



Annual Report 2018  
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The report cover represents the millions of tools and water related products we sell to our valued customers each year.

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**Reece Limited and its controlled entities' Annual Report for the financial year ended 30 June 2018.**



The Reece Group started from humble beginnings with one man selling plumbing products out of a truck in Melbourne. Nearly 100 years later, the Reece Group is a leading distributor of plumbing, waterworks and HVAC-R products throughout Australia and New Zealand.

**We're now writing our next chapter as a global business - with our entry into the United States laying the future foundations.**



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# Another strong performance

**The Reece Group delivered a record profit this year and is well positioned for future growth and long-term returns to shareholders.**

## Financial performance

This year, the Reece Group achieved a record result, growing sales revenue by 10.7% to \$2,689m. We also improved our earnings before interest, tax, depreciation and amortisation by 5.4% to \$378m and increased our operating net profit after tax 6.1% to \$225m.

In addition to the solid financial performance, we also completed our first capital raising of \$600m, which was supported by existing shareholders and new investors.

The Board has declared a final fully franked dividend of 14.25 cent per share for the second half of the year. This culminates in a total 20.25 cents per share for the financial year ending 30 June 2018, an increase of 1.3% over the previous year.

## Sustained growth

In the last financial year, we continued to identify long-term opportunities for organic and acquisition-led growth.

Our major announcement was the acquisition of MORSCO Inc. (MORSCO), a leading US supplier of plumbing, waterworks and HVAC-R products.

Acquiring MORSCO, through a well-supported debt and equity raising, marks a truly transformational growth opportunity for the Reece Group in the world's largest plumbing market.

Additionally, we successfully integrated two new businesses – Viadux and Heatcraft New Zealand – and established a national presence in New Zealand with the acquisition of plumbing business Edward Gibbon, announced in June and settled in July 2018.

## Board changes

We announced the retirement of Bruce W. C. Wilson and Ronald Pitcher (AM) from the Board after a combined 63 years' service to the Reece Group. Bruce will retire on 31 August and Ron on 25 October 2018.

The Board will add new capability with the appointment of Andrew Wilson as a Non-Executive Director, effective 1 September 2018.

We thank both Bruce and Ron for their contributions to the Reece Group's success and welcome Andrew.

## Looking forward

Our focus moving forward continues to be on what we do best – providing our customers with leading products and a customised service, underpinned by our world-class supply chain.

Integrating MORSCO into the Reece Group will be a key priority. We have experienced leadership teams in both continents working to ensure this happens successfully.

At the same time, we'll continue to focus on growing in Australia and New Zealand within the plumbing, waterworks and HVAC-R sectors.

Finally, I extend an invitation to join the Board for our Annual General Meeting, which will be held in Melbourne on 25 October 2018.



**“Our ability to again deliver value to our shareholders has been driven by our people’s commitment to our customers.”**

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**Alan Wilson**  
Executive Chairman



# Our focus is on moving forward

**The Reece Group achieved another strong financial performance. We also acquired MORSCO, pioneering our entry into the US\$80bn plumbing, civil and HVAC markets.**

## **MORSCO - A game changing acquisition**

The Reece Group realised a transformational opportunity this year by acquiring a leading US plumbing business, MORSCO. Having MORSCO within the Reece Group, provides the platform to diversify our operations and enhance our growth potential for decades to come.

From the outset we intend to run MORSCO separately to our existing operations and leverage operational expertise and relationships. MORSCO will continue under its experienced management team, who have a proven track record in the world's largest plumbing market.

With the acquisition, the Reece Group enters the 2019 financial year as a global business with nearly 800 branches, an approximate annual revenue of \$5bn.

## **Financial results**

Our financial performance for the year ending 30 June 2018 was another record result, with sales revenue and net profit after tax increasing by 10.7% and 6.1%, respectively.

These results were achieved while we continued investment in our core business. During the year, we increased our investment in people aligned with our organic and acquisition-led growth, along with our technology and customised service offering. This includes enhancing our digital ecosystem, providing a customised experience in store, online and on mobile devices.

## **Continued growth in home markets**

We continued to invest in our businesses and product offering this year, adding 28 new branches. This included opening new plumbing branches in growth areas and extending our waterworks offering by acquiring Viadux.

In New Zealand, we purchased a leading HVAC-R business, Heatcraft New Zealand, and expanded our plumbing footprint with the acquisition of Edward

Gibbon in July 2018. These acquisitions provide the Reece Group with a national presence in New Zealand, growing our network from 11 to 31 branches.

## **Happy and supported customers**

We remain committed to working with our customers, introducing innovative products and providing them with the customised service they need to grow. This ongoing investment in our customers helped achieve our record Net Promoter Score of +65 this year – a world-class achievement.

## **Our people discovering their best**

This year, we announced the relocation of our support centre from Burwood to Melbourne's digital hub in Cremorne in 2020. We're moving into a purpose-built space that will provide a technology-enabled, future-proofed working environment for our people to meet our customers' changing needs.

We also welcomed the next generation of leaders through our graduate and school-based trainee programs into roles throughout our company.

## **A culture of innovation**

We opened the doors to our new design and innovation centre, NEXT, located in the creative precinct of Collingwood, Victoria. NEXT builds on our long-standing focus on continuous improvement by adding new innovation capability and a sharper focus on future opportunities and technology. This will benefit our current and future customers and the Group in the long-term.

On behalf of the Board and management team, I'd like to thank our people for their commitment and passion throughout the year – striving for greatness every day.

It's this commitment to our purpose and values that delivered a strong financial result and positions the Reece Group to provide sustainable, long-term returns for shareholders.



**“It has been an historic year for the Reece Group with strategic acquisitions in Australia and New Zealand and the announcement of our entry into the US Market with MORSCO.”**

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**Peter Wilson**  
Chief Executive Officer  
& Managing Director

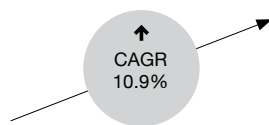


FY2018 Highlights

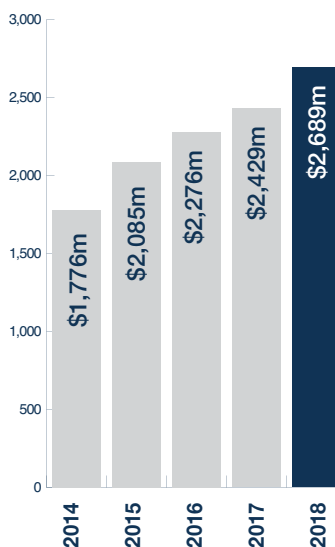
This year we achieved record sales revenue and continued strong compound growth.



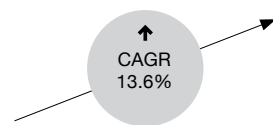
Sales Revenue ↑10.7%



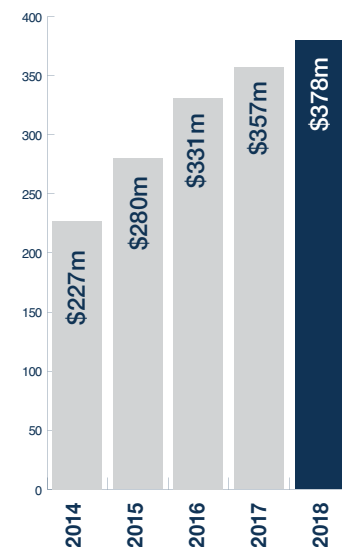
(A\$m)



EBITDA ↑5.4%



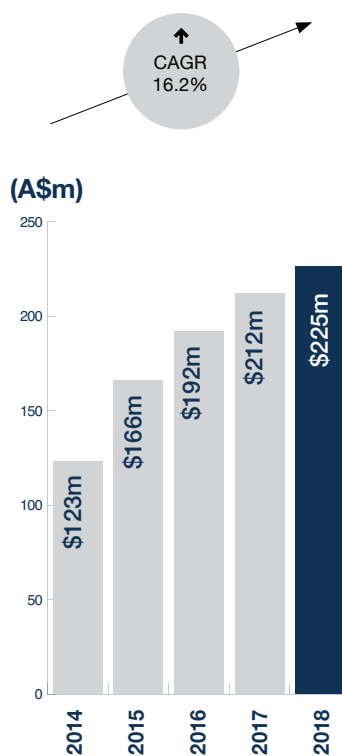
(A\$m)



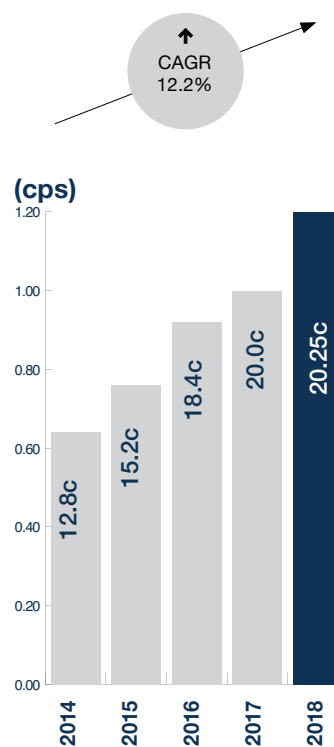




## NPAT ↑ 6.1%



## Dividends ↑ 1.3%



**Note:** Historical dividends have been adjusted for the 5:1 share split in December 2017.

# Pioneering into the US

**Acquiring MORSCO has transformed the Reece Group into a multinational plumbing, waterworks and HVAC-R business.**

## Significant growth in Australia

Established in the 1920s, the Reece Group has experienced significant growth in the last 20 years. This includes growing our branch network from approximately 170 to more than 615 branches across Australia, including 19 in New Zealand.

We've built a world-class supply chain with six distribution centres that supply millions of products each year to customers in-store and online across our portfolio of specialty businesses. This includes plumbing, heating, cooling, refrigeration, irrigation and pools, civil and bathroom life showrooms.

Today, our infrastructure is backed by more than 5,000 employees that are committed to improving the lives of our customers every day with our innovative products and technology-driven services.



**615**  
BRANCHES

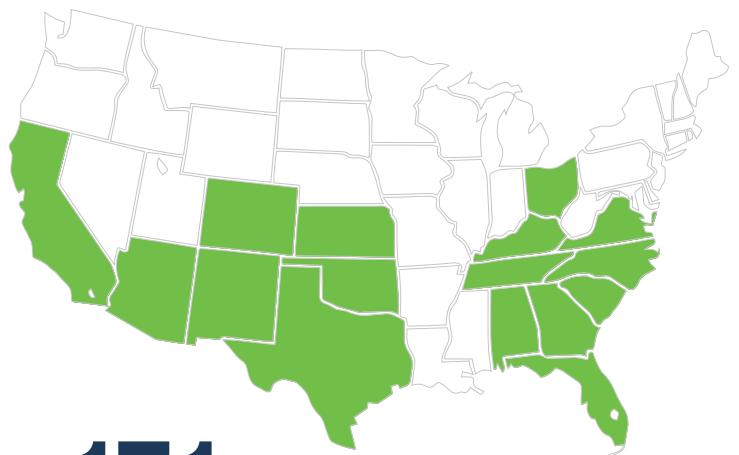
## Entering the US market with MORSCO

In July 2018, the Reece Group completed the acquisition of MORSCO, a leading supplier of plumbing, waterworks, heating and cooling (HVAC) products in the US Sun Belt region.

Similar to the origins of the Reece Group, MORSCO started from humble beginnings as the Fort Worth Pump & Windmill Company in 1917, growing into a leading plumbing supplier as the Morrison Supply Company and then as MORSCO.

Today, MORSCO has more than 2,500 employees in 171 branches within 16 states across the fast-growing US Sun Belt region.

The acquisition marks Reece Group's first expansion out of Australia and New Zealand, into the US\$80bn plumbing, waterworks and HVAC markets.



**171**  
BRANCHES



With MORSCO, the Reece Group is now enabling hundreds of thousands of residential and trade customers to thrive in Australia, New Zealand and the US.

**Employees**

**7,800+**

**Branches**

**800+**

**Active Customers**

**200k+**

**Product Range**

**300k+**

**Suppliers**

**7,500+**

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# People discovering their best

**The Reece Group is creating a technology-enabled workplace for our people to drive sustainable growth in a rapidly changing customer landscape.**

## Future of work

The Reece Group has a history of supporting our people, helping them to thrive in an encouraging environment. We have invested time this year understanding how we will need to adapt now, and in the future, to continue to attract and retain the best people.

This insight led to our commitment to relocate our support centre in 2020 from Burwood to Cremorne, Melbourne's burgeoning technology hub.

This will enable us to continue to digitise and grow our business, giving our people the tools, technology and support to achieve their goals and deliver greater performance and productivity.

## Growing our talent pipeline

At the Reece Group, we're proud of the way we have helped people realise their potential from the very beginning of their career. This continued in 2018 through our well-established graduate and trainee programs.

This year, we welcomed a record number of ambitious and talented graduates into roles across Australia through our graduate program, providing them with individual learning and leadership development.

Our program, which positions the Reece Group as an employer of choice, was again recognised in the Top 100 Graduate Employer awards, with a ranking of 29, up from 50 last year.

We also continued to attract school-based trainees through our support of the Australian School-based Apprenticeship (ASbA) program. Our program provides trainees with the opportunity to complete their secondary school certificate with nationally recognised qualifications while doing paid work experience.

## Supporting our leaders of the future

The Reece Group encourages and supports leaders at every level – it's embedded into our values, which represent how we work together to improve the lives of our customers.

Within our operations division, we have a dedicated Emerging Leadership Program. The program identifies and supports our people to transition from branch managers into regional leaders – pivotal roles in the management of our people and customers.

## Health and wellbeing

The Reece Group is committed to improving the safety, health and wellbeing of our employees and customers.

This year we launched our "SafeR" program to re-new our focus on the safety and wellbeing of our people, customers and suppliers throughout our branch network. The program also included mental wellbeing training to equip our leaders to manage our employees and customers dealing with mental health issues.





