 30 June 2021 (June 2020: 6 cents per share fully franked) paid 27 October 2021 (2020: 28 October 2020)	77,518	38,759
Interim dividend of 7.5 cents per share fully franked for the year ended 30 June 2022 (June 2021: 6 cents per share fully franked) paid 12 April 2022 (2021: 15 April 2021)	48,448	38,759
Dividends paid	**125,966**	**77,518**
Dividends declared after the reporting period and not recognised:		
Final dividend of 15 cents per share fully franked for the year ended 30 June 2022 (June 2021: 12 cents per share fully franked) to be paid 26 October 2022 (2021: 27 October 2021)	96,898	77,518
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.	750,762	671,771
Impact on the franking account of dividends recommended by the directors since the year end but not recognised as a liability at year end.	(41,528)	(33,222)
	709,234	**638,549**

5. Group

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

5.1 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 2022 were incorporated in Australia and are wholly-owned unless stated otherwise.

Name of entity	Country of Incorporation	Ownership percentage 2022 %	Ownership percentage 2021 %
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%	100%
20. Hamilton HoldCo, LLC	Delaware (United States)	100%	100%
21. Patriot Supply Holdings LLC	Delaware (United States)	100%	100%
22. Patriot Supply Intermediate, Inc	Delaware (United States)	100%	100%
23. MORSCO Inc	Delaware (United States)	100%	100%
24. MORSCO Supply LLC	Texas (United States)	100%	100%
25. Fortline LLC	North Carolina (United States)	100%	100%
26. Fortline Inc	South Carolina (United States)	100%	100%
27. MORSCO Properties LLC	South Carolina (United States)	100%	-
28. MORSCO Properties OK LLC	Oklahoma (United States)	100%	-
29. Reece Mexico 1 Inc	Delaware (United States)	100%	-
30. Reece Mexico 99 Inc	Delaware (United States)	100%	-
31. Todd Pipe Holdings, Inc	California (United States)	-	100%
32. Todd Pipe & Supply, LLC	California (United States)	-	100%
33. LegendMRO, LLC	California (United States)	-	100%

(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 33 carry out business in the United States of America only
(v) All corporations' financial years end on 30 June
(vi) Entities 31 to 33 were dissolved in January 2022

5.1 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 Reece US 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 Reece US are relieved from the Corporations Act requirement to prepare a financial report and directors' 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:

	2022 ($000's)	2021 ($000's)
Revenue		
Revenue	3,371,499	3,017,313
Other revenue	33,525	18,159
	3,405,024	**3,035,472**
Cost of sales	(2,282,884)	(2,043,519)
Selling and administrative expenses	(726,049)	(616,414)
Earnings before interest and tax	**396,091**	**375,539**
Finance costs (net)	(20,086)	(73,696)
Profit before income tax expense	**376,005**	**301,843**
Income tax expense	(111,855)	(86,127)
Net profit for the year	**264,150**	**215,716**
Other Comprehensive Income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign debt, net of tax	(47,490)	7,417
Change in fair value of effective cash flows, net of tax	6,074	43,987
Total comprehensive income	**222,734**	**267,120**
Basic earnings per share	**41 cents**	**33 cents**
Diluted earnings per share	**41 cents**	**33 cents**
Movements in Retained Earnings		
Retained earnings at the beginning of the financial year	1,549,821	1,411,623
Profit for the year	264,150	215,716
Dividends paid	(125,966)	(77,518)
Retained Earnings at end of financial year	**1,688,005**	**1,549,821**

Notes

For the year ended 30 June 2022

5.1 Subsidiaries (cont.)

Deed of Cross Guarantee (cont.)

