

Registered in England and Wales
Registered Number: 133804

ANNUAL REPORT AND FINANCIAL STATEMENTS

ARCO LIMITED

30 JUNE 2020



ARCO LIMITED AND SUBSIDIARIES

Directors

Non-Executive

| | |
|--|--|
| T Martin, OBE, JP, DL, MA | Life President |
| S Martin, OBE, DL, MA, FCA | |
| T G Martin, BA (Hons) | Chair |
| N A C Hildyard, DL, FCA | Vice-Chair (Promoted 1 January 2020) |
| K Appleton, BA (Hons) | Independent |
| A G Martin, MB, ChB, BSc, FRCS (Ed), FRCS (Lon), PG Dip Medical Education | |
| T Lodge, MA (Cantab); FCMA | Independent (Appointed 28 August 2019) |
| N Coxwell, BSc (Hons) | Independent (Appointed 28 August 2019) |

Executive

| | |
|---------------------------------|-------------------|
| D Evison, BSc (Hons), MBA, ACMA | Managing Director |
| B J I Lawrie, MCIPD | |
| R Martin, BA | |
| S P Harrison, MA (Hons) | |
| H Wright, BA (Hons), ACA | |

Company Secretary

| | |
|-----------------------|------------------------|
| N J Dodds, LLB (Hons) | Appointed 15 June 2020 |
|-----------------------|------------------------|

Branches and trading divisions of Arco Limited as at 30 June 2020

| | | |
|-------------------|----------------|---------------|
| Aberdeen | Doncaster | Orpington |
| Ashton under Lyne | Ellesmere Port | Ossett |
| Avonmouth | Falkirk | Park Royal |
| Basildon | Glasgow | Plymouth |
| Belfast | Grimsby | Poole |
| Bellshill | Hedge End | Sheffield |
| Blaydon | Hull | Stockton |
| Bradford | Irvine | Stoke |
| Bury St Edmunds | Leeds | Swansea |
| Cardiff | Leicester | Trafford Park |
| Carlisle | Liverpool | Warrington |
| Chester | Longwell Green | Watford |
| Coventry | Minworth | West Drayton |
| Crawley | Northampton | Workington |
| Crayford | Nottingham | |
| Darwen | Oldbury | |

Other non-trading branches of Arco Limited as at 30 June 2020

Arco Clothing Centre, Preston
Hose, Ducting & Fittings, Hull
China (Representative Office)

Trading subsidiaries during the financial year ending 30 June 2020

Arco Safety Limited
Arco Professional Safety Services Limited

Registered Office:

Arco Limited, PO Box 21, Waverley Street, Hull, HU1 2SJ

Auditors

RSM UK, 2 Humber Quays, Wellington Street West, Hull, HU1 2BN

Bankers

HSBC Bank PLC, 3-4 Grand Buildings, Jameson Street, Hull, HU1 3JX
Lloyds Bank PLC, 1 Grand Buildings, Jameson Street, Hull, HU1 3JX

Company number 133804

ARCO LIMITED AND SUBSIDIARIES
STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

The Directors are pleased to present their strategic report on the Group and Company for the year ended 30 June 2020.

Review of the business

Approach

Our purpose is to keep people safe at work, so they return home safely to their families at the end of their working day. This is underpinned by our core values of respect for people and excellence in reputation. In taking this approach, the Arco Group seeks to deliver a sustainable profitable business that is a great place to work.

The directors would like to take this opportunity to thank all colleagues within the Group for the exceptional loyalty, commitment and flexibility shown during these unprecedented times.

Review of the business

The directors are satisfied with the overall trading performance across the Group. A positive outcome has been achieved, despite challenging trading conditions in some areas of the business. Retail sites and training facilities were closed throughout lockdown and ways of working were forced to change. As 'experts in safety' the focus moved to the provision of Covid-19 specific support to key sectors and customers to allow them to continue to operate. With support from the team in Xiamen, China, alongside extensive testing activity within our in-house lab, the highest ethical and quality standards were maintained, despite the exceptional volumes being handled. Group reported sales of £320m reflect year on year growth of 13% despite a backdrop of economic and political uncertainties offset by increased demand of PPE through the Covid-19 pandemic.

Underlying operating profit increased to £10.7m, due to the increased sales position, although the cash position reduced to £4m by the year end as significant additional stock was purchased to secure supply of PPE through the pandemic.