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**“Looking back to when I started as a 16-year-old trainee, my advice is if you can bring the right attitude to the program you can go anywhere in the company - the sky’s the limit.”**

Rory Moriarty,  
Branch Manager, Reece Civil,  
Campbellfield, Victoria



**“Now we leave at 5pm and don’t have to stress about coming to work the next day to dig away at paperwork.”**

**Ben  
maX user  
True Blue Plumbing**



# Another year of happy customers

At the Reece Group, we're about creating customers for life - it's why we exist and drives the strength of our business.

## Record Net Promoter Score

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

We do this by our people working together to provide our customers with innovative products and customised services. This is backed by a world-class supply chain and leading digital experiences.

Our continued commitment and passion for our customers has resulted in a record Net Promoter Score of +65, a world-class achievement.

## Creating customers for life

From building strong relationships in our branches and showrooms, to hosting exhibitions and attending trade shows, we're passionate about creating loyal and strong partnerships with our customers.

Based on customer feedback, this year we headed into key regional areas for our annual Road Show events. We showcased our new products and services to hundreds of local plumbers and TAFE students keen to experience the latest industry technologies and hear from our knowledgeable team.

For our HVAC-R customers, we showcased our latest products at our annual Refrigeration and Air Conditioning Expo (RACE). We also exhibited our HVAC-R brands together for the first time at this year's Air Conditioning, Refrigeration and Building Services (ARBS) trade show, reaching more than 8,000 visitors.

## Remarkable customer experiences

As our customers change the way they work with new digital tools, we respond. Our digital ecosystem provides a customised experience for our customers, led by our online business management system, maX.

maX allows customers to search and buy products, order and track deliveries in real-time through any device at any time. It also helps customers manage their businesses through time-saving features, such as building quotes.

This year, we integrated two leading accounting software packages that now enable customers to streamline invoices from maX into their accounting programmes. This simplifies book keeping, giving customers back time to grow their businesses.

## A loyal team

The Reece Group's commitment to creating customers for life is about partnership, loyalty and enduring relationships that stand the test of time.

Product quality is critical to our customers, which is why we continue to invest in our lab testing facilities to ensure our products meet our customers' expectations and comply with Australian standards.

Our products are also backed by market leading warranties and a Customer Care department for when our customers need us.

Innovation

# Transforming the way we innovate

**We are building on our long-standing focus on continuous improvement by adding new innovation capability and a sharper focus on future opportunities and technology. We're investing in our future.**

## Designing new growth

During the year we opened our new design and innovation centre, NEXT, located in the creative and start-up precinct of Collingwood in Victoria.

Working out of the centre is the core NEXT innovation team, our strategic brand and design agency, Trout, and Superseed Ventures, a new business established to identify, develop and invest in game-changing ideas. These teams are working together to build innovation capability within the Reece Group, create unique customer experiences and develop new and different opportunities for growth through emerging technologies.

## Creating the change

Our industry, like any other, faces competition and disruption from new and unlikely sources. We know we need to be aware of the change happening around us and prepare, rather than just wait for it to happen.

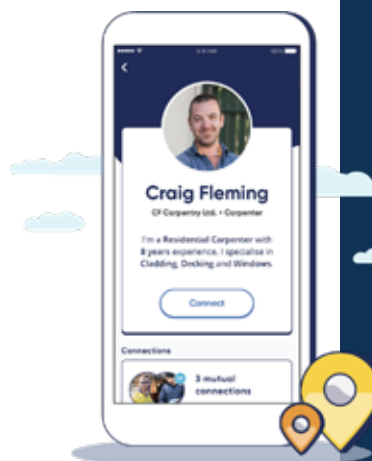
Superseed Ventures has been established to identify new business ideas and strategic investment opportunities that will create advantage for the Reece Group and protect us from that disruption. Taking an external perspective, Superseed Ventures looks for opportunities in adjacent markets and industries with a focus on construction and trade technology and home comfort.



## Strengthening our technical advantage

reecetech is our dedicated technology division responsible for the company's core business systems, websites, mobile apps and range of other digital solutions that improve the lives of our customers and our people every day.

The in-house capability of reecetech is a clear differentiation and competitive advantage for Reece. During the year we continued to enhance the resources within reecetech and build its profile in the market and through universities to ensure we are can attract the best digital talent.



## Goodwork

Goodwork is the first commercial opportunity developed through Superseed Ventures. Goodwork is a network built just for tradies, designed to help tradies grow their businesses by connecting and collaborating with other tradies. Through Goodwork tradies can communicate with each other, share work opportunities and showcase their work. The Goodwork app launched in May 2018 and has enjoyed positive early traction.



ROTHENBERGER

Roca



Annual Report — 2018

USE ONLINE PERSONAL PROJECTS

# Leading the way for our customers

Providing market leading products and exclusive brands is key to creating the customised service Reece is known for.

## 01 Rothenberger

A highlight for the year was the launch of the Rothenberger Romax Axial tool, used to join Rehau gas and water pipe and fittings. Following feedback from customers wanting a more accessible and affordable tool, the Reece Group worked with our long-term supplier, Rothenberger, to engineer the purposed built Romax Axial tool. Our customers are enjoying the high-quality, light-weight, battery operated tool.

## 02 Roca

This year, the Reece Group was the first to introduce an affordable smart toilet into Australia. The Roca In-Wash Inspira smart toilet has easy-to-use features, including a presence detection sensor, an auto-cleaning retractable nozzle that washes and dries, and a night light. These features and the associated hygienic benefits are appealing to our customers and we're pleased with the interest we have had in the year it has been available.

## 03 Henden

To support our growing Reece Irrigation & Pools business, this year we launched our own pool brand, Henden. Henden provides pool professionals with a range of high quality pool equipment, such as filter, chlorinators, pumps, pool heaters and accessories. Having an exclusive pool equipment brand enables the company to offer customers a superior level of stock and sales support, in a growing market for the Reece Group.

## 04 Kaden

We have added a Kaden wall mounted air conditioner to our heating and cooling product range. Exclusive to the Reece Group, Kaden's wall mounted air conditioners incorporate powerful efficiencies for minimal noise, making them the perfect choice for a wide range of environments, including apartments, bedrooms and larger living areas. The units also have the latest technology, features and an installer-friendly design.

**“An effective,  
compact tool.  
A quality product  
and we’ll be  
buying more.”**

---

Gavin,  
GA & EL Plumbing  
Axial Tool User



# Helping communities build better lives

**We've increased our support for the communities we operate in with our philanthropic donations and The Reece Grant program.**

## The Reece Grant

Since its inception in 2015, our program has provided our customers with financial support to undertake water and sanitation projects. These projects improve the lives of underprivileged communities in Australia and abroad.

This year, we allocated funds to support four local and four international projects to help reduce disease and improve hygiene by providing access to clean water and sanitation.

We also introduced a "Next Gen" grant to provide the next generation of tradespeople with grants to go towards their tuition or tools required to progress their careers.

Kerry Perkins received a **Local Grant** to improve the toilet and bathroom facilities at the Hunter Women's Centre, NSW. The centre is a community-based charity that provides counselling, workshops and support to disadvantaged women, most of whom are living with disability, health issues or suffering from domestic violence and cultural abuse.

Allan Kennedy combined his **Abroad Grant** funding and decades of plumbing experience to build a toilet block

and provide a fresh water supply to a school for a remote community of 200 living on the 3,200m-high Hudad Plateau in Ethiopia, in partnership with Friends of The Hudad.

While Brendon Head received our first **Next Gen Grant**, which will go towards supporting his TAFE plumbing fees at Chisholm, Berwick, Victoria. These and many more projects supported by The Reece Grant can be found on our website [www.reecegrant.com.au](http://www.reecegrant.com.au).

## Board philanthropic program

During the year, the Reece Group's Board approved donations to a number of not-for-profit organisations covering a range of sectors, including medical research, welfare and education.

A list of philanthropic donations is detailed in the Directors' Report on page 35.



### Recycling IT equipment

The Reece Group continued to recycle and reconfigure our IT equipment from across our 615 stores and offices.

By working with Enable IT Recycling, during the year we saved 18 tonnes of used IT equipment from going to landfill, with four tonnes recycled and 14 tonnes of equipment reconfigured and returned back into the Reece Group network. In addition, Enable IT Recycling provides meaningful work and learning activities for local disadvantaged jobseekers.



### Solar installation program

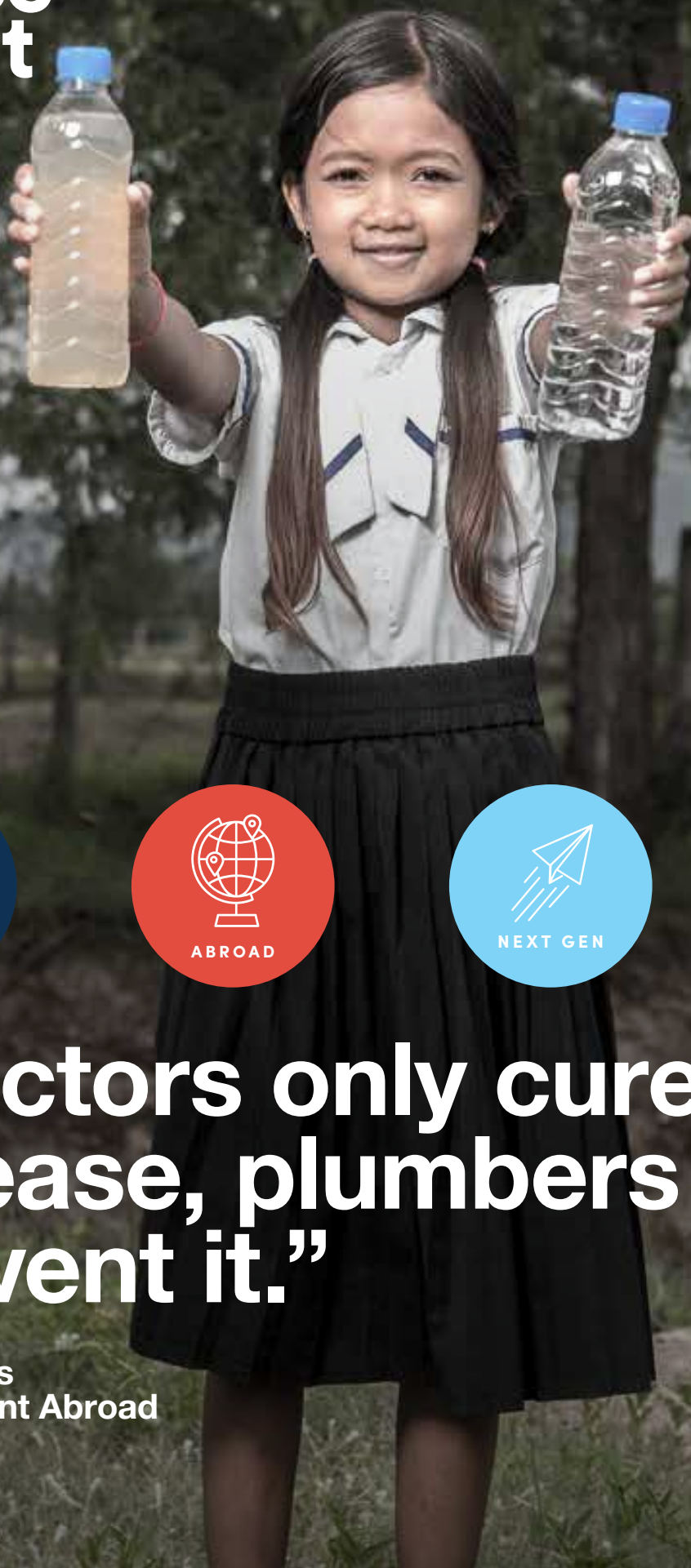
During the year we installed a further 13 photovoltaic systems across our Australian branch network, making a total of 57 branches that have the capacity to generate a total of approximately 1.8 gigawatts of solar-generated electricity.

We remain focused on continuing installations throughout our branches to off-set our carbon emissions and take control of our electricity costs.



the  
reece  
grant

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**“Doctors only cure  
disease, plumbers  
prevent it.”**

Ian Stevens  
Reece Grant Abroad  
Recipient



# Financials

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# Corporate Governance Statement

**The Board of Directors of Reece Limited is responsible for the corporate governance of the Company.**

**This statement outlines the corporate governance policies and practices formally adopted by Reece. These policies and practices are in accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) unless otherwise stated.**

## Principle 1

### Lay solid foundations for management and oversight

The role of the Board is to provide strategic guidance and effective oversight of management. The Board operates in accordance with the principles outlined in the Board Charter.

The Charter details the Board's composition, their functions, responsibilities and powers. Other than the authority specifically reserved for the Board that is outlined in the Charter, the responsibility of management of Reece's business activities is delegated to the Chief Executive Officer and senior executives who are accountable to the Board. A copy of the Board Charter is available from Reece upon request.

The Board is responsible for establishing Reece's business strategies, overseeing the company's management, setting the values and standards of the company which we uphold when dealing with all our stakeholders and acting as custodian of our shareholder's interests.

### More particularly, the Board's responsibilities encompass:

- › Setting and monitoring the strategic plans and corporate objectives, including performance objectives, and approving the entities' remuneration framework;
- › Appointing the Chair of the Board;
- › Monitoring the company's operational and financial activities;
- › Overseeing the risk management strategy, internal policies and procedures and accounting and reporting systems;
- › Determining the dividend distribution policy that represents the best interests of the company and shareholders;
- › Approving budgets and monitoring capital expenditure, capital management and acquisitions;
- › Monitoring compliance with legal and regulatory requirements and the effectiveness of the entities' governance;
- › Monitoring compliance with Reece's own ethical and business standards, including codes of conduct and company values;
- › Monitoring the performance of senior executives;
- › Appointing or removing the Chief Executive Officer, the Chief Financial Officer and the Company Secretary;
- › Approving the appointment and, where appropriate, the removal of executives who report directly to the Chief Executive Officer, including their remuneration;
- › Managing the succession planning for executive directors and senior executives;
- › Approving the annual reports and disclosures to the market and overseeing the entities' process for making timely and balanced disclosures of all material information; and
- › Approving the appointment, undertaking the appropriate checks and providing all relevant material information on directors who will come before shareholders for election at the annual general meeting.