	2022 ($000's)	2021 ($000's)
Current assets		
Cash and cash equivalents	118,074	662,969
Receivables	462,545	409,207
Inventories	723,019	600,616
Derivative financial instruments	6,719	1,029
Total current assets	**1,310,357**	**1,673,821**
Non-current assets		
Investments and receivables	2,397,646	1,474,116
Property, plant, and equipment	557,562	511,216
Right-of-use assets	383,717	332,771
Intangible assets	243,942	239,011
Deferred tax assets	60,884	52,533
Total non-current assets	**3,643,751**	**2,609,647**
Total assets	**4,954,108**	**4,283,468**
Current liabilities		
Payables	451,475	410,189
Lease liabilities	59,996	52,243
Current tax payable	19,973	31,240
Interest-bearing liabilities	-	16,443
Provisions	78,046	72,499
Derivative financial instruments	-	985
Total current liabilities	**609,490**	**583,599**
Non-current liabilities		
Long-term payable	760	781
Lease liabilities	348,047	299,121
Interest-bearing liabilities	1,090,088	594,246
Deferred tax liabilities	29	1,975
Provisions	4,715	4,954
Total non-current liabilities	**1,443,639**	**901,077**
Total liabilities	**2,053,129**	**1,484,676**
Net assets	**2,900,979**	**2,798,792**
Equity		
Contributed equity	1,246,918	1,246,918
Reserves	(33,944)	2,053
Retained earnings	1,688,005	1,549,821
Total equity	**2,900,979**	**2,798,792**

Parent Entity Note

Reece Limited	2022 ($000's)	2021 ($000's)
Summarised statement of financial position		
Assets		
Current assets	-	380,000
Non-current assets	1,833,572	1,453,214
Total assets	**1,833,572**	**1,833,214**
Liabilities		
Current liabilities	588,739	589,959
Non-current liabilities	-	-
Total liabilities	**588,739**	**589,959**
Net assets	**1,244,833**	**1,243,255**
Equity		
Contributed equity	1,246,918	1,246,918
Retained earnings	(4,507)	(4,507)
Reserves	2,422	844
Total equity	**1,244,833**	**1,243,255**
Summarised statement of comprehensive income		
Profit for the year	125,966	78,951
Total comprehensive income for the year	**125,966**	**78,951**
Parent entity guarantees		
Bank overdraft	902	931
Secured term loan b	-	1,335,616
Syndicated revolver	-	199,521
Syndicated revolving facilities	1,400,000	-

5.2 Business combinations

There have been no material business combinations in FY22.

6. Other Disclosures

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

6.1 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 2022, the Group has not recognised a provision for expected credit losses relating to amounts owed by related parties (2021: $nil).

True Pillars Pty Ltd, at 40.1% ownership, and Fieldpulse Pty Ltd, 26.1% ownership, were both Associates of Reece Limited in the current year (2021: 20.2% ownership and 26.1% ownership respectively). There have been no material contributions to net profit during the year. Reece Limited invested an additional $2.5m equity in its Associate True Pillars Pty Ltd in FY22.

During the current financial year The Creative Plane Pty Ltd (a wholly owned subsidiary of Reece Limited) invested $2.5m in pooled units in a registered managed investment scheme – TruePillars Investment Trust (a wholly owned subsidiary of True Pillars Pty Ltd). The pooled units have a maturity date of 1 June 2023 and a target return of 6.1% per annum. This transaction was made on an arm's length basis.

In FY22, The Reece Foundation, an independent charity in Australia with DGR status, was launched. During the current financial year, Reece Limited paid $1,271,838 donations to The Reece Foundation (2021: $Nil) of which $38,305 was owing at year end.

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 and A.W. Wilson. Key Management Personnel included G.W. Street, M. Vermeulen, S. Nikolic, C.A.S. Hornsby and A. Cowlishaw.

Employee benefits of $15,915,073 (2021: $13,807,129) and superannuation benefits of $190,887 (2021: $179,295) were made to the Directors and other Key Management Personnel. Refer to the Remuneration Report for further detail.

Transactions with Directors related parties

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 $5,517,385 (2021: $4,893,419) of which $556,492 (2021: $446,297) 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 $317,673 (2021: $234,542, note the 2021 period included COVID-19 rental concessions).

6.2 Share-based payments

Employee performance rights plan

During FY22 executives received performance rights under the Reece Limited Long-Term Incentive 2021 plan. This Plan replaced the previous Plan under which share options were granted to executives. The 2021 plan was established by the Board and the first grant under the Plan was approved by shareholders at the Annual General Meeting on 30 October 2021. The plan is designed to provide long-term incentives for employees to deliver long-term shareholder returns.