The Group has continued to invest in its strategic program to support future growth, and February 2020 saw the opening of the 20,439 sq metre extension to the distribution centre in Hull. This proved timely in its response to the outbreak of the Covid-19 pandemic, as additional stock of PPE was required to secure supply. We continued to embed the restructure and centralisation of the commercial and customer service teams, and the business is starting to see the longer-term advantages that this delivers in supporting customers with consistent expertise across all points of contact. The ongoing strategic change programs benefitted from a further £11.0m of investment in the year. The program comprises the distribution centre extension, ongoing digital transformation and the building of a new office for Hull based colleagues in the fruit market area of the city. The existing premises were sold to Hull City Council to facilitate their program with Highways England to improve the main road through Hull. A profit on disposal of £2.9m has been recognised in the Consolidated Income Statement on page 16. £3.5m was received for the sale of the property.

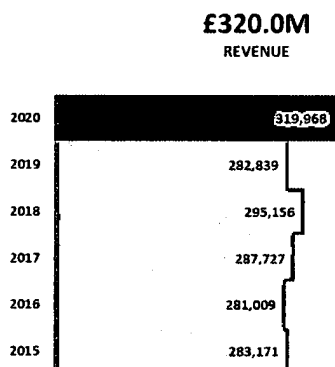
In the year we have continued to support many great causes, sponsored partnerships and supported specified charities through grants. Over £500k was donated in the year including £60k to specified charities and £350k through partnership support. Given the pressures on all charities through the pandemic, we launched Grant Schemes for all our colleagues to nominate good causes, and over £42k was donated to these. The company has forged new partnership arrangements with Headway, the National Emergencies Trust and The Deep during the year, which builds on our leading roles with Yorkshire Air Ambulance, Police Lifestyle events, as well as RoSPA and Ron Dearing UTC in Hull.

The outlook for the year ahead remains very uncertain as the country faces into a recession, political uncertainty around Brexit grows and the impacts of the pandemic continues. The Group is well positioned to navigate through these challenges, as it has done many times in its 136 year history. The balance sheet remains strong, the first phase of investments in digital come on line in 2021 and our position as experts in safety continues to make the difference in a market place that has seen an increase in sales of non-compliant products and by inexperienced resellers.

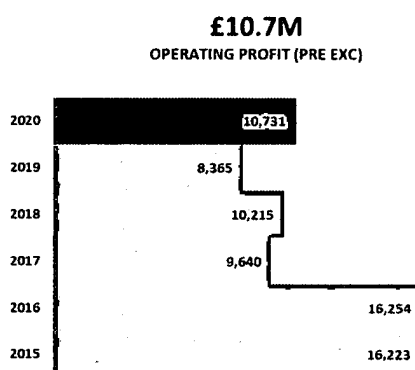
ARCO LIMITED AND SUBSIDIARIES
STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

Financial Highlights

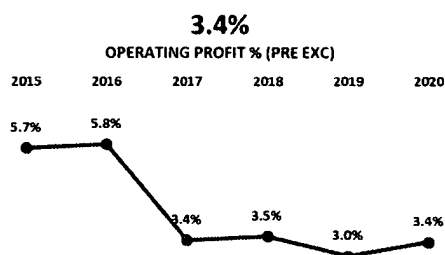
The Group's key financial performance indicators during the year were as follows: -



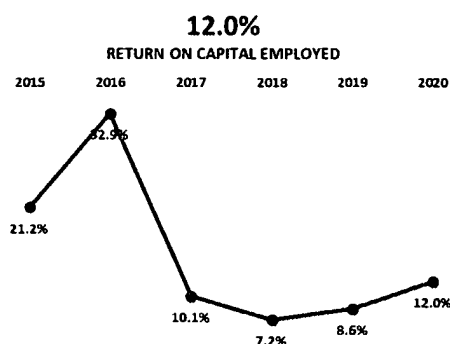
Revenue for the period was £320m, an increase of 13% on the previous year, a year which had seen declining sales due to the economic climate and uncertainty through the Brexit debates. Revenue in our Services business continues to be impacted, particularly this year as the business was largely closed throughout the pandemic lockdown.



Operating Profit for the period was £10.7m and has recovered to a satisfactory level from the decline in the previous year, which reflected the investments in centralising and re-setting the digital capability of the Company.



Operating Profit for the period of 3.4% of sales represents an improvement of +0.4% on prior year. There remains an ambition to reach a return on sales position of 5% across the medium term.



Return on capital employed ("ROCE") saw continued improvement from the prior year and finished at 12.0%. This represents a more satisfactory level of return for our shareholders.

NB: ROCE in 2016 was significantly impacted by the sale and leaseback of the NDC building resulting in £17.0m of profits on disposal.