# Corporate Governance Statement

The Company has written agreements with Executive Directors and senior executives setting out the terms of their appointment.

An internal process of evaluation was undertaken during the year of the performance of senior executives, including Executive Directors, with regard to the overall performance of Reece and of the individual Directors against the Board Charter.

The Company Secretary is responsible for all matters to do with the proper functioning of the Board and is directly accountable to the Board.

## Principle 2

### Structure the Board to add value

The growth of the Company, its trading results and returns to shareholders, reflects the Board's wide management and professional experience, as well as its commitment to growing returns for shareholders and protecting shareholders' investment.

The experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in office
Mr L.A. Wilson	49 years
Mr B.W.C. Wilson	48 years
Mr P.J. Wilson	21 years
Mr R.G. Pitcher, AM	15 years
Mr T.M. Poole	2 years
Mr B.C. Wilson	2 years
Ms. M.L. Quinn	10 months
Ms. G. Williams	10 months

Principle 2.4 and 2.5 of the ASX Corporate Governance Principles and Recommendations recommends that the Board comprise a majority of directors who are independent, and an independent Chairperson. The Board, as currently composed, does not comply with these recommendations.

Mr L.A. Wilson is a substantial shareholder. He has been Executive Chairman since 1 January 2008 having previously held the position of Chairman and Chief Executive Officer.

Mr B.W.C. Wilson is substantial shareholders of the company. He, along with Mr R.G. Pitcher AM, Mr T.M. Poole, Ms. M.L. Quinn, Ms. G. Williams and Mr B. C. Wilson represent a majority of Non-Executive Directors in the current Board structure and bring objective judgement to bear on Board decisions commensurate with their commercial knowledge, experience and expertise.

Mr P.J. Wilson is a senior executive of Reece and has been Chief Executive Officer since 1 January 2008.

Principle 2.1 of the ASX Corporate Governance Principles and Recommendations recommends that the Board establishes a Nomination Committee. Reece does not have a Nomination Committee, with the role being carried out by the full Board.



# Corporate Governance Statement

## The Board has the range of skills, knowledge and experience to direct the company. To enable performance of their duties, all directors:

- Are provided with appropriate information in a timely manner and can request additional information at any time;
- Have access to the Company Secretary;
- Are able to seek independent professional advice at the company's expense;
- Are able to undertake professional development opportunities to further develop their knowledge and skill needed to perform their role as a director; and
- Have undergone an induction process to enable them to be effective Directors and gain substantial knowledge about Reece.

## Principle 3

### Act ethically and responsibly

The Board places great emphasis on honesty and integrity in all its business dealings, recognising that the interests of all stakeholders will be best served when Directors, senior executives and employees adhere to high standards of business ethics and comply with the law.

In order to clarify the standards of ethical behaviour required of its directors, senior executives and employees the Board has established Codes of Conduct to ensure that Reece's ethical reputation is maintained. Senior executives and employees are required to complete online Code of Conduct training when they commence with Reece. The Reece Code of Conduct for Directors and senior executives and Code of Business Ethics and Conduct are published on the company website at [www.reecegroup.com.au](http://www.reecegroup.com.au)

Reece has in place a policy concerning trading in company securities. The Share Trading for Directors and Employees Policy includes detailed requirements for Directors, officers and management on when they can trade Reece securities. The policy is published on the company website at [www.reecegroup.com.au](http://www.reecegroup.com.au)

Reece has in place an Equal Opportunity and Diversity Policy which is published on the company website at [www.reecegroup.com.au](http://www.reecegroup.com.au).

The Company has adopted a Whistleblower Policy designed to provide all employees the opportunity to raise concerns regarding improper conduct without fear of any adverse ramifications. These concerns can be raised internally with our human resources department, or via an independent and confidential service.

The Board encourages and supports the Reece commitment to an ethical and responsible work environment that provides an equal opportunity to all employees. Reece has implemented the following initiatives:

- Made the policy available to all employees;
- Introduced online training programs on equal opportunity;
- Continued providing management training programs that highlight the importance and benefits of diversity in the work force;
- Continually re-enforced our policy to recruit for the best available talent regardless of gender, age, ethnicity, disability or cultural background; and
- Conducted an annual review by the company's Risk and Compliance Committee and the Board of the Reece gender profile.

Of the company's employees, 23% are women and 14% of the senior management roles are occupied by women. Senior management roles are identified through a job evaluation methodology. The company appointed two female Non-Executive Directors to the Board effective 1 September 2017.

The Board confirms it has undertaken an annual review of the aforementioned policies and has set objectives for the Equal Opportunity and Diversity Policy for the financial year 2018. The Board has confirmed that it will maintain the existing measurable objectives, in addition to:

- Managing and taking action on complaints, recommendations, changes and breaches for the Equal Opportunity and Diversity Policy;
- Discussing recommendations and approving recommendations at Board meetings; and
- Conducting an annual review of the policy.

## Principle 4

### Safeguard integrity in corporate reporting

Reece has an Audit Committee comprised of a majority of Independent Directors. The Audit Committee presently comprises Mr. T.M. Poole (Chairman), Mr R.G. Pitcher AM, Mr B.W.C. Wilson, Ms. G. Williams and Mr. B.C. Wilson. All members of the committee are Non-Executive Directors and have extensive experience in business and knowledge of the industry in which Reece operates. Mr B. W. C. Wilson is a substantial shareholder.

The details of the number of Audit Committee meetings held and attended are included in the Directors' Report. Minutes are taken at each Audit Committee meeting, with the minutes tabled in the following full Board meeting.

# Corporate Governance Statement

The Audit Committee operates under its own charter that details the roles, duties and membership requirements. The Audit Committee Charter is available on request.

The Audit Committee reports back to the Board on all matters relevant to the Committee's roles and responsibilities. This includes:

- An assessment of the adequacy of Reece's external reporting for shareholder needs;
- An assessment as to the appropriateness of accounting judgements exercised by management in the preparation of the financial statements;
- An assessment as to whether the financial statements reflect a true and fair view of the financial position and performance of the company;
- The procedures to select and appoint an external auditor and the rotation of external audit engagement partners in accordance with regulatory requirements;
- Recommendations for the appointment or, if required, the removal of an external auditor;
- Assessment of the performance of the external auditor;
- Assessment of the performance and objectivity of Reece's internal audit function; and
- Review of Reece's risk management system and associated internal controls.

In addition to their roles and responsibilities, the key activities undertaken by the Audit Committee during the year include:

- Monitoring developments in accounting and financial reporting that is relevant to Reece;
- Approval of the scope, plan and fees for the 2018 external audit;
- Meeting with external auditors and monitoring the progress of the external audit for 2018;
- Review and recommend to the Board the adoption of Reece's half year and annual financial statements;
- Jointly with the full Board, monitoring the progress of matters arising from the Code of Conduct and Whistleblower Policy; and
- Review of the internal audit reports and approval of the Internal Audit Plan.

The Company has an internal audit function that is responsible for auditing all branches and departments. Internal auditors attend branches to conduct audits and monitor adherence to policies and procedures. In addition, the external auditors undertake audits of selected branches each year. Detailed reports are provided to senior management and the Audit Committee.

## Principle 5

### Make timely and balanced disclosure

Reece has policies and procedures to ensure compliance with the ASX Listing Rule requirements for the timely and balanced disclosure of all material matters concerning the company. All market disclosures are approved by the Board.

The Board has approved a Continuous Disclosure Policy and is committed to complying with the continuous disclosure requirements of the Corporations Act and ASX Listing Rules.

The Chairman and the Company Secretary are authorised to communicate with shareholders and the market in relation to Board approved ASX disclosures. Other directors and management must adhere to this policy at all times.

All announcements made to the ASX are placed on the Reece Group website directly after public release.

## Principle 6

### Respect the rights of security holders

Reece provides a printed copy of its annual report to all requesting shareholders and is also available on the company's website. The annual report contains relevant information about the company's operations during the year, changes in the state of affairs and, other disclosures required by the Corporations Act 2001. The half year report contains summarised financial information and a review of Reece operations during the period.

The Reece Group website provides all shareholders with access to announcements and related information which are posted immediately after release to the ASX. Through its share registry shareholders are able to elect to receive communication electronically. In addition, the Reece Group website contains the corporate governance documents, overview of operations and history of the company.

All shareholders are invited to the Annual General Meeting with the format designed to encourage shareholders to actively participate in the meeting through being invited to comment, or raise questions of directors on any matter relevant to the performance and operation of the company.

External auditors attend each annual general meeting and are available to answer shareholder questions about the auditor's report.



# Corporate Governance Statement

## Principle 7

### Recognise and manage risk

The Board recognises that effective risk management is an integral part of good management and vital to the continued growth and success of the company. The Board has decided against the establishment of a separate Board Risk Committee at this time, and risk oversight remains a direct responsibility of the full Board. As a part of the risk management process a Risk and Compliance Committee, made up of executives and management, meet quarterly and report to the Board. The committee reviews the risk management framework annually and provides recommendations to the Board.

Reece risk management policy aims not to eliminate risk but to identify, monitor and manage material risks inherent in the activities of the company.

In managing risk, the Board has charged the Risk and Compliance Committee with the responsibility of determining and implementing risk management controls in the conduct of the business in at least the following areas:

- Strategic risks;
- Operations, including business continuity;
- Product and service quality;
- Reputation;
- Ethical conduct in business dealings;
- Maintenance of a safe work environment;
- Management of technology resources;
- Integrity and reliability of financial reporting;
- Compliance with internal policies and procedures;
- Compliance with regulatory requirements; and
- Compliance with environmental obligations.

The Company has effective risk management controls implemented by Reece management incorporating:

- A clearly defined organisational structure with defined management responsibilities;
- Segregation of duties;
- Delegated limits of authority;
- Reliable and stable management reporting systems and accounting controls;
- Internal audit function to review the quality and effectiveness of internal processes, procedures and controls;
- Procedures for managing financial risk and the treasury function;
- A comprehensive insurance programme which is reviewed annually;
- Utilisation of an independent, confidential and impartial whistleblowing management service; and
- A clearly defined set of standards and behaviours expected from those working within the company.

The Board has received written assurances from management as to the effectiveness of the company's management of its material business risks.

The Board retains oversight responsibility for assessing the effectiveness of the company's systems for the management of material business risks.

The Chief Executive Officer and Chief Financial Officer have provided written assurance that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

# Corporate Governance Statement

Reece does not have any exposure to environmental and social sustainability risks. The company has a number of initiatives in place to manage environmental, customer, supplier and employee risks and include;

- The Company reports its carbon emissions annually under the Federal Government's National Greenhouse and Emissions Reporting scheme, with a copy available on the company website at [www.reecegroup.com.au](http://www.reecegroup.com.au);
- The Board has continued to support a number of philanthropic initiatives during the year with details provided in the Directors' Report;
- Reece supports a range of community projects to improve the environment;
- Reece is committed to providing products which provide sustainable solutions to our customers;
- Reece undertake independent quality testing and operate an in-house laboratory for the testing and development of products;
- Reece provide an after sales customer care service;
- Customer satisfaction surveys are conducted annually and reported to management and the Board. Senior management review the feedback and develop actions to further improve customer service;
- Reece works closely with its suppliers and conducts regular meetings; and
- Reece undertakes employee engagement surveys. Results, issues and actions are reported to the Board. In addition, employees have the ability to provide feedback on a daily basis directly to senior management on any issues.

## Principle 8

### Remunerate fairly and responsibly

The ASX Corporate Governance Principles and Recommendations recommend that a listed company should have a Remuneration Committee comprising at least three members, with the majority being independent directors. Reece's Remuneration Committee currently consists of three non-executive directors with the majority being independent.

The Committee is chaired by an independent director, Mr T.M. Poole and comprises of Mr. R.G. Pitcher AM, Mr B.W.C. Wilson and Ms M.L. Quinn. Mr B.W.C. Wilson is a non-executive director and a substantial shareholder.

Remuneration of the directors and senior executives is the responsibility of the Remuneration Committee. The Committee obtains advice, where necessary, to ensure that Reece attracts and retains talented and motivated employees who can enhance our performance through their contributions and leadership. The Board has been able to retain a high calibre management team through a policy of fair and appropriate remuneration which takes into consideration prevailing employment market conditions and linked to the company's financial and operational performance.

The components of remuneration for each executive director and senior executive are largely cash based. There are no share based payments and non-cash benefits are modest. Performance based cash payments are largely related to company trading and operating performance. Currently there is no scheme to provide any Director, or member of management, with retirement benefits other than accrued long service leave, accrued annual leave and superannuation benefits.

Non-Executive Directors are remunerated by way of cash fees plus statutory superannuation and do not participate in the company's incentive scheme. There is no scheme to provide non-executive directors with retirement benefits other than statutory superannuation.

Director and executive disclosure requirements are dealt with in the Directors' Report. The Remuneration Committee operates under its own charter which is available from Reece upon request.

# Our Board

The members of our board reflect the history, make up and ambitions of our organisation. They possess a wealth and diversity of experience and skills across industry, commercial, financial and strategy.



**Name:** Mr L. Alan Wilson  
**Position:** Executive Chairman

**Appointment date:** 1969  
**Experience:** Alan has had nearly 60 years' experience working in plumbing distribution and is approaching 50 years working at Reece as General Manager, Deputy Chairman and Managing Director. In that time Alan has grown the company from a Victorian-based plumbing supplier into a multi-dimensional, global distribution business of plumbing, waterworks and HVAC-R products.

No other directorships of listed companies were held at any time during the last three years prior to 30 June 2018.



**Name:** Mr Peter J. Wilson  
**Position:** Chief Executive Officer & Managing Director

**Appointment date:** 1997  
**Qualifications:** B.Com (Melbourne), FAIM  
**Experience:** Peter has more than 25 years' experience working with Reece, commencing his career in branch before being appointed Marketing Manager, General Manager - Operations and then Chief Operating Officer in 2005. Peter was appointed Chief Executive Officer & Managing Director in 2008, the start of a significant organic and acquisition-led growth period for the Reece Group into new industries and throughout Australia and New Zealand.