Under the 2021 plan, participants were granted performance rights where the number of rights granted is determined using a 'face value' calculation. The share price used in the face value calculation is the volume weighted average price (VWAP) during the 20-day period immediately after the issue of the most recent annual results. The performance rights have a four-year vesting period with an EPS CAGR hurdle.

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 performance rights issued represent the employee's right to acquire an ordinary share upon satisfaction of the performance criteria once the vesting period of four years is reached. The performance rights granted under the plan are for no consideration and carry no voting rights.

There were 245,534 performance rights granted under the performance rights plan in FY22. No rights or options have been exercised, vested, or expired during the period. Mr G.W. Street's options were forfeited during the period.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions during the period as part of employee benefit expense was $1,577,328 (2021: $616,052).

6.2 Share-based payments (cont.)

Fair value of options/rights granted

	Award	Grant date	Exercise price	Number of options/rights	Fair value per option/right at grant date	Fair value at grant date
Group CEO	FY22 rights	28 October 2021	$Nil	129,838	$18.01	$2,338,382
	FY21 options	29 October 2020	$14.46	267,588	$5.97	$1,597,500
	FY20 options	30 October 2019	$10.06	304,286	$4.20	$1,278,001
Senior executives	FY22 rights	28 October 2021	$Nil	115,696	$18.01	$2,083,685
	FY21 options	29 April 2021	$13.07	266,069	$8.10	$2,155,159

In accordance with AASB 2 *Share-based payments*, the service-based 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 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.

The fair value at grant date of the options granted during the year was determined using conventional Black Scholes Model. The inputs for the performance rights granted during the year ended 30 June 2022 included:

	FY22 Group CEO and Executive grant
Exercise price	$Nil
Grant date	28 October 2021
Vesting date	1 July 2025
Expiry date	27 October 2036
Share price at grant date	$18.83
Expected price volatility of the company's shares	30.0%
Expected dividend yield	1.21%
Risk-free interest rate	1.29%

6.3 Auditor's remuneration

	2022 ($)	2021 ($)
Audit/review fees	1,545,587	1,458,919
Amounts paid and payable to KPMG for non-audit services:		
Other non-audit services – regulatory advisory services	38,375	11,385
	38,375	**11,385**

6.4 Other accounting polices

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 2021.

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: Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies

The amendments change the requirements in AASB 101 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in AASB 101 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The Group has elected to apply the amendments in the current reporting period.

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 for annual reporting periods beginning on or after 1 January 2023, and are applied retrospectively. This amendment will only affect the presentation of liabilities as current or non-current in the statement of financial position. The reported profit or loss and financial position is not expected to change on adoption of this amendment as it does not result in any changes to the Group's existing accounting policies.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

6.5 Subsequent events

There have been no matters or circumstances, which have arisen since 30 June 2022, that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2022, of the Group, or the results of those operations, or
- the state of affairs, in financial years subsequent to 30 June 2022, of the Group.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 55 to 90 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 2022 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 5.1 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 2022.

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

Dated at Melbourne on 23 August 2022.

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 2022 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 2022
- 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.

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Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Valuation of goodwill and intangible assets
- Valuation of inventory

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

These matters were 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 these matters.

Valuation of goodwill and intangible assets ($1.91bn)

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

The key audit matter	How the matter was addressed in our audit
A key audit matter was the Group's annual testing of goodwill and intangible assets given the size of the balance (being 29% of total assets) and estimation uncertainties associated with current economic and market conditions. The Group has a number of different business units which have significant goodwill recorded. The Group assesses the valuation of goodwill and intangible assets via detailed value in use discounted cash flow modelling, which contain a number of assumptions. We focused on the significant forward-looking assumptions the Group applied in the value in use models, including: • Forecast operating cash flows - market volatility and uncertainty arising from current economic conditions, and the uncertainty of their continuation, increases the risk of inaccurate cash flow forecasts and possible goodwill impairment. • 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 in assessing the reasonableness of these assumptions and in assessing consistency of application with the Group's strategy. • Discount rate - these are complex in	Working with our valuation specialists, our procedures included: • 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 current economic conditions 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

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nature and vary according to the specific 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.	forecast growth rates and terminal growth 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. • Analysing the 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.