ARCO LIMITED AND SUBSIDIARIES
STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

Despite significant investments in working capital, the underlying cash position remained positive and saw the year close with a cash balance of £4m, after investment expenditure of £11.0m. Inventories increased from £38.4m to £60.0m, to facilitate the ongoing service of key sectors and existing customers. Significant advance payments have been committed in securing these inventory levels. Future demand is more difficult to forecast, against the backdrop of such uncertainty, however the business has been bold in its commitment to aid the nation in the ongoing fight against Covid-19. As 'experts in safety' the business was unwilling to risk supply shortages in the medium term and is well placed to support customers through additional waves of infection should they arise.

The business also made further contributions to the defined benefit pension scheme of £3.7m.

ARCO LIMITED AND SUBSIDIARIES
STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

Statement by the directors in performance of their statutory duties in accordance with S172 of the companies act

The directors throughout the year ended 30 June 2020 have acted to promote the long-term success of the company for the benefit of all stakeholders. The directors participate in the management of the business and are regularly exposed to formal leadership and business-related training. Our Divisional Directors have been through a 'Leadership: Raising the Bar' program in the year, which is being rolled out across all senior managers.

The aim is to make decision making a wholly inclusive process. As such, directors have access to members of the company's management, and will, from time to time, invite other executives and employees to participate in, or provide information for use at board meetings so that the directors have additional insight on items or issues to be decided by the board. The directors may, from time to time, engage outside advisors or other experts as it deems necessary or appropriate to assist them in carrying out their responsibilities.

Our people

Employee engagement is a major focus for us, as our people are the driving force behind our business. It is important to the directors that our people understand and live our mission of keeping people safe at work. We continually engage with our people and are mindful of what really matters to them. We undertake informal quarterly PULSE checks to determine how colleagues are feeling alongside a formal annual engagement survey.

We communicate the progress of the business and our strategies using digital communications, regular face to face meetings and through our employee newsletter. Employees have regular opportunity to provide input and feedback via engagement surveys and a formalised half yearly appraisal process. We promote the use of change agents from within the business for significant strategic projects.

During the pandemic, the primary focus has been on supporting our people physically, mentally and financially.

Our culture

Our commitment to ethics, integrity and keeping people safe at work is the foundation of our company and it drives everything that we do. We have a strong commitment to compliance and an outstanding reputation for doing business in an ethical and fair way. Our code of ethics and policies surrounding our approach highlight our expectation that each employee will act ethically and promote our culture of integrity. All employees and directors must comply with our code of ethics and company policies.

Our work on the Modern Slavery Act, supply chain assurance and our investment in product compliance is born from our commitment to ethical and fair trading.

Our focus remains that of leading, educating and re-shaping the market.

Our customers

Meeting the needs of our customers is key for the continuing success of the company. As a business we look to build strategic partnerships with customers with a real focus on trust within this relationship and innovation at the heart of what we do. Our mission of keeping people safe at work is at the core of this and all of our products and services are of the highest quality.

Ongoing investment in testing capability within our laboratory is core to our strategy and ensures all products meet the specific needs of customers, ensuring safety in their respective workplaces. Our training centres provide customers with on site simulation of potentially hazardous conditions and the knowledge needed to mitigate these risks.

We have dedicated account managers who work closely with our customers and we provide regular updates regarding our business and products. Frequent voice of customer ("VOC") surveys allow us to identify areas in which we can improve our ability to service our customers. Our customer engagement centre in Hull is the home to 132 customer service advisors, who provide professional and helpful customer service.

ARCO LIMITED AND SUBSIDIARIES
STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

Our suppliers

Arco suppliers play a key role in our commitment to excellence and keeping people safe at work. We work with our suppliers to ensure the highest standards for quality, ethics and service and this culture extends across our full global supply base. Through our audits, and in conjunction with external organisations and our Xiamen team, we can guarantee both product compliance and zero modern slavery in our supply chain.

Our suppliers expect fair treatment from Arco and a commitment to long-term partnerships. Arco works with its suppliers to innovate and ensure fair treatment. This stood us in good stead in obtaining significant additional volumes of PPE in the face of intense global supply pressures.

NGOs

As the UK's leading supplier of Health and Safety products and services we work closely with NGOs such as the British Safety Industry Federation ("BSIF"), Health & Safety Executive ("HSE"), Office for Product Safety & Standards ("OPSS"), the Department for Business, Energy & Industrial Strategy ("BEIS") and the Ethical Trade Initiative ("ETI") to challenge and improve product standards and health and safety legislation within the UK and Ireland.