No other directorships of listed companies were held at any time during the last three years prior to 30 June 2018.



**Name:** Mr Ronald G. Pitcher (AM)  
**Position:** Non-Executive Director

**Appointment date:** January 2003  
**Qualifications:** FCA, FCPA, ACAA  
**Experience:** Ron has more than 50 years' experience in the accounting and business advisory professions as a founder and former Senior Partner of Pitcher Partners, and Deputy Managing Partner of KPMG, Melbourne. Ron has served on the boards of several listed and private companies, including McMillan Shakespeare Ltd, Cellestis Ltd and Capral Limited.

**Committee Memberships:**  
Audit Committee, Remuneration Committee.

No other directorships of listed companies were held at any time during the last three years prior to 30 June 2018.

**Note:** Mr Ronald G. Pitcher will retire on 25 October 2018.





**Name:** Mr Tim M. Poole  
**Position:** Non-Executive Director

**Appointment date:** July 2016  
**Qualifications:** B.Com (Melbourne)  
**Experience:** Tim has more than 28 years' experience in investment and funds management, starting his career at Price Waterhouse before helping build Hastings Funds Management, where he became Managing Director. Tim has held numerous Board positions, including Newcrest Mining Limited and Japara Healthcare Limited.  
**Committee Memberships:** Audit Committee (Chairman), Remuneration Committee (Chairman)  
**Current directorships:** Aurizon Holdings Limited, McMillan Shakespeare Limited and Lifestyle Communities Limited.



**Name:** Ms Megan L. Quinn  
**Position:** Non-Executive Director

**Appointment date:** September 2017  
**Qualifications:** GAICD  
**Experience:** Megan has more than 25 years' experience in retail, advertising, marketing, publishing, supply-chain and finance, having worked in senior executive and consulting roles in Australia and internationally. Megan co-founded NET-A-PORTER in 1999 and has held a variety of senior executive and Non-Executive Director roles, including at Harrods and zipMoney Limited.  
**Committee Memberships:** Remuneration Committee.  
**Current directorships:** Speciality Fashion Group, UNICEF Australia.



**Name:** Ms Georgina Williams  
**Position:** Non-Executive Director

**Appointment date:** September 2017  
**Qualifications:** B.Com, BA (Melbourne)  
**Experience:** Georgina has more than 25 years' experience in the financial services industry, having held several executive positions in commercial banking, wealth, strategy and marketing departments at NAB in Australia, and in the UK. Ms Williams has also worked as Chief Executive Officer, Food and Wine Victoria and Group Executive Engagement, Advocacy and Brand at Australian Super.  
**Committee Memberships:** Audit Committee.  
**Current directorships:** Lifestyle Communities Limited, Sunsuper.



**Name:** Mr Bruce C. Wilson  
**Position:** Non-Executive Director

**Appointment date:** September 2016  
**Qualifications:** B.Com (LaTrobe)  
**Experience:** Bruce has more than 20 years' experience in the plumbing industry working at Wilson Sheet Metals, a manufacturer of quality rainwater products and accessories for trade customers.  
**Committee Memberships:** Audit Committee.

No other directorships of listed companies were held at any time during the last three years prior to 30 June 2018.



**Name:** Mr Bruce W. C. Wilson  
**Position:** Non-Executive Director

**Appointment date:** 1970  
**Qualifications:** B.Comm (Melbourne)  
**Experience:** Bruce has nearly 50 years' experience working at Reece, having held the roles of Company Secretary and Chief Financial Officer.  
**Committee Memberships:** Audit Committee, Remuneration Committee.

No other directorships of listed companies were held at any time during the last three years prior to 30 June 2018.

**Note:** Mr Bruce W.C. Wilson will retire effective 31 August 2018.



**Name:** Mr Gavin W. Street  
**Position:** Company Secretary & Chief Financial Officer

**Appointment date:** September 2016  
**Qualifications:** B.Bus, B.Comp (Monash), CPA  
**Experience:** Gavin served as the Chief Financial Officer of Reece for eight years before being appointed Chief Data & Digital Officer in 2017. In July 2018, Gavin returned to the role of CFO & Company Secretary. Before joining Reece, Gavin held finance roles with GE, ANZ Banking Group Limited and was CFO of Westpac Bank in New Zealand.

**Note:** On 31 August 2018, the Board announced the appointment of Mr Andrew Wilson as a Non-Executive Director, effective 1 September 2018.

# 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 ("Reece"), for the financial year ended 30 June 2018 and auditor's report thereon.

## Principal Activities

Reece is a leading supplier of plumbing, bathroom, heating, ventilation, air-conditioning and refrigeration products with operations in Australia and New Zealand. Our activities include importing, wholesaling, distribution, marketing and retailing. Reece supplies customers in the trade, retail, professional and commercial markets.

## Results

The consolidated profit for the year attributable to the members of Reece Limited was:

	2018 (\$000s)	2017 (\$000s)	%
Earnings before interest, tax, depreciation and amortisation	378,323	358,904	5.4%
Earnings before interest and tax	324,476	308,948	5.0%
Profit before tax	319,441	303,047	5.4%
Income tax expense	(94,821)	(91,256)	
Operating profit after income tax attributable to the members of Reece Limited	224,620	211,791	6.1%

## Review of Operations

For the year ending 30 June 2018, total revenue increased by 10.7% to \$2,691m (2017: \$2,431m), a record result for the Reece Group. Profit before tax was up 5.4% to \$319.4m (2017: \$303.0m) and net profit after tax was \$224.6m, an increase of 6.1% on the previous year (2017: \$211.8m).

This year, the business continued to grow our branch network, adding 28 branches. This included opening 12 new branches and integrating 16 following the acquisition of Viadux (September 2017) and Heatcraft New Zealand (May 2018).

Viadux is a leading Australian distributor of water pipeline systems to the civil and industrial markets; while Heatcraft New Zealand is a leading HVAC-R distributor. These acquisitions complement the Reece Group's portfolio of strategic businesses.

In July 2018, the Reece Group acquired New Zealand plumbing business, Edward Gibbon. This acquisition builds on our existing branch network in the North and South Islands, enabling national coverage with 10 new branches supported by our distribution centre in Auckland.

In addition to the acquisitions in Australia and New Zealand, Reece Group completed the acquisition of MORSCO in July 2018 through a debt and equity raising. MORSCO is a leading US-based plumbing, HVAC and waterworks distribution business servicing customers in 16 states in the Sun Belt region.

During the year, the Reece Group has continued to invest in the core business. The cost of doing business increased by 12.5% to \$572.4m (2017: \$508.7m) due to the investment in people and technology. Employee benefits expense was up 12.5% to \$299.7m (2017: \$266.4). This reflects the continued investment in people related to our organic and acquisition-led growth and investment in people to develop our technology and service offering. Reece has continued the development of its digital platform to allow customers to transact with Reece in store, online and through mobile devices.

The customer satisfaction score increased again this year to a new record. Customers for life is a core value for the Reece Group and the Company has continued to ask for customer feedback, listen and develop action plans to improve products and services.

The New Zealand distribution centre was fully operational in July 2017, adding to the five distribution centres operating in Melbourne, Sydney, Brisbane and Perth. This logistics capability is market leading and will continue to support the growing branch network. Inventory levels increased to \$540.6m up 18.3% on the previous year (2017: \$457.1m), driven by the growth of the business, acquisitions and the introduction of new products and improved service levels.

The \$600m equity raising completed in May 2018 was utilised to pay down existing borrowings (\$100m) and increased the cash balance to \$539.9m as at 30 June 2018 (2017: \$101.8m). Property, plant and equipment increased by 7.5% to \$568.7m as a result of the investment in the branch network and assets acquired as a part of the acquisitions in Australia and New Zealand.

The Board has declared a final dividend of 14.25 cents per share fully franked. The final dividend will be paid on 25 October 2018 with the record date for entitlement of 10 October 2018. Total dividends paid and to be paid relating to the year ended 30 June 2018 will be 20.25 cents per share (2017: 20 cents per share), an increase of 1.3% over the previous year.

# Directors' Report

## Significant Changes in the State of Affairs

There have been no significant changes in the consolidated entity's state of affairs during the financial year.

## After Balance Date Events

Reece Limited completed the A\$1.91b acquisition of Morsco in July 2018. The acquisition was funded through a combination of debt and equity, including a A\$300m participation from major shareholders, the Wilson family, in the A\$600m capital raising. Morsco Inc will be operated separately to the groups Australian and New Zealand businesses with the existing Morsco Inc management remaining in place.

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

## Likely Developments

The consolidated entity will continue to pursue its operating strategy to create shareholder value.

## Environmental Regulations

The consolidated entity's operations are subject to certain environmental regulations under a law of the Commonwealth or of a State. The consolidated entity is not aware of any significant breaches of environmental regulations during the year.

## Dividends

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

In respect of the previous financial year:	(\$000s)
A final fully franked ordinary dividend of 14.20 cents per share in respect of the year ended 30 June 2017 was paid on 26 October 2017.	70,716

### In respect of the current financial year:

An interim ordinary fully franked dividend of 6 cents per share was paid on 29 March 2018.	29,880
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### Dividends declared after the reporting period and not recognised:

The final dividend declared to be paid on 25 October 2018 is an ordinary fully franked dividend of 14.25 cents per share.	79,917
	109,797

## Share Options

No options over unissued shares or interests in the consolidated entity were granted during or since the end of the financial year and there were no options outstanding at the end of the financial 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 consolidated entity.

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

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

## Proceedings on Behalf of the Consolidated Entity

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity.

## Philanthropic Initiatives

During the financial year, the Board approved payments totalling \$805,000 (2017: \$530,000) to various charitable organisations. This is a continuing initiative and recipients may vary from year to year at the discretion of the Board. The recipients this year were:

Alzheimer's & Related Disorders Australia	\$35,000
Baker Heart Research Institute	\$35,000
Berry Street	\$25,000
Breast Cancer Network	\$30,000
Bush Heritage Australia	\$25,000
Centre for Eye Research Australia	\$50,000
Epworth Medical Foundation	\$35,000
Mind Australia (Evolve at Typo Station)	\$25,000
Legacy	\$35,000
Medecins Sans Frontieres (Doctors without borders)	\$100,000
Motor Neurone Disease Association	\$45,000
MS Society of Victoria Ltd	\$30,000
National Breast Cancer	\$30,000
Prostate Cancer Research	\$30,000
Prostate Cancer Foundation	\$40,000
Royal Flying Doctor Service	\$35,000
SANE	\$50,000
The Florey Institute of Neuroscience and Mental Health	\$50,000
The Salvation Army	\$35,000
The Smith Family	\$35,000
Victorian Homeless Fund	\$30,000
	\$805,000



# Directors' Report

## Directors' Meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the number of meetings attended by each Director were:

Director	Number of Directors Meetings Attended	Number of Directors Meetings Held Whilst In Office
L.A. Wilson	11	11
P.J. Wilson	11	11
B.W.C. Wilson	9	11
R.G. Pitcher, AM	9	11
T.M. Poole	11	11
B.C. Wilson	11	11
M.L. Quinn	9	9
G. Williams	9	9
A.T. Gorecki (retired)	2	2

Director	Number of Audit Committee Meetings Attended	Number of Audit Committee Meetings Held Whilst In Office
T.M. Poole	4	4
R.G. Pitcher, AM	4	4
B.W.C. Wilson	4	4
G. Williams	3	3
B.C. Wilson	2	2
A.T. Gorecki (retired)	1	1

Director	Number of Remuneration Committee Meetings Attended	Number of Remuneration Committee Meetings Held Whilst In Office
T.M. Poole	6	6
R.G. Pitcher, AM	6	6
B.W.C. Wilson	6	6
M.L. Quinn	3	3

## Directors' Interests in Contracts

Directors' interests in contracts are disclosed in the Remuneration Report.

## Auditor's Independence Declaration

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

# Directors' Report

## Non-Audit Services

Non-audit services are approved by resolution of the Audit Committee to the Board. Non-audit services provided by the auditors of the consolidated entity during the year, Pitcher Partners, 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 consolidated entity are detailed below.

	2018 \$	2017 \$
<b>Audit/Review fees</b>	690,000	720,000
<b>Amounts paid and payable to Pitcher Partners for non-audit services:</b>		
Taxation services	787,565	115,018
Other services	328,813	73,686
	1,116,378	188,704
<b>Amounts paid and payable to network firms of Pitcher Partners:</b>		
Audit/Review fees	-	-
Other services	10,645	17,924
	10,645	17,924

## Rounding of Amounts

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

## Remuneration Report (Audited)

The names of each person holding the position of Director of Reece Limited during the financial year were L.A. Wilson, B.W.C. Wilson, P.J. Wilson, R.G. Pitcher, A.T. Gorecki (retired), T.M. Poole, B.C. Wilson, M.L. Quinn and G. Williams. Senior management was G.W. Street, S. Nikolic and A. Palumbo.

Apart from the details disclosed in this report, no Director or senior manager has entered into a material contract with Reece or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' or senior manager's interests existing at year end.

Directors of Reece, Messrs L.A. Wilson, B.W.C. Wilson and B.C. Wilson have a beneficial interest in an entity that sold plumbing and building supplies to the consolidated entity. All dealings are in the ordinary course of business and on normal terms and conditions no more favourable than those which it is reasonable to expect would have been accepted if dealing at arm's length in the same circumstances. Goods purchased from this entity during the year total \$4,780,263 (2017: \$4,455,510) of which \$431,937 (2017: \$415,131) was owing at year end.

Directors of Reece Messrs L.A. Wilson and B.W.C. Wilson have a beneficial interest in entities that lease premises to the consolidated entity. All dealings with these entities are in the ordinary course of business and on normal terms and conditions no more favourable than those which would have been expected if dealing at arm's length in the same circumstances. Lease rentals paid to these entities during the year were \$1,235,029 (2017: \$1,211,040).