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Valuation of inventory ($1.5 bn)	
Refer to Note 3.3 Inventories to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

The valuation of inventory is a key audit matter due to the size of the inventory balance (being 23% of total assets), and the judgement involved in estimating the level of inventory provisioning at year end.
 	
The Group applies past experience and judgement in determining the likely sell-through rates of items of inventory to identify excess or obsolete inventory. This assessment requires consideration of the ageing and condition of products on hand, level of inventory on hand, inventory turnover and current market conditions.
 	
Such judgements may have a significant impact on measurement of the provision, and therefore the overall carrying value of inventories, necessitating additional audit effort.
	Our procedures included:
	
	• Assessing the Group's policy for the valuation of inventory against the requirements of the accounting standards.
	
	• Attending inventory counts to ascertain the existence and condition of inventory at year end.
	
	• Comparing a sample of inventory carrying values recorded by the Group at year-end to the Group's latest available selling prices to identify products at risk of selling below their recorded values. We compared the results to the Group's assessment.
	
	• Testing the Group's slow moving and obsolete inventory assessment at year-end by:
	
	  ◦ Assessing the integrity of the Group's modelling for inventory obsolescence by performing computation checks and comparing a sample of key data to relevant supporting documentation.
	
	  ◦ Considering modeling sensitivity by varying key assumptions, such as the provision percentage by product / ageing category.
	
	  ◦ Challenging the Group's judgements by comparing current inventory levels to historical sales and forecast sales with reference to the useful life and condition of products and current market conditions. We also assessed the level of provisioning in light of our knowledge of the industry the Group operates in, the Group's business strategy with respect to maintaining adequate inventory to meet market demand, market conditions impacting inventory levels and pricing, and from inquiries with key personnel.
	
	• Assessing the disclosures in the Group's financial report using understanding obtained from our testing against the requirements of accounting standards.

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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.

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.

Independent Auditor's Report

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Reece Limited for the year ended 30 June 2022, 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 40 to 53 of the Directors' report for the year ended 30 June 2022.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

KPMG

KPMG

BW Szentirmay	J. Carey
Partner	*Partner*

Melbourne

23 August 2022

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 2022, the distribution of shareholdings was as follows:

Size of Shareholding	Number of Shareholders
1 – 1,000	3,418
1,001 – 5,000	2,358
5,001 – 10,000	605
10,001 – 100,000	501
Over 100,000	102
Holdings of less than a marketable parcel	-
	6,984

Substantial shareholdings

The number of shares held by the substantial shareholders listed in the Company's register of substantial shareholders as at 5 August 2022 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 2022, there were 6,984 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 2022:

Shareholder	Number of Shares	% Held
L.T. Wilson Pty Ltd	157,200,000	24.33%
J P Morgan Nominees Australia Limited	65,122,396	10.08%
HSBC Custody Nominees (Australia) Limited	61,154,840	9.47%
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%
HSBC Custody Nominees (Australia) Limited Florizel Investments Pty Ltd	16,801,600	2.60%
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	11,258,665	1.74%
Wilaust Holdings Pty Ltd	8,730,000	1.35%
Australian Foundation Investment Company Limited	7,201,316	1.11%
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	6,474,403	1.00%
BNP Paribas Nominees Pty Ltd	6,236,860	0.97%
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 90.68% 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

MORSCO Properties LLC
Company number 86-1262225

MORSCO Properties OK LLC
Company number 87-2162861

Reece Mexico 1 Inc
Company number 88-2047430

Reece Mexico 99 Inc
Company number 88-2039114

Directors

Alan Wilson
(Executive Chair)

Peter Wilson
(Group 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

57 Balmain Street
Cremorne, Victoria, 3121
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, 27 October, 2022.

Reece Limited
A.B.N. 49 004 313 133

reece group™