Our shareholders

As a fourth-generation family owned business Arco's shareholders are key to the vision, direction and management of the business. Five members of the family are part of the Main Board of the business, one of whom is an Executive Board member involved in the day to day running of the business.

The Directors provide fair, transparent and accurate information to the shareholders on a monthly basis and have frequent dialogue outside of formal reporting submissions. The Directors also manage the business in line with the family's risk appetite protecting the interest of the shareholders' investments. This is achieved through following robust forecasting procedures and strong cash management. There is commitment to delivering consistent dividends, rather than maximising shareholder distributions.

Our shareholders expect the business to be run in a fair and ethical manner, which has the safety and wellbeing of our people at its heart. The Main Board spend time in all areas of the business to ensure the family values are consistent throughout.

Our community

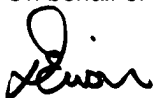
Arco operates across the UK and supports the communities from where it operates. The Company commits a minimum of 1% of profits annually to support local and national charities. Local communities expect the business to operate sustainably and safely. Additional contributions are made at the discretion of the Directors, and where there is a specific cause that aligns with our purpose.

Directors sponsor the Company charity committee. This committee of employees selects the Company sponsored charities and runs events to raise money for these charities. The Company sponsorship consists of both the time of its employees and also a promise to match the funds raised by its employees. Each employee is afforded 2 CSR days per year.

The Directors have put in place a strong health, safety and environmental policies which are communicated and discussed with employees at all levels of the business.

The above statements outline the Directors' performance of their statutory duties in accordance with s.172 of the Companies Act.

On behalf of the Board



D Evison
Managing Director
1 October 2020

ARCO LIMITED AND SUBSIDIARIES
STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

Streamlined Energy & Carbon Reporting ("SECR")

Energy management at Arco

Arco takes action to improve company energy efficiency every year as part of its drive for continual improvement in both energy performance and in the delivery of its ISO14001 Environmental Management System (EMS). The EMS monitors and reports on energy performance year-on-year. Certification to ISO14001 was first awarded in 2005 by BSI and has been held continuously since this date.

New ARCO branches are designed with energy efficiency at the forefront, including LED lighting, heat pump technologies for heating and cooling, smart meters and smart controls. These principles have been applied to the distribution centre extension and new head office build project.

The scope of this energy and carbon report includes all activities and sites operated and controlled by Arco. All sites and activities take place in the UK. Details of Arco branches are included on page 1.

Methodology

Energy data has been collected from the following sources:

| <u>Data Type</u> | <u>Scope 1 Data Source</u> |
|--------------------------------|--|
| Gas Consumption | Kinect online energy portal – collates data from AMRs installed in kWh. Invoices from supplier for those sites not on Kinect platform in kWh. |
| LPG Consumption | Invoiced LPG as per purchasing records in litres |
| Van Fleet Diesel Consumption | Fuel Card monthly invoicing in litres |
| Company Car Diesel Consumption | Fuel Card monthly invoicing in litres. |
| Fuel Oil Consumption | Invoiced Fuel Oil as per purchasing records in litres. |
| | |
| <u>Data Type</u> | <u>Scope 2 Data Source</u> |
| Electricity Consumption | Kinect online energy portal – collates data from AMRs installed in kWh. |

Once the above data was collated, DEFRA's "Greenhouse Gas Reporting - Conversion Factors" have been used to convert all energy units to kWh. DEFRA's Conversion Factors were also utilised to convert the energy, now recorded in kWh, to tCO₂e.

Data Verification

Several processes are in place to ensure data collected is accurate, transparent and auditable. A series of records have been retained which contain the data utilised in this report.

Invoicing for fleet diesel, LPG and fuel oil is managed robustly by the Finance Department, as part of Arco Limited's accounting processes. LPG and fuel oil are purchased in standard size cylinders and containers, no meters are required for monitoring consumption. The use of fuel cards for purchasing diesel ensures company drivers obtain diesel from regulated commercial forecourts.

ARCO LIMITED AND SUBSIDIARIES
STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

For those sites which have AMR (Automatic Meter Read) electricity and gas meters installed, consumption is automatically collated by the Kinect online energy portal. Consumption data on the portal is cross-checked to both the relevant invoicing and the consumption data from the previous year, with a $\pm 10\%$ tolerance. Invoice figures, including charges, are also verified by an external third party for accuracy.

For those sites currently without AMR gas meters installed, consumption is verified against invoicing by an external party, including a meter read by the supplier to rectify any estimations during the year, and an internal comparison to consumption data from the previous year, with a $\pm 10\%$ tolerance to account for changing weather conditions. All invoices are sent to Kinect to upload to the system.