From time to time, Directors and senior managers of Reece or its controlled entities, may purchase goods from the consolidated entity. These transactions are on the same terms and conditions as those entered into by other consolidated entity employees.

# Directors' Report

## Directors' shareholdings as at 30 June 2018:

2018					Ordinary Shares of Reece Limited
Director	Opening Balance	Share Split Restatement	Non Renounceable Right Issue	Other	Closing Balance
L.A. Wilson	66,625,820	333,129,100	15,053,464		348,182,564
B.W.C. Wilson	66,508,320	332,541,600	2,149,538		334,691,138
P.J. Wilson	3,466,860	17,334,300			17,334,300
R.G. Pitcher, AM	30,000	150,000	19,774		169,774
B.C. Wilson	3,382,360	16,911,800			16,911,800
T.M. Poole	1,400	7,000	924		7,924
M.L. Quinn	0				0
G. Williams	0				0
A.T. Gorecki (retired)	13,000	65,000	5,538	(30,538)	40,000

2017					Ordinary Shares of Reece Limited
Director	Opening Balance	Share Split Restatement	Non Renounceable Right Issue	Other	Closing Balance
J.G. Wilson (retired)	67,438,320				67,438,320
L.A. Wilson	66,625,820				66,625,820
B.W.C. Wilson	66,508,320				66,508,320
P.J. Wilson	3,466,860				3,466,860
R.G. Pitcher, AM	30,000				30,000
A.T. Gorecki	13,000				13,000
B.C. Wilson	3,382,360				3,382,360
T.M. Poole	1,400				1,400

Note: Many of the Director's shareholdings relate to the same shares.



# Directors' Report

## Remuneration Report (Audited)

### Remuneration Policies

Remuneration of the Directors and senior management is the responsibility of the Remuneration Committee. The broad remuneration policy is to ensure remuneration packages properly reflect the person's duties and responsibilities and that remuneration is competitive in attracting and retaining talented and motivated executives who can enhance our performance through their contributions and leadership. The Remuneration Committee undertakes benchmarking in comparing the Director and senior management remuneration levels with a comparative group of companies.

### Remuneration – Non-Executive Directors

Non-Executive Directors receive fees and do not receive performance based payments. Their fees reflect the additional committees that they may serve on from time to time. The maximum aggregate amount of remuneration payable to Non-Executive Directors is capped at the level approved by the shareholders.

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

There is no scheme to provide Non-Executive Directors with retirement benefits other than statutory superannuation.

### Remuneration – Executive Chairman

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

Apart from statutory termination benefits, which include accrued leave entitlements, there are no arrangements in place to provide the Executive Chairman with any additional retirement benefits.

### Remuneration - Chief Executive Officer and Key Management Personnel

The Chief Executive Officer and other Executives receive salary, short-term incentives, non-cash benefits and superannuation contributions. Apart from statutory termination benefits, which include accrued leave entitlements, there are no arrangements in place to provide the Chief Executive Officer or any other Executive with any additional retirement benefits.

The Chief Executive Officer and other Executives have employment contracts with notice periods executable by either party. Reece is required to give the Chief Executive Officer 12 months' notice of termination and the Chief Executive Officer is required to provide six months' notice on resignation. Other Executives are required to provide six months' notice on resignation and Reece is required to provide a six months' notice of termination. The Chief Executive Officer and Other Executives have restraint provisions.

The salary for the Chief Executive Officer and other Executives reflects their roles, experience and level of responsibility. Salaries are reviewed and benchmarked to a comparable group by the Remuneration Committee.

Non-cash benefits were received by the Chief Executive Officer. The majority of the benefit related to the provision of a motor vehicle. The other Executives did not receive any non-cash benefits.

The Chief Executive Officer's performance based short-term incentive is calculated on 100% (2017: 75%) of base salary with a ceiling of 150% (2017: 120%) for exceptional performance. The scheme provides for no payment in the event the minimum performance targets as set by the Board annually are not met.

The other Executive performance based short-term incentive is calculated on 50% (2017: 40%) of base salary with a ceiling of 75% (2017: 60%) and structured around the same company performance criteria as the Chief Executive Officer and provides for no payment in the event the minimum performance targets as set by the Board annually are not met.

### Short-term Incentives

Short-term incentives are a cash payment only and are based on financial and non-financial measures framed around the Company's trading and operating performance and individual performance. The majority of the short-term incentives relate to the following metrics; growth in profit before tax, return on equity, capital management and profit before tax as a percentage of sales. The targets are set by the Board at the beginning of the financial year.

Short-term incentives are paid to the Chief Executive Officer and other Executives. The Non-Executive Directors and Executive Chairman do not receive any short-term incentives. The financial and operational targets set by the Board are considered the most relevant measures of the group performance and are key inputs in driving long-term shareholder value.

# Directors' Report

## Remuneration Report (Audited)

### Long-term Incentives

The Board does not offer any long-term incentives or performance options to the Non-Executive Directors, Executive Chairman, Chief Executive Officer or Company Secretary/Chief Financial Officer. The Board believes the substantial ownership of shares in the company by Directors provides the incentive to drive long-term shareholder value.

### Business Performance

The Board was very pleased with the performance of the business during the 2018 financial year with record sales and profit results. The key financial achievements of the business were:

- Sales revenue was up 10.7% to \$2,689 million;
- Earnings before interest, tax and foreign currency was up 5.0% to \$324 million;
- Net profit after tax up 6.1% to \$225 million; and
- Total Dividend for FY2018 up 1.3% to 20.25 cents per share

Relationship between remuneration and company performance	2018 \$(000's)	2017 \$(000's)	2016 \$(000's)	2015 \$(000's)	2014 \$(000's)
Sales revenue	2,688,576	2,429,307	2,276,353	2,085,128	1,775,876
Earnings before interest, tax and foreign currency	324,476	308,948	288,462	237,166	189,060
Net profit after tax	224,620	211,791	192,218	165,556	123,025
Dividends declared	109,797	99,600	91,632	75,696	63,744
Performance based incentives to KMP	4,075	2,982	2,454	2,179	1,854

	2018 \$	2017 \$	2016 \$	2015 \$	2014 \$
Share price at year-end	12.65	8.31	7.32	6.86	5.98

# Directors' Report

## Remuneration Report (Audited)

### Remuneration Report (Audited) Key Management Personnel

	Salary & Fees \$	Short-Term Performance Based Payment \$	Other Non-cash benefits \$	Super Contributions \$	Total \$	Total Performance Related %
<b>Directors</b>						
L.A. Wilson (Executive Chairman)						
2018	1,412,868	-	50,596	22,132	1,485,596	0%
2017	1,400,000	-	45,504	35,000	1,480,504	0%
P.J. Wilson (Chief Executive Officer/Managing Director)						
2018	1,983,047	3,001,209	125,750	25,000	5,135,006	58%
2017	1,886,353	2,216,245	62,122	30,000	4,194,720	53%
B.W.C. Wilson (Non-Executive)						
2018	82,192	-	-	7,808	90,000	0%
2017	82,192	-	-	7,808	90,000	0%
R.G. Pitcher, AM (Non-Executive)						
2018	141,553	-	-	13,448	155,001	0%
2017	141,553	-	-	13,448	155,001	0%
A.T. Gorecki (Non-Executive/retired)						
2018	16,743	-	-	1,591	18,334	0%
2017	100,457	-	-	9,543	110,000	0%
B.C. Wilson (Non-Executive)						
2018	82,192	-	-	7,808	90,000	0%
2017	66,702	-	-	6,337	73,039	0%
T.M. Poole (Non-Executive)						
2018	114,155	-	-	10,845	125,000	0%
2017	105,520	-	-	10,024	115,544	0%
M.L. Quinn (Non-Executive)						
2018	95,129	-	-	9,037	104,166	0%
G. Williams (Non-Executive)						
2018	95,129	-	-	9,037	104,166	0%
J.G. Wilson (Non-Executive / retired)						
2017	15,862	-	-	-	15,862	0%
<b>Total Remuneration: Directors</b>						
2018	4,023,008	3,001,209	176,346	106,706	7,307,269	41%
2017	3,798,639	2,216,245	107,626	112,160	6,234,670	36%



# Directors' Report

## Remuneration Report (Audited)

### Remuneration Report (Audited)

	Salary & Fees \$	Short-Term Performance Based Payment \$	Other Non-cash benefits \$	Super Contributions \$	Total \$	Total Performance Related %
<b>Executives</b>						
G.W. Street (Company Secretary & Chief Data & Digital Officer)						
2018	684,114	404,116	-	25,000	1,113,230	36%
2017	655,133	334,680	-	30,000	1,019,813	33%
S. Nikolic (Chief Financial Officer)						
2018	489,750	367,500	-	25,000	882,250	42%
2017	408,917	193,014	-	25,000	626,931	31%
A. Palumbo (Chief Marketing & Supply Officer)						
2018	468,083	301,776	-	56,983	826,842	36%
2017	434,333	238,657	-	52,596	725,586	33%
<b>Total Remuneration: Executives</b>						
2018	1,641,947	1,073,392	-	106,983	2,822,322	38%
2017	1,498,383	766,351	-	107,596	2,372,330	32%

"Executives" are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Being a working Board, decisions and directions are exercised through the Board and accordingly, there are 3 employees in addition to the Directors who are in this category.

At our most recent Annual General Meeting, resolution to adopt the prior year remuneration 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 30 August 2018.

Signed in accordance with a resolution of Directors.

**L. A. WILSON**  
Executive Chairman

**P. J. WILSON**  
Chief Executive Officer / Managing Director

# Auditor's Independent Declaration



To the Directors of Reece Limited

In relation to the independent audit for the year ended 30 June 2018, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants*.

This declaration is in respect of Reece Limited and the entities it controlled during the year.

**P.A JOSE**  
**Partner**  
**30 August 2018**

**PITCHER PARTNERS**  
**Melbourne**

For the year ended 30 June 2018

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Consolidated Entity	
	Notes	2018 (\$000s)	2017 (\$000s)
<b>Revenue and other income</b>			
Sales revenue	4	2,688,576	2,429,307
Other income	4	2,780	1,651
		2,691,356	2,430,958
<b>Less: Expenses</b>			
Cost of goods sold	5	1,799,481	1,619,208
Employee benefits expense	5	299,730	266,360
Depreciation	5	53,847	49,956
Finance costs		5,035	5,901
Other expenses		213,822	186,486
<b>Profit before income tax</b>		319,441	303,047
Income tax expense	6	94,821	91,256
<b>Net Profit for the year from continuing operations</b>		224,620	211,791
<b>Other Comprehensive Income</b>			
<b>Items that maybe reclassified subsequently to profit and loss:</b>			
Exchange differences on translation of foreign operations, net of tax		(1,204)	(43)
Cash flow FX hedge, net of tax		5,328	(849)
<b>Total comprehensive income</b>		<b>228,744</b>	<b>210,899</b>
Basic earnings per share	21	45 cents	43 cents
Diluted earnings per share	21	45 cents	43 cents

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 48 to 69.



As at 30 June 2018

## Consolidated Statement of Financial Position

		Consolidated Entity	
	Notes	2018 (\$'000s)	2017 (\$'000s)
<b>Current Assets</b>			
Cash and cash equivalents	8	539,891	101,805
Receivables	9	410,212	360,912
Inventories	10	540,564	457,063
<b>Total Current Assets</b>		<b>1,490,667</b>	<b>919,780</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	11	568,714	528,908
Intangible assets	12	225,741	205,169
Deferred tax assets	6	39,125	34,089
<b>Total Non-Current Assets</b>		<b>833,580</b>	<b>768,166</b>
<b>Total Assets</b>		<b>2,324,247</b>	<b>1,687,946</b>
<b>Current Liabilities</b>			
Payables	13	369,557	353,942
Current tax payable	6	7,624	16,171
Provisions	15	60,013	54,585
<b>Total Current Liabilities</b>		<b>437,194</b>	<b>424,698</b>
<b>Non-Current Liabilities</b>			
Long-term payables	13	2,212	1,863
Long-term borrowings	14	-	100,000
Provisions	15	4,003	3,084
<b>Total Non-Current Liabilities</b>		<b>6,215</b>	<b>104,947</b>
<b>Total Liabilities</b>		<b>443,409</b>	<b>529,645</b>
<b>Net Assets</b>		<b>1,880,838</b>	<b>1,158,301</b>
<b>Equity</b>			
Contributed equity	16	604,349	9,960
Reserves	17	7,872	3,748
Retained earnings	18	1,268,617	1,144,593
<b>Total Equity</b>		<b>1,880,838</b>	<b>1,158,301</b>

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 48 to 69.

For the year ended 30 June 2018

## Consolidated Statement of Changes in Equity

Consolidated Entity	Contributed Equity (\$000s)	Reserves (\$000s)	Retained Earnings (\$000s)	Total Equity (\$000s)
Balance as at 1 July 2016	9,960	4,640	1,026,426	1,041,026
Profit for the year	-	-	211,791	211,791
Exchange differences on translation of foreign operations, net of tax	-	(43)	-	(43)
Cash flow FX hedge, net of tax	-	(849)	-	(849)
Total comprehensive income for the year	-	(892)	211,791	210,899
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(93,624)	(93,624)
Total transactions with owners in their capacity as owners:	-	-	(93,624)	(93,624)
Balance as at 30 June 2017	9,960	3,748	1,144,593	1,158,301
Balance as at 1 July 2017	9,960	3,748	1,144,593	1,158,301
Profit for the year	-	-	224,620	224,620
Exchange differences on translation of foreign operations, net of tax	-	(1,204)	-	(1,204)
Cash flow FX hedge, net of tax	-	5,328	-	5,328
Total comprehensive income for the year	-	4,124	224,620	228,744
Transactions with owners in their capacity as owners:				
Additional Contributed Equity	594,389	-	-	594,389
Dividends paid	-	-	(100,596)	(100,596)
Total transactions with owners in their capacity as owners:	594,389	-	(100,596)	493,793
Balance as at 30 June 2018	604,349	7,872	1,268,617	1,880,838

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 48 to 69.

For the year ended 30 June 2018

## Consolidated Statement of Cash Flows

		Consolidated Entity	
	Notes	2018 (\$000s)	2017 (\$000s)
<b>Cash flow from operating activities</b>			
Receipts from customers		2,926,274	2,643,569
Payments to suppliers and employees		(2,633,037)	(2,325,738)
Interest received		1,987	1,065
Finance costs		(5,753)	(6,372)
Income tax paid		(108,546)	(97,715)
<b>Net cash provided by operating activities</b>	19	180,925	214,809
<b>Cash flow from investing activities</b>			
Payment for property, plant and equipment		(88,244)	(94,883)
Payment for intangibles		-	(282)
Payment for business acquisitions		(54,050)	(3,563)
Proceeds from sale of property, plant and equipment		5,662	19,225
<b>Net cash used in investing activities</b>		(136,632)	(79,503)
<b>Cash flow from financing activities</b>			
Proceeds from capital raising		594,389	-
Dividends paid		(100,596)	(93,624)
Repayments of borrowings		(282,000)	(160,000)
Proceeds from borrowings		182,000	115,000
<b>Net cash used in financing activities</b>		393,793	(138,624)
<b>Net (decrease)/ Increase in cash and cash equivalents</b>		438,086	(3,318)
<b>Cash and cash equivalents at the beginning of the year</b>		101,805	105,123
<b>Cash and cash equivalents at the end of the year</b>	8	539,891	101,805

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 48 to 69.



## Notes

### 1. Statement of Significant Accounting Policies

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

#### (a) Basis of preparation of the financial report

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 and the *Corporations Act 2001*.

The financial report covers Reece Limited and controlled entities as a consolidated entity. 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 financial report was authorised for issue as at the date of the Directors' Report.

#### Compliance with IFRS

The consolidated financial statements of Reece Limited also comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

#### Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

#### (b) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, 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 26.

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.

#### (c) Revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

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

Rent revenue from operating leases is recognised on a straight-line basis over the term of the lease.

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

#### (d) Cash and Cash Equivalents

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.

#### (e) Inventories

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

#### (f) Property, plant and equipment

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

#### Depreciation

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:

	2018	2017
<b>Freehold Buildings</b>	25 years	25 years
<b>Fixtures, fittings and equipment</b>	2.5 to 20 years	2.5 to 20 years
<b>Motor vehicles</b>	5 to 8 years	5 to 8 years

## To the financial statements for the year ended 30 June 2018

### Notes

#### (g) Leases

Leases of buildings, plant and equipment under which the parent entity or its controlled entities do not assume substantially all the risks and benefits of ownership, are classified as operating leases.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

#### (h) Business Combinations

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

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

Goodwill is recognised initially at the excess over the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), less the fair value of the identifiable assets acquired and liabilities assumed.

If the fair value of the acquirer's interest is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), the surplus is immediately recognised in the statement of comprehensive income.

Acquisition related costs are expensed as incurred.

#### (i) Intangibles

##### *Goodwill*

Goodwill is initially measured at the excess over the aggregate of the consideration transferred, the fair value (or proportionate share of net assets value) of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), less the fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortised but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

#### (j) Impairment of non-financial assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136

Impairment of Assets. 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.

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.

#### (k) 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.

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.

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

#### *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.

#### (l) 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.

## Notes

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.

### (m) Financial Instruments

#### **Classification**

The consolidated entity classifies its financial instruments in the following categories: loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

#### **Loans and receivables**

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

#### **Held-to-maturity investments**

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. They are measured at amortised cost using the effective interest rate method.

#### **Financial liabilities**

Financial liabilities include trade payables, other creditors, loans from third parties and loans or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### **Derivative financial instruments**

The consolidated entity holds derivative financial instruments to hedge its risk exposures from foreign currency.

Derivatives are initially recognised at fair value and applicable transaction costs are recognised in profit or loss as they are incurred. After initial recognition, derivatives that are not designated in a qualifying hedge relationship are measured at fair value and changes in value are recognised immediately in profit or loss.

#### **Hedge Accounting**

The consolidated entity has adopted for the first time hedge accounting effective 1 July 2016. The Group designates certain hedging instruments, which include forward exchange contracts in respect of foreign currency risk, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as 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 other

comprehensive income and accumulated under the heading of cash flow hedging reserve. 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.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

#### **Borrowing costs**

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

#### **Impairment of financial assets**

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment.

### (n) Foreign Currencies

#### **Functional and presentation currency**

The financial statements of each group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

#### **Transactions and Balances**

Transactions in foreign currencies of entities within the consolidated entity are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Except for certain foreign currency hedges, resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.



## To the financial statements for the year ended 30 June 2018

### Notes

#### Group Companies

The financial statements of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at the reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- All resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve as a separate component of equity in the statement of financial position.

#### (o) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

#### (p) Rounding Amounts

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

#### (q) New Accounting standards and interpretations

The AASB has issued a number of 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.

AASB 15: Revenue from Contracts with Customers - applicable for annual reporting periods commencing on or after 1 January 2018.

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

This Standard provides a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. To give effect to this principle, AASB 15 requires the adoption of the following 5-step model:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations under the contract(s);
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations under the contract(s); and
- Step 5: Recognise revenue when (or as) the entity satisfies the performance obligations.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

The recognition requirements of AASB15 are not expected to have any material impact to the timing and amount of revenue recorded in the Financial Statements.

AASB 16: Leases (applicable for annual reporting periods commencing on or after 1 January 2019).

AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- Right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
- Investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or
- Property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- Lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

## Notes

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, under AASB 16 a lessor would continue to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and would account for each type of lease in a manner consistent with the current approach under AASB 117.

The group has a significant number of leases that qualify to be recognised as a right-of-use asset. The initial adoption of the standard will establish a liability, being the total financial obligation and a corresponding asset, representing the right of use. The current annual financial obligation which is expensed in the Statement of Profit and Loss and Other Comprehensive Income will be replaced by a combination of amortisation and interest charges over the life of the asset in use.

### **(r) 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 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.

## **2. Significant Accounting Estimates and Judgements**

Certain accounting estimates include assumptions concerning the future, which, by definition, will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

### ***(a) Income taxes***

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.

### ***(b) Impairment of goodwill***

Goodwill is allocated to cash generating units (CGU) according to applicable business operations. The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a period of 5 years. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. A terminal value growth rate of 3.5% and a discount rate of 11% have been used to determine value-in-use for Metallflex and Actrol. A terminal value of 2% and a discount rate of 13% has been used for Viadux.

### ***(c) Impairment of non-financial assets other than goodwill***

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 consolidated entity. Impairment triggers include declining product performance, technology changes, adverse changes in the economic or political environment or future product expectations. The recoverable amount of the CGU is determined by value-in-use calculations as described in 2(b).

## To the financial statements for the year ended 30 June 2018

### Notes

#### 3. Financial Risk Management

The consolidated entity is exposed to a variety of financial risks comprising:

- a) Currency risk;
- b) Interest rate risk;
- c) Credit risk; and
- d) Liquidity risk; and
- e) Fair values.

The Board has overall responsibility for identifying and managing operational and financial risks.

##### (a) Currency Risk – Forward exchange contracts

Forward exchange contracts are entered into in order to buy and sell specified amounts of foreign currency in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the consolidated entity against unfavourable exchange rate movements for both the contracted and anticipated future purchases undertaken in foreign currencies. The consolidated entity reviews its currency risk on a regular basis, taking into account refinancing, renewal of existing positions and alternative financing. 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 consolidated entity's Foreign Exchange Management Policy.

The full amount of the foreign currency the consolidated entity will be required to pay or purchase when settling the brought forward exchange contracts should the counterparty not pay the currency it is committed to deliver at balance date was \$115,395,935 (2017: \$170,696,849).

The consolidated entity utilised a mixture of forward exchange contracts and direct purchase of foreign currency to manage its foreign currency exposure.

The accounting policy in regard to financial instruments is detailed in Note 1(m).

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

Buy United States Dollars	2018	Sell Australian Dollars	2017	Average Exchange Rate	2018	2017
Settlement	<b>\$'000</b>	<b>\$'000</b>	<b>\$</b>	<b>\$</b>		
Less than 6 months	<b>72,038</b>	67,507	<b>0.79</b>		0.76	
6 months to 1 year	-	56,890	-		0.75	
1 to 2 years	-	-	-		-	

Buy Euros	2018	Sell Australian Dollars	2017	Average Exchange Rate	2018	2017
Settlement	<b>\$'000</b>	<b>\$'000</b>	<b>\$</b>	<b>\$</b>		
Less than 6 months	<b>36,662</b>	28,724	<b>0.62</b>		0.70	
6 months to 1 year	<b>4,727</b>	11,284	<b>0.63</b>		0.66	
1 to 2 years	-	-	-		-	

Buy Japanese Yen	2018	Sell Australian Dollars	2017	Average Exchange Rate	2018	2017
Settlement	<b>\$'000</b>	<b>\$'000</b>	<b>\$</b>	<b>\$</b>		
Less than 6 months	<b>1,969</b>	5,308	<b>81.76</b>		83.46	
6 months to 1 year	-	984	-		81.78	

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 additional loss of \$7.6m after tax (2017: \$10.8m).

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 an additional profit of \$9.3m after tax (2017: \$13.1m).



## Notes

### Cash Flow Hedges

The consolidated entity uses cash flow hedges to limit the risk of variability of future cash flows arising from foreign currency fluctuations over the hedging period associated with highly probably forecast transactions of inventory acquisitions denominated in currencies other than the Australian Dollar.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. 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.

The consolidated entity utilises forward exchange contracts (FEC's) as its preferred hedging instrument. At balance date the change in fair values of existing FEC's are:

Change in fair value	2018 FEC's	2017 FEC's
Currency	\$'000's	\$'000's
United State Dollar	(4,759)	(1,250)
Euros	288	175
Japanese Yen	(8)	1,924
Total	(4,479)	849

Gains or losses on any portion of the hedge instrument determined to be ineffective is immediately recognised in profit or loss. Ineffectiveness can potentially arise from timing differences, for example, differences in the timing of settlement between the hedging instrument and hedged item. There was no material ineffectiveness related to financial instruments in designated cash flow hedge relationships during the year.

## To the financial statements for the year ended 30 June 2018

### Notes

#### (b) Interest Rate Risk

The consolidated entity's long-term borrowings are for a period of 5 years at fixed interest rates. Interest rate risk arises from short-term cash deposits. During 2018 and 2017, the consolidated entity held both fixed and variable rate deposits.

The consolidated entity reviews its interest rate exposure on a monthly basis, taking into account both short-term and long-term deposit rates. At 30 June 2018, if interest rates had changed  $\pm 1\%$  from the year-end rates, with all other variables held constant, the effect on post-tax profit for the year would have been immaterial.

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Fixed interest rate maturing in:						Weighted average effective interest rate
	Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total carrying amount as per Statement of financial position	
	2018 2017	2018 2017	2018 2017	2018 2017	2018 2017	2018 2017	2018 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
<b>(i) Financial assets</b>							
<b>Cash</b>	539,660 101,580	-	-	-	231 225	539,891 101,805	1.85 1.70
<b>Trade and other receivables</b>	-	-	-	-	410,212 360,912	410,212 360,912	
<b>Total financial assets</b>	539,660 101,580	-	-	-	410,443 361,137	950,103 462,717	
<b>(ii) Financial liabilities</b>							
<b>Borrowings</b>	-	-	-	-	-	-	-
	-	-	100,000	-	-	100,000	4.82
<b>Trade payables</b>	-	-	-	-	369,557 353,942	369,557 353,942	
<b>Long-term payables</b>	-	-	-	-	2,212 1,863	2,212 1,863	
<b>Total financial liabilities</b>	-	-	-	-	371,769 355,805	371,769 455,805	

## Notes

### (c) Credit Risk Exposures

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.

Credit risk for cash deposits is managed by holding all cash deposits with a selection of major Australian banks.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts is the net fair value of these contracts. All forward exchange contracts are transacted with a selection of major Australian banks.

With the exception of its bankers, the consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

The consolidated entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers.

The consolidated entity has established systems and controls in relation to the approval of credit terms for each customer, monitoring of any overdue amounts and removal of credit terms where appropriate. In addition the consolidated entity holds an insurance policy against certain larger customers whereby the consolidated entity is compensated in the event of a customer default.

At balance date 97.0% of trade receivables are within approved credit terms (2017: 97.1%). All trade receivables that are not impaired are expected to be received in accordance with trading terms.

### (d) Liquidity Risk

The consolidated entity's risk management includes maintaining sufficient cash and the availability of funding via an adequate amount of credit facilities as disclosed in Note 19. Long-term borrowings are for period of 5 years. All other current payables and borrowings are expected to be settled within 6 months.

### (e) Fair values

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the Consolidated Statement of Financial Position and Notes to the financial statements. Other derivative instruments in relation to forward exchange contracts have been recognised at fair value in a reserve in the statement of financial position. Forward exchange contracts are level 2 financial instruments in the fair value measurement hierarchy.

The fair value of these foreign exchange contracts is the estimated amount that the consolidated entity would pay to terminate the contract at the balance date, taking into account current foreign exchange rates at the time of maturity.