An annual ISO 14001 Continuing Assessment is carried out by BSI on site over three days, which independently assures the completeness of our energy data and the effectiveness of the energy performance improvement actions taken.

Energy consumption data is compared to the previous year, as per the ISO 14001 monitoring and measurement process. Energy performance data is reviewed by top management as part of internal communication and Management Review processes.

This energy and carbon report has been reviewed by independent environment and energy consultants, Environmental Strategies Limited, Company No. 3596465, in accordance with their peer review process for recalculation by a second consultant.

Greenhouse Gas Emissions

| <u>tonnes CO₂e</u> | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| Scope 1 emissions from gas, transport and other fuel use | 2,349 | 2,481 |
| Scope 2 emissions from electricity | 1,198 | 1,629 |
| Scope 3 emissions from indirect sources | 116 | - |
| Total greenhouse gas emissions | 3,663 | 4,110 |
| Greenhouse gas emissions per £m sales revenue | 11.5 | 14.6 |

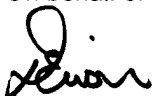
ARCO LIMITED AND SUBSIDIARIES
STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

Principal Risks and Uncertainties

Risk management activities are overseen by the Audit Committee which is chaired by T Lodge (Independent Non-Executive Director). Some of the key risks faced by the business are set out below:

- Covid-19 associated risks have been identified and collated in a specific Covid-19 risk register; they include colleague safety, business continuity, liquidity, supply chain robustness, reliance on key individuals, succession, product quality and reputational risk. Mitigations have been put in place and the Company has succeeded in sourcing quality, compliant product throughout the pandemic due to the strength in supply chain. The Company continues to invest in leadership and training programs for its people.
- Brexit – the Company expects new UK specific product standards will replace the current European CE certification. The Company has actively engaged in the process for setting new UK standards and otherwise understanding the implications for product standards. The Company's in-house test capability also mitigates potential impacts of certification and testing issues. Changes to import and export rules for products entering and leaving the UK are a work in progress and we are monitoring all potential outcomes and implications.
- Market risk – both Covid-19 and the uncertainty around Brexit are causing significant market pressures and the UK is currently in recession. Arco's core market is the UK domestic market and as such a drop in output could pose risks to the Group. Performance and liquidity are reviewed routinely and the Group is well diversified across a number of key sectors in the UK market.
- Price risk - the Group is exposed to commodity price risk, as a result of its extensive supply chain. Commodity pricing is monitored and pricing strategies are in place, which seek to maintain profit margins.
- Foreign exchange risk - the Group manages its foreign exchange risk through maintaining a formal policy on forward contracts, regularly reviewing demand, and therefore potential exposures. The Group does not engage in foreign currency speculation. The accounting policy for foreign currencies is set out in note 1 to the financial statements.
- Credit risk - policies are in place that require appropriate credit checks on customers before sales orders are processed. There are regular reviews of overdue debts. In addition, the Group has signed up to trade credit insurance during the financial year, and continually monitors insurance cover levels.
- Liquidity risk - the Group maintains finance facilities that are flexible and ensure the Group has sufficient available funds for future growth. Significant sums of cash have been invested in inventories as at the year end, and cash flow forecasts are continuously updated and reviewed. Daily cash flow forecasting was introduced in response to the early uncertainties of the pandemic and to ensure liquidity in all scenarios.
- Pension Scheme - the Group operates a defined benefit pension scheme, which is closed to new members and to future accrual, which is currently in deficit. The funding position of the scheme is affected by matters outside the control of the Group such as the investment performance of the scheme and key assumptions, including life expectancy. Arco has previously agreed a funding plan that sees increased company contributions and defined investment guidelines. Willis Towers Watson have been mandated through a fiduciary management agreement to enact these principles. Further details of the scheme are set out in note 20.
- Digital transformation - the Company recognises that digital transformation is essential to remain relevant and fit for future. Delivery of significant technology and business change itself carries risk. Transformation is subject to Executive sponsorship and overseen by an executive steering group with the support of third party experts where considered appropriate.

On behalf of the Board



D Evison
Managing Director
1 October 2020

ARCO LIMITED AND SUBSIDIARIES
DIRECTORS REPORT FOR THE YEAR ENDED 30 JUNE 2020

The Directors present their report and the audited Group financial statements for the year ended 30 June 2020.

Results and Dividends

The Group's profit for the year ended 30 June 2020 was £11.5m (2019: £6.4m).

The Directors propose an unchanged final dividend for the year ended 30 June 2020 of £20.50 per ordinary share, which brings the total dividends per ordinary share in respect of the year to June 2020 to £2.6m (2019: £2.6m).