## Notes

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)
<b>4. Revenue and Other Income</b>		
Revenues from continuing operations:		
Revenue from sale of goods	2,688,576	2,429,307
Other Income		
Interest received or due and receivable from other persons	1,925	1,066
Bad debts recovered	855	585
	2,780	1,651
<b>Total revenues and other income from continuing operations</b>	<b>2,691,356</b>	<b>2,430,958</b>
<b>5. Profit from Continuing Operations</b>		
Profit from continuing operations before income tax has been determined after the following specific expenses:		
Cost of goods sold	1,799,481	1,619,208
Bad debts written off:		
Trade debtors	1,510	1,327
Depreciation:		
Buildings	5,513	5,307
Motor vehicles	10,234	9,574
Fixtures, fittings and equipment	38,100	35,075
Employee benefits expense:		
Wages and salaries	276,433	246,022
Superannuation costs	23,297	20,338
Other expense items:		
Loss on disposal of fixed assets	31	505
Operating lease rentals	44,598	41,449



# To the financial statements for the year ended 30 June 2018

## Notes

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)
<b>6. Income Tax</b>		
(a) The components of tax expense:		
Current tax	99,926	93,818
Deferred tax	(4,972)	(2,359)
Over provision in prior year	(133)	(203)
Income tax expense	94,821	91,256
(b) The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
At the statutory income tax rate of 30% (2017: 30%)	95,833	90,914
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible expenditure	(879)	545
Over provision in prior year	(133)	(203)
Income tax expense	94,821	91,256
(c) Deferred tax asset relates to the following:		
Employee benefits	19,366	17,136
Provisions and other timing differences	5,674	5,706
Losses available for offset against future taxable income	2,031	-
Depreciation of buildings & rental incentives	12,054	11,247
	39,125	34,089
Movement in deferred tax asset:		
Balance at beginning of year	34,089	31,697
Acquired DTA from business acquisition	64	33
Movement to the statement of financial position	4,972	2,359
Balance at the end of the year	39,125	34,089
Current tax liability		
Balance at beginning of the year	16,171	20,278
Current tax	99,926	93,818
Tax instalments paid	(108,546)	(97,715)
Over provision in prior year	(133)	(203)
Acquired provision from business acquisition	206	(7)
Balance at the end of the year	7,624	16,171
<b>Deferred tax asset not brought to account</b>		
Deferred tax asset relating to tax losses (2017: 28%)	-	2,911
The deferred tax asset not brought to account relates to a foreign subsidiary and will only be obtained if:		
(i) the subsidiary derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised; and		
(ii) the subsidiary continues to comply with the conditions for deductibility imposed by the law; and		
(iii) no changes in tax legislation adversely affect the subsidiary in realising the benefit.		

## To the financial statements for the year ended 30 June 2018

### Notes

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)
<b>7. Dividends on Ordinary Shares</b>		
The following are the dividends paid and/or proposed for the financial year:		
<b>In respect of the previous financial year:</b>		
Final dividend of 14.2 cents per share paid 26 October 2017 (fully franked to 30%)	70,716	64,740
<b>In respect of the current financial year:</b>		
Interim dividend of 6 cents per share paid 29 March 2018 (fully franked to 30%)	29,880	28,884
<b>Dividends declared after the reporting period and not recognised:</b>		
Final dividend of 14.25 cents per share to be paid 25 October 2018 (fully franked to 30%)	79,917	70,716
	109,797	99,600
<b>Dividend franking account</b>		
Balance of franking account at year end adjusted for franking credits arising from payment of income tax and franking debits arising from dividends paid.	607,401	544,131
Impact on the franking account of dividends recommended by the directors since the year end but not recognised as a liability at year end.	(34,250)	(30,307)
	573,151	513,824
<b>8. Cash and Cash Equivalents</b>		
Cash on hand	231	225
Cash on deposit	539,660	101,580
	539,891	101,805
<b>9. Receivables</b>		
Current		
Trade receivables	394,246	352,376
Less: Impairment	(5,358)	(4,979)
	388,888	347,397
Other receivables and prepayments	21,324	13,515
	410,212	360,912
Provision for impairment		
Opening balance at 1 July	(4,979)	(5,933)
Net charge for the year	(379)	954
Closing balance as at 30 June	(5,358)	(4,979)
<b>10. Inventories</b>		
Finished goods, at lower of cost or net realisable value	540,564	457,063

## Notes

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)
<b>11. Property, Plant and Equipment</b>		
Freehold land at cost	167,331	157,674
Freehold buildings at cost	158,571	154,329
Less: Accumulated depreciation	(73,135)	(68,054)
	85,436	86,275
Fixtures, fittings and equipment at cost	539,031	474,031
Less: Accumulated depreciation	(291,511)	(252,657)
	247,520	221,374
Motor vehicles at cost	109,736	101,670
Less: Accumulated depreciation	(41,309)	(38,085)
	68,427	63,585
<b>Total property, plant and equipment</b>	<b>568,714</b>	<b>528,908</b>
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.		
Freehold land		
Carrying amount at beginning of year	157,674	151,253
Additions through business combinations	5,543	-
Additions	5,573	6,771
Disposals	(1,459)	(350)
Carrying amount at end of year	167,331	157,674
Buildings		
Carrying amount at beginning of year	86,275	85,196
Additions through business combinations	1,454	-
Additions	3,961	6,597
Disposals	(741)	(211)
Depreciation	(5,513)	(5,307)
Carrying amount at end of year	85,436	86,275
Fixtures, fittings & equipment		
Carrying amount at beginning of year	221,374	204,193
Additions through business combinations	3,287	-
Additions	61,251	52,617
Disposals	(292)	(361)
Depreciation	(38,100)	(35,075)
Carrying amount at end of year	247,520	221,374

## To the financial statements for the year ended 30 June 2018

### Notes

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)
<b>11. Property, Plant and Equipment (cont'd)</b>		
Motor vehicles		
Carrying amount at beginning of year	63,585	59,393
Additions through business combinations	818	-
Additions	17,459	18,074
Disposals	(3,201)	(4,308)
Depreciation	(10,234)	(9,574)
Carrying amount at end of year	68,427	63,585
Total Property, Plant and Equipment		
Carrying amount at beginning of year	528,908	500,035
Additions through business combinations	11,102	-
Additions	88,244	84,059
Disposals	(5,693)	(5,230)
Depreciation	(53,847)	(49,956)
Carrying amount at end of year	568,714	528,908
<b>12. Intangibles</b>		
Goodwill		
Carrying amount at beginning of year	155,369	152,092
Additions through business combination	20,572	3,277
Impairment of Goodwill	-	-
Carrying amount at end of year	175,941	155,369
Brand Names		
Carrying amount at end of year	49,800	49,300
Additions through business combination	-	500
Carrying amount at end of year	49,800	49,800
	<b>225,741</b>	<b>205,169</b>

The goodwill and brand names have been allocated to the Groups cash generating units (CGUs) identified according to the businesses acquired upon the purchase of Actrol Parts Holdings Pty Ltd and Viadux Pty Ltd:

	Goodwill	Brand Names
Actrol Parts Pty Ltd ('Actrol')	119,326	29,100
AC Components Pty Ltd ('ACC')	28,949	20,200
Viadux Pty Ltd ('Viadux')	15,174	-
Other	12,492	500
	<b>175,941</b>	<b>49,800</b>

Goodwill and brand names have been tested for impairment as at 30 June 2018 using discounted cash flow on a value-in-use basis. These calculations are based on projected cash flows approved by management covering a period of 5 years. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. For the Actrol CGU, a terminal value growth rate of 3.5% (2017: 3.5%) and a discount rate of 11% (2017: 11%) has been used to determine value-in-use. For the ACC CGU, a terminal value growth rate of 3.5% (2017: 3.5%) and a discount rate of 11% (2017: 11%) has been used to determine value-in-use. For the Viadux CGU, a terminal value growth rate of 2% and a discount rate of 13% has been used to determine value-in-use.



## To the financial statements for the year ended 30 June 2018

### Notes

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)
<b>13. Payables</b>		
Current		
Trade payables	369,557	353,942
Non Current		
Other	2,212	1,863
<b>14. Borrowings</b>		
Non-current		
Bank term loan facility	-	100,000
	-	100,000
<b>15. Provisions</b>		
Current		
Employee benefits	58,485	52,135
Warranty	1,528	2,200
Other	-	250
	60,013	54,585
Non-current		
Employee benefits	4,003	3,084
Aggregate employee benefits liability	62,488	55,219
<b>16. Contributed Equity</b>		
Issued and paid up capital		
Ordinary shares fully paid - 560,822,855 (2017: 99,600,000)	604,349	9,960

In May 2018, additional shares were issued by way of both an Institutional and Retail Entitlement Offer. New shares issued will rank equally in all respects with existing shares.

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

At shareholder's meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

#### Capital Management

When managing capital, management's objective is to ensure the consolidated entity 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 2018, management paid /declared dividends of \$109.8m (2017: \$99.6m)

## To the financial statements for the year ended 30 June 2018

### Notes

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)
<b>17. Reserves</b>		
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 entity)	390	1,594
FX Hedge Reserve	4,479	(849)
	7,872	3,748
<b>18. Retained Earnings</b>		
Balance at the beginning of year	1,144,593	1,026,426
Net profit attributable to members of parent entity	224,620	211,791
Dividends paid	(100,596)	(93,624)
Balance at end of year	1,268,617	1,144,593
<b>19. Cash Flow Information</b>		
(a) Reconciliation of the net profit after tax to the net cash flows from operations:		
Net profit	224,620	211,791
Add/(less) non cash items:		
Profit or loss on sale or disposal of non-current assets	31	505
Depreciation	53,847	49,956
Exchange translation	4,124	(892)
Amounts set aside to provisions	2,780	3,423
<b>Net cash flows from operations before change in assets and liabilities</b>	285,402	264,783
<b>Change in assets and liabilities</b>		
(Increase)/decrease in receivables	(29,160)	(27,851)
(Increase)/decrease in inventory	(53,436)	(51,164)
Increase/(decrease) in payables	(8,144)	35,500
Increase/(decrease) in income taxes payable	(8,765)	(4,100)
(Increase)/decrease in deferred tax assets	(4,972)	(2,359)
<b>Net cash flow from operating activities</b>	180,925	214,809

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

## Notes

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)

### 19. Cash Flow Information (cont'd)

#### (b) Financing facilities

##### Bank Loans and Overdraft

Bank facilities are secured by Deed of Negative Pledge which includes the following financial covenants; shareholder equity, interest cover ratio and gearing ratio.

The consolidated entity has access to the following lines of credit:

Total facilities available and unused at 30 June 2018

Bank Overdraft	- facility	917	952
	- unused	917	952
Term Loan	- facility	100,000	100,000
	- unused	100,000	-
Uncommitted Placement Line	- facility	15,000	25,000
	- unused	15,000	25,000
Multi-Currency Cash Advance	- facility	5,000	5,000
	- unused	5,000	5,000
Cash Advance	- facility	60,000	25,000
	- unused	60,000	25,000
Bank Guarantees	- facility	20,598	11,923
	- unused	914	3,330
Trade Refinance & documentary letters of credit/surrenders	- facility	10,196	10,000
	- unused	9,427	8,095
Credit cards	- facility	3,429	3,438
	- unused	1,953	2,386
Total	- facility	215,140	181,313
	- unused	193,211	69,763

### 20. Commitments

Future operating lease rentals not provided for and payable in respect of:

Buildings	256,890	251,910
Motor Vehicles	791	-
	257,681	251,910
Due not later than one year	51,744	47,874
Due later than one year but not later than five years	139,045	124,890
Due later than five years	66,892	79,146
	257,681	251,910

## To the financial statements for the year ended 30 June 2018

### Notes

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)

#### 21. Earnings Per Share

Earnings used in calculating basic and diluted earnings per share.	224,620	211,791
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share.	503,336	498,000
The earnings per share has been calculated on the weighted average of share capital during the year.	45 cents	43 cents
During the year a share capital split was approved on the basis of 1 share be subdivided into 5 shares. Comparative numbers have been re-stated to reflect the change.		

#### 22. Auditor's Remuneration

	2018 \$	2017 \$
<b>Audit/Review Fees</b>	<b>690,000</b>	<b>720,000</b>
<b>Amounts paid and payable to Pitcher Partners for non-audit services:</b>		
Taxation services	787,565	115,018
Other assurance services	328,813	73,686
	<b>1,116,378</b>	<b>188,704</b>
<b>Amounts paid and payable to network firms of Pitcher Partners:</b>		
Audit/Review fees	-	-
Other assurance services	10,645	17,924
	<b>10,645</b>	<b>17,924</b>

#### 23. Related Party Disclosures

##### (a) 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, B.W.C. Wilson, P.J. Wilson, R.G. Pitcher AM, A.T. Gorecki (retired), T.M. Poole, B.C. Wilson, M.L. Quinn and G. Williams. Key Management Personnel were G.W. Street, S. Nikolic and A. Palumbo.

Short-term employee benefits of \$9,915,902 (2017: \$8,387,244) and superannuation benefits of \$213,689 (2016: \$219,756) were made to the Directors' and Key Management Personnel.

##### (b) Ownership Interests in Related Parties

Details of interests in controlled entities are set out in Note 26.

##### (c) Transactions with Directors

Directors of Reece, Messrs L.A. Wilson, B.W.C. Wilson and B.C. Wilson have a beneficial interest in an entity that sold plumbing and building supplies to the consolidated entity. All dealings are in the ordinary course of business and on normal terms and conditions no more favourable than those which it is reasonable to expect would have been accepted if dealing at arm's length in the same circumstances. Goods purchased from this entity during the year total \$4,780,263 (2017: \$4,455,510) of which \$431,937 (2017: \$415,131) was owing at year end.

Directors of Reece Messrs L.A. Wilson and B.W.C. Wilson have a beneficial interest in entities that lease premises to the consolidated entity. All dealings with these entities are in the ordinary course of business and on normal terms and conditions no more favourable than those which would have been expected if dealing at arm's length in the same circumstances. Lease rentals paid to these entities during the year were \$1,235,029 (2017: \$1,211,040).

The Wilson family participated in the non-renounceable Equity Offer through a A\$300m sub-underwriting agreement as "sub-underwriters of last relief", so that the first A\$300m of the shortfall under the retail component of the Entitlement Offer was taken by the Wilson family sub-underwriters. Each of the three Wilson family sub-underwriters is an entity controlled by different Wilson family members – Leslie Alan Wilson, Bruce W.C. Wilson and John Wilson. No fees were paid to the Wilson family entities acting as sub-underwriters.



## Notes

### 24. Segment Information

The sole activity of the consolidated entity is the supply of plumbing, bathroom, heating ventilation and air-conditioning products in Australia and New Zealand. The revenue and non-current assets for the New Zealand operations are not material.