Principal activities

The Group principally operates as a distributor of PPE and a provider of safety knowledge and training.

Branches Outside the UK

A complete list of branches is included on page 1.

Future Developments

The Group's priorities in the coming year are centred around 6 key areas as follows:

- Organisation and occupational health – ensuring the organisation is set up structurally to facilitate the growth we have outlined in our 5-year plans, with the health and wellbeing of colleagues at the centre of all plans
- Expertise – we will continue to drive our differentiation as 'Experts' and offer assurance to our customers that our products and services are of the highest quality and fully compliant with UK and EU safety standards. Furthermore, our safety services training offering enables our colleagues to truly demonstrate expertise
- Stimulating balanced growth across all of our customer segments and offering support to our loyal customers, many of whom are facing significant challenges as a result of the pandemic
- Ongoing review of range and proposition – to evolve to meet changing needs across key sectors and consideration of broader geographical sourcing
- Continuous improvement to customer service
- Delivering the digital change journey, with phase 1 due to complete in 2021

Financial Risk Management

The financial risk management objectives and policies of the Group have been discussed within the Strategic Report on pages 2 to 9.

Employees

Arco gives full consideration to suitable applications for employment by disabled persons. Opportunities also exist for employees who become disabled to continue their employment or to be trained for other positions.

At Arco we strive to create working environments that reflect the communities in which we have offices, operational environments and retail stores. We encourage a culture where colleagues can be themselves and we continue to build an inclusive culture that encourages and supports the diversity of colleague voices.

We recognise that businesses that are diverse in age, gender identity, race, sexual orientation, physical or mental ability, ethnicity, and perspective are proven to be better companies. Creating an environment at Arco where everyone, from any background, can do their best work is our aim.

Directors

The Directors who held office during the year and up to the date of signing the financial statements are disclosed on page 1.

Directors' and Officers' Liability Insurance and Indemnities

The company has granted an indemnity to each of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provision remains in force as at the date of approving the

ARCO LIMITED AND SUBSIDIARIES
DIRECTORS REPORT FOR THE YEAR ENDED 30 JUNE 2020
Directors' Report.

Independent Auditors

In the year PwC were appointed auditors of the Group and its subsidiaries at the last AGM but subsequently resigned.

RSM were appointed as temporary auditors for the year ended 30 June 2020 until a formal appointment could be made by resolution at the next AGM. RSM have expressed their willingness to act as auditors on a continuing basis and a resolution proposing their formal appointment will be submitted to the annual general meeting.

Going Concern

The Group has sufficient financial resources at its disposal and has access to considerable external funding should the need arise. The Group performs long term forecasting to determine its future profitability and cashflows. The Directors have reviewed these and expect the Group to continue in operational existence for the foreseeable future.

In particular, the Directors have considered the likely impact of the unprecedented impact of Covid-19 and concluded that any material impact on the Group as a result of the pandemic and associated economic slowdown is likely to be sufficiently mitigated by increased demand for the Company in its capacity as an industry expert in the supply of PPE and safety knowledge. As such the Group continues to adopt the going concern basis of accounting in preparing these financial statements.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

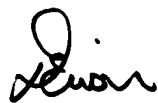
The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's Auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's Auditors are aware of that information.

ARCO LIMITED AND SUBSIDIARIES
DIRECTORS REPORT FOR THE YEAR ENDED 30 JUNE 2020

On behalf of the board

A handwritten signature in black ink, appearing to read 'D Evison', written in a cursive style.

D Evison
Managing Director

1 October 2020

ARCO LIMITED AND SUBSIDIARIES
INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF ARCO LIMITED

Opinion

We have audited the financial statements of Arco Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2020 which comprise the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Financial Position, the company Statement of Financial Position, the consolidated Statement of Changes in Equity, the company Statement of Changes on Equity, the consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2020 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

ARCO LIMITED AND SUBSIDIARIES
INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF ARCO LIMITED

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

**ARCO LIMITED AND SUBSIDIARIES
INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF ARCO LIMITED**

Use of our report

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

RSM UK Audit LLP

Peter Adams FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Two Humber Quays
Wellington Street
Hull
HU1 2BN

1 October 2020

ARCO LIMITED AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2020 £'000 | 2019 £'000 |
|--|-------|----------------------|---------------------|
| Turnover | 2 | 319,968 | 282,839 |
| Cost of Sales | | (244,536) | (213,141) |
| Gross Profit | | <u>75,432</u> | <u>69,698</u> |
| Distribution costs | | (32,777) | (32,921) |
| Administrative expenses | | (31,924) | (28,412) |
| Operating Profit | | 10,731 | 8,365 |
| Profit on disposal of tangible asset(s) | | 2,888 | 788 |
| Profit Before Interest and Taxation | | <u>13,619</u> | <u>9,153</u> |
| Interest receivable and similar income | 7 | 58 | 172 |
| Interest payable and similar expenses | 8 | <u>(582)</u> | <u>(1,653)</u> |
| Profit Before Taxation | | 13,095 | 7,672 |
| Tax on profit | 9a,9c | <u>(1,630)</u> | <u>(1,283)</u> |
| Profit for the financial year | | <u><u>11,465</u></u> | <u><u>6,389</u></u> |


CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|------|----------------------|----------------------|
| Profit for the financial year | | 11,465 | 6,389 |
| Other comprehensive income / (expense) | | | |
| Remeasurement of net defined benefit obligation | | (1,177) | 5,239 |
| Deferred tax on defined benefit obligation | 9b | 224 | (995) |
| Tax rate change movement on deferred tax relating to revaluation of pension deficit | 9b | 543 | 104 |
| Cash flow hedges | | 140 | (428) |
| Deferred tax on cash flow hedge | 9b | (27) | 14 |
| Currency movement on overseas investments | | 36 | (17) |
| Other comprehensive income for the year, net of tax | | <u>(261)</u> | <u>3,917</u> |
| Total comprehensive income for the year | | <u><u>11,204</u></u> | <u><u>10,306</u></u> |

ARCO LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

| | Note | 2020 £'000 | 2019 £'000 |
|--|------|----------------|----------------|
| Fixed Assets | | | |
| Intangible assets | 11 | 10,425 | 12,991 |
| Tangible assets | 12 | <u>43,830</u> | <u>39,041</u> |
| | | <u>54,255</u> | <u>52,032</u> |
| Current Assets | | | |
| Deferred tax (due in greater than one year) | 9d | 3,244 | 2,909 |
| Stocks | 14 | 60,007 | 38,358 |
| Debtors | 15 | 70,642 | 59,892 |
| Cash at bank and in hand | | <u>3,984</u> | <u>6,922</u> |
| | | <u>137,877</u> | <u>108,081</u> |
| Creditors – Amounts Falling Due Within One Year | | | |
| Bank loans and overdrafts | | - | 362 |
| Trade and other payables | 17 | <u>78,607</u> | <u>52,815</u> |
| | | <u>78,607</u> | <u>53,177</u> |
| Net Current Assets | | <u>59,270</u> | <u>54,904</u> |
| Total assets less current liabilities | | <u>113,525</u> | <u>106,936</u> |
| Provisions for liabilities | 18 | 3,385 | 3,451 |
| Pension liability | 20 | <u>25,191</u> | <u>27,170</u> |
| Net Assets | | <u>84,949</u> | <u>76,315</u> |
| Capital and Reserves | | | |
| Called up share capital | 21 | 67 | 67 |
| Share premium account | | 31 | 31 |
| Capital redemption reserve | | 17 | 17 |
| Retained earnings | | <u>84,834</u> | <u>76,200</u> |
| Total equity | | <u>84,949</u> | <u>76,315</u> |

The financial statements on pages 16 to 44 were approved by the Board of Directors on 1 October 2020 and were signed on its behalf by



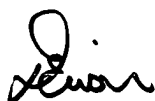
.....
D Evison
Managing Director

ARCO LIMITED AND SUBSIDIARIES
COMPANY STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

| | Note | 2020 £'000 | 2019 £'000 |
|--|------|----------------|----------------|
| Fixed Assets | | | |
| Intangible assets | 11 | 10,425 | 12,014 |
| Tangible assets | 12 | 43,169 | 38,725 |
| Investments | 13 | <u>14,444</u> | <u>14,444</u> |
| | | <u>68,038</u> | <u>65,183</u> |
| Current Assets | | | |
| Deferred tax (due in greater than one year) | 9d | 3,221 | 2,913 |
| Stocks | 14 | 59,535 | 37,792 |
| Debtors | 15 | 65,161 | 55,238 |
| Cash at bank and in hand | | <u>3,020</u> | <u>5,301</u> |
| | | <u>130,937</u> | <u>101,244</u> |
| Creditors – Amounts Falling Due Within One Year | | | |
| Trade and other payables | 17 | <u>78,904</u> | <u>56,482</u> |
| | | <u>78,904</u> | <u>56,482</u> |
| Net Current Assets | | <u>52,033</u> | <u>44,762</u> |
| Total assets less current liabilities | | <u>120,071</u> | <u>109,945</u> |
| | | | |
| Provisions for liabilities | 18 | 3,385 | 3,451 |
| Pension liability | 20 | <u>25,191</u> | <u>27,170</u> |
| Net assets | | <u>91,495</u> | <u>79,324</u> |
| | | | |
| Capital and Reserves | | | |
| Called up share capital | 21 | 67 | 67 |
| Capital redemption reserve | | 17 | 17 |
| Share premium account | | 31 | 31 |
| Retained earnings | | <u>91,380</u> | <u>79,209</u> |
| Total equity | | <u>91,495</u> | <u>79,324</u> |