### 25. Deed of Cross Guarantee

All entities listed in Note 26 with the exception of Reece New Zealand Limited, Hamilton HoldCo, LLC and Hamilton BidCo, Inc 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 Note 26 with the exception of Reece New Zealand Limited, Hamilton HoldCo, LLC and Hamilton BidCo, Inc are relieved from the Corporations Act requirement to prepare a financial report and director's report.

A consolidated Statement of 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:

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)
<b>Revenue</b>		
Sales revenue	2,645,317	2,393,987
Other income	3,570	2,152
	2,648,887	2,396,139
<b>Less: Expenses</b>		
Cost of goods sold	1,768,316	1,592,973
Employee benefits expense	295,475	262,830
Depreciation	52,460	48,780
Finance costs	5,035	5,901
Other expenses	208,897	183,502
<b>Profit before income tax</b>	318,704	302,153
Income tax expense	96,646	91,294
<b>Net Profit for the year from continuing operations</b>	222,058	210,859
Other Comprehensive Income		
Items that may be reclassified subsequently to profit and loss:		
Cash flow FX hedge, net of tax	5,328	(849)
<b>Total comprehensive income</b>	227,386	210,010
Basic earnings per share	45 cents	43 cents
Diluted earnings per share	45 cents	43 cents

## To the financial statements for the year ended 30 June 2018

### Notes

#### 25. Deed of Cross Guarantee (cont'd)

	Consolidated Entity	
	2018 (\$000s)	2017 (\$000s)
<b>Movements in Retained Earnings</b>		
Retained earnings at the beginning of the financial year	1,158,952	1,041,717
Profit for the year	222,058	210,859
Dividends Paid	(100,596)	(93,624)
Retained Earnings at end of financial year	1,280,414	1,158,952
<b>Current Assets</b>		
Cash and cash equivalents	533,827	101,483
Receivables	400,810	355,627
Inventories	525,541	450,327
Total Current Assets	1,460,178	907,437
<b>Non-Current Assets</b>		
Investments and receivables	60,912	33,177
Property, plant and equipment	548,476	516,665
Intangible assets	222,179	204,886
Deferred tax assets	37,548	34,412
Total Non-Current Assets	869,115	789,140
<b>Total Assets</b>	2,329,293	1,696,577
<b>Current Liabilities</b>		
Payables	363,854	350,114
Current tax payable	7,580	16,171
Provisions	59,409	54,279
Total Current Liabilities	430,843	420,564
<b>Non-Current Liabilities</b>		
Long-term payable	2,212	1,863
Long-term borrowings	-	100,000
Provisions	3,993	3,084
Total Non-Current Liabilities	6,205	104,947
<b>Total Liabilities</b>	437,048	525,511
<b>Net Assets</b>	1,892,245	1,171,066
<b>Equity</b>		
Contributed equity	604,349	9,960
Reserves	7,482	2,154
Retained earnings	1,280,414	1,158,952
Total Equity	1,892,245	1,171,066

## Notes

### 26. Particulars in Relation to Corporations in the Group

		Ownership Percentage 2018	Ownership Percentage 2017
Name of entity		%	%
Parent entity Reece Limited			
Controlled entities of Reece Limited			
1.	Reece Australia Pty Ltd	100%	100%
2.	Plumbing World Pty Ltd	100%	100%
3.	Reece Project Supply Pty Ltd	100%	100%
4.	Reece International Pty Ltd	100%	100%
5.	Reece New Zealand Limited	100%	100%
6.	Actrol Parts Holdings Pty Ltd	100%	100%
7.	Actrol Parts Finance Pty Ltd	100%	100%
8.	Actrol Parts Pty Ltd	100%	100%
9.	A.C. Components Pty Ltd	100%	100%
10.	Metalflex Pty Ltd	100%	100%
11.	Metalflex Regional Pty Ltd	100%	100%
12.	Metalflex (S.A.) Pty Ltd	100%	100%
13.	Metalflex (W.A.) Pty Ltd	100%	100%
14.	Air Plus Pty Ltd	100%	100%
15.	The Creative Plane Pty Ltd	100%	100%
16.	Viadux Holdco Pty Ltd	100%	-
17.	Viadux Bidco Pty Ltd	100%	-
18.	Viadux Pty Ltd	100%	-
19.	Hamilton HoldCo, LLC	100%	-
20.	Hamilton BidCo, Inc	100%	-

#### Notes

- (i) Controlled entities 1 to 4 and 6 to 18 are incorporated in Australia
- (ii) Controlled entity 5 is incorporated in New Zealand
- (iii) Controlled entities 19 & 20 are incorporated in Delaware (US)
- (iv) All shareholdings are of ordinary shares
- (v) Controlled entities 1 to 4 and 6 to 18 carry on business in Australia only
- (vi) Controlled entity 5 carries on business in New Zealand only
- (vii) All corporations financial years end on 30 June

### 27. Subsequent Events

Reece Limited completed the A\$1.91b acquisition of Morsco Inc in July 2018. The acquisition was funded through a combination of debt and equity, including a A\$300m participation from major shareholders, the Wilson family, in the A\$600m capital raising. Morsco Inc will be operated separately to the groups Australian and New Zealand businesses with the existing Morsco Inc management remaining in place.

There has been no other matter or circumstance, which has arisen since 30 June 2018, that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2018, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2018, of the consolidated entity.

## Notes

### 28. Parent Entity Details

	Parent Entity	
	2018	2017
	(\$000s)	(\$000s)
<b>(a) Summarised statement of financial position</b>		
<b>Assets</b>		
Current Assets	507,020	16,171
Non-current Assets	374,651	326,483
Total Assets	881,671	342,654
<b>Liabilities</b>		
Current Liabilities	275,250	231,131
Non-current Liabilities	-	100,000
Total Liabilities	275,250	331,131
Net Assets	606,421	11,523
<b>Equity</b>		
Contributed equity	604,349	9,960
Retained earnings	2,035	1,526
Reserves	37	37
Total Equity	606,421	11,523
<b>(b) Summarised statement of comprehensive income</b>		
Profit for the year	101,105	93,624
Total comprehensive income for the year	101,105	93,624
<b>(c) Parent entity guarantees</b>		
Bank Overdraft	917	952
Cash advance facility	65,000	30,000
Term loan facility	100,000	100,000

(d) The final dividend declared to be paid on 25 October 2018 as per note 7 shall be funded by way of a dividend to be received from a wholly owned subsidiary.



## Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 44 to 69 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(a) 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 2018 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 26 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 Class Order 98/1418.

This declaration has been made after receiving the declarations required to be made by the Chief Executive Officer and Chief Financial Officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2018.

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

Dated at Melbourne on 30 August 2018.

**L. A. Wilson**  
Executive Chairman

**P. J. Wilson**  
Chief Executive Officer / Managing Director

# Independent Auditor's Report



PITCHER PARTNERS

## Opinion

We have audited the financial report of Reece Limited "the Company" and its controlled entities "the Group", which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

## Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of 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 "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. 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.

# Independent Auditor's Report



## Key audit matter

## How our audit addressed the key audit matter

### Impairment of intangible assets

Refer to Note 1(i) & (j); Note 12

In assessing impairment of intangible assets, in accordance with AASB 138 Intangible Assets, management have estimated the value in use for each cash generating unit (CGU), under the following segments:

- › Actrol Parts Pty Ltd 'Actrol';
- › AC Components Pty Ltd 'ACC'; and
- › Viadux Pty Ltd 'Viadux'.

As result of the assumptions and estimates made by management in determining the recoverable amount of each CGU, no impairment charge has been assessed for the year ended 30 June 2018.

Factors that have led to our inclusion of impairment of goodwill as a key audit matter include, but are not limited to:

- › Valuation of intangibles and assessment of impairment by management is subject to significant judgement and estimation risk regarding the assumptions, including but not limited to the discount rate, working capital estimate, capital expenditure estimated future cash flow and growth rates; and
- › Intangible assets carried by the Group of \$226 million are significant and material at 30 June 2018.

Audit procedures included, amongst others:

- › Documenting and evaluating the design and operating effectiveness of controls in respect of intangible assets.
- › Assessment of the basis for which CGUs have been allocated including consideration of how management monitors performance for internal reporting purposes and the interdependency of associates included within each CGU;
- › Assessment of the reliability of management's historical forecasting in comparison with actual performance;
- › Challenge of management's forecast assumptions around future cash flow and growth rates with specific reference to historical and expected performance, market conditions and corroborating events;
- › Assessment of sufficiency of working capital and capital expenditure inputs in calculating value in use;
- › Performing sensitivity testing of management's value in use models with specific attention to the discount rate applied and the achievement of Board approved forecasts and growth assumptions; and
- › Evaluation by an internal expert of management's value in use models used in assessing impairment with particular regard to observable market benchmarks, including the review of adopted terminal value and discount rate to a reasonable range of alternatives.

# Independent Auditor's Report



## Key audit matter

## How our audit addressed the key audit matter

### Valuation of inventory

Refer to Note 1 (e); Note 10

For the period ending 30 June 2018, we consider existence and valuation of inventory a key audit matter.

Factors that have led to our inclusion of inventory as a key audit matter include, but are not limited to:

- › Inventory of \$541 million (23% of total assets) as at 30 June 2018 is significant and material to the balance sheet;
- › Inventory is dispersed in large volumes and is spread across multiple locations as a result of the large and decentralised branch network; and
- › In providing for obsolescence of inventory management have exercised judgement in determining the appropriate provision in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

Our procedures included, amongst others:

- › Attendance at physical inventory counts during the financial reporting period;
- › Assessment of the adequacy of management assumptions around slow moving stock used in determining provision for obsolescence;
- › Identification and testing of internal controls related to stocktake procedures;
- › Testing of stock in transit at year end to ensure this inventory exists;
- › Testing of inventory movements close to financial year end to ensure stock is complete for the financial year; and
- › Comparison of year-end carrying value to recent sales prices to determine if inventory is recorded at the lower of fully rebated cost and net realisable value.



# Independent Auditor's Report



PITCHER PARTNERS

## Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

# Independent Auditor's Report



As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- › Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- › Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- › Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- › Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- › Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- › Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

# Independent Auditor's Report



PITCHER PARTNERS

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 39 to 42 of the directors' report for the year ended 30 June 2018. In our opinion, the Remuneration Report of Reece Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

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

**P.A JOSE**  
Partner

**PITCHER PARTNERS**  
Melbourne

**30 August 2018**

# Shareholders' Information

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

## Shareholding Analysis

### (a) Distribution of shareholders

At 13 August 2018, the distribution of shareholdings was as follows:

Size of Shareholding	Number of Shareholders
1 – 1,000	1,102
1,001 – 5,000	1,110
5,001 – 10,000	382
10,001 – 100,000	418
Over 100,000	107
Holdings of less than a marketable parcel	-
<b>TOTAL</b>	<b>3,119</b>

### (b) Substantial shareholdings

The number of shares held by the substantial shareholders listed in the Company's register of substantial shareholders as at 13 August 2018 were:

Shareholder	Number of Shares
John Gay Wilson	352,145,364
Leslie Alan Wilson	348,182,564
Bruce Walter Campbell Wilson	334,691,138
Wilaust Holdings Pty Ltd	313,050,000
Two Hills Holding Pty Ltd	97,800,366
Perpetual Trustees Australia Limited	38,576,507

Note: Many of these substantial shareholdings relate to the same shares.

### (c) Class of shares and voting rights

At 13 August 2018, there were 3,119 holders of ordinary shares of the Company. All of the issued shares in the capital of the parent entity are ordinary shares and each shareholder is entitled to one vote per share.

### (d) Twenty largest shareholders, as at 13 August 2018:

Shareholder	Number of Shares	% Held
L.T. Wilson Pty Ltd	157,200,000	28.0%
L.T.W. Holdings Pty Ltd	60,000,000	10.7%
Warramunda Investments Pty Ltd	48,645,000	8.7%
HSBC Custody Nominees (Australia) Limited	46,236,382	8.2%
J P Morgan Nominees Australia Limited	23,741,969	4.2%
Florizel Investments Pty Ltd	16,801,600	3.0%
W.A.L. Investments Pty Ltd	16,801,600	3.0%
J.G.W. Investments Pty Ltd	16,801,600	3.0%
Geronimo Custodian Pty Ltd	15,053,764	2.7%
Glentemp Custodian Pty Ltd	14,951,945	2.7%
Austral Hardware Pty Ltd	14,925,000	2.7%
Austral Hardware (Healesville) Pty Ltd	12,000,000	2.1%
Addawarra Nominees Pty Ltd	11,550,000	2.1%
Citicorp Nominees Pty Limited	9,555,286	1.7%
National Nominees Limited	8,885,481	1.6%
Wilaust Holdings Pty Ltd	8,730,000	1.6%
BNP Paribas Noms Pty Ltd <DRP>	8,198,475	1.5%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	4,671,819	0.8%
John G. Wilson	4,402,712	0.8%
Argo Investments Ltd	3,620,799	0.7%

The twenty members holding the largest number of shares together held a total of 89.7% of the issued capital.



A.B.N. 49 004 313 133

## Reece Limited

### Company Information

#### Controlled Entities

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

Hamilton HoldCo, LLC  
Company Number 6843365

Hamilton BidCo, Inc  
Company Number 6843426

#### Directors

L.A. Wilson (Executive Chairman)  
P.J. Wilson (Chief Executive Officer /  
Managing Director)  
A.T. Gorecki (retired August 2017)  
B.W.C. Wilson  
B.C. Wilson  
R.G. Pitcher, AM  
T.M. Poole  
M.L. Quinn  
G. Williams

#### Company Secretary

G.W. Street

#### Bankers

National Australia Bank  
  
Commonwealth Bank of Australia  
  
Bank of New Zealand  
  
Westpac Banking Corporation  
  
JP Morgan Chase

#### Solicitors

Russell Kennedy  
  
Lander & Rogers  
  
Mills Oakley Lawyers

#### Auditors

Pitcher Partners

#### Registered Office

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

#### Share Registry

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

#### Stock Exchange Listing

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

#### NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of  
Reece Limited will be held at 3pm on Thursday,  
25 October, 2018 at the Sofitel Melbourne on Collins,  
25 Collins Street, Melbourne, Victoria





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