The profit of the Company for the financial year is £15,037,000 (2019: £8,440,000).

The financial statements on pages 16 to 44 were approved by the Board of Directors on 1 October 2020 and were signed on its behalf by



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D Evison
Managing Director

ARCO LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30
JUNE 2020

| GROUP | Note | Called up share capital | Share premium account | Capital redemption reserve | Retained earnings | Total |
|--|-------------|--|--------------------------------------|---|------------------------------|--------------|
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance as at 30 June 2018 | | 67 | 31 | 17 | 68,464 | 68,579 |
| Profit for the year | | - | - | - | 6,389 | 6,389 |
| Other comprehensive income for the year | | - | - | - | 3,917 | 3,917 |
| Total comprehensive income for the year | | - | - | - | 10,306 | 10,306 |
| Transactions wholly related to the owners | | | | | | |
| Dividend | | - | - | - | (2,570) | (2,570) |
| Balance as at 30 June 2019 | | 67 | 31 | 17 | 76,200 | 76,315 |
| Profit for the year | | | | | 11,465 | 11,465 |
| Other comprehensive income for the year | | - | - | - | (261) | (261) |
| Total comprehensive income for the year | | - | - | - | 11,204 | 11,204 |
| Transactions wholly related to the owners | | | | | | |
| Dividend | | - | - | - | (2,570) | (2,570) |
| Balance as at 30 June 2020 | | 67 | 31 | 17 | 84,834 | 84,949 |

ARCO LIMITED AND SUBSIDIARIES
COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

| COMPANY | Note | Called up share capital | Share premium account | Capital redemption reserve | Retained earnings | Total |
|--|-------------|--|--------------------------------------|---|------------------------------|--------------|
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance as at 1 July 2018 | | 67 | 31 | 17 | 69,405 | 69,520 |
| Profit for the year | | - | - | - | 8,440 | 8,440 |
| Other comprehensive income for the year | | - | - | - | 3,934 | 3,934 |
| Total comprehensive income for the year | | - | - | - | 12,374 | 12,374 |
| Transactions wholly related to the owners | | | | | | |
| Dividend | | - | - | - | (2,570) | (2,570) |
| Balance as at 30 June 2019 | | 67 | 31 | 17 | 79,209 | 79,324 |
| Profit for the year | | - | - | - | 15,037 | 15,037 |
| Other comprehensive income for the year | | - | - | - | (296) | (296) |
| Total comprehensive income for the year | | - | - | - | 14,741 | 14,741 |
| Transactions wholly related to the owners | | | | | | |
| Dividend | | - | - | - | (2,570) | (2,570) |
| Balance as at 30 June 2020 | | 67 | 31 | 17 | 91,380 | 91,495 |

ARCO LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|------|---------------------|---------------------|
| Net cash inflow from operating activities | | 7,999 | 6,129 |
| Corporation tax paid | | (645) | (396) |
| Net cash generated from operating activities | | <u>7,354</u> | <u>5,733</u> |
| Cash flow from investing activities | | | |
| Payments to acquire tangible fixed assets | | (9,557) | (21,485) |
| Payment to acquire intangible fixed assets | | (1,397) | (5,298) |
| Proceeds from sales of tangible fixed assets | | 3,500 | 885 |
| Proceeds from sales of intangible assets | | - | - |
| Interest received | | 58 | 172 |
| Net cash (used in) investing activities | | <u>(7,396)</u> | <u>(25,726)</u> |
| Cash flow from financing activities | | | |
| Redemption of redeemable shares | | - | - |
| Equity dividend paid | | (2,570) | (2,570) |
| Currency movement on overseas investments | | 36 | (17) |
| Interest paid | | - | - |
| Net cash used in financing activities | | <u>(2,534)</u> | <u>(2,587)</u> |
| Net (decrease) / increase in cash and cash equivalents | | (2,576) | (22,580) |
| Cash and cash equivalents at the beginning of the year | | <u>6,560</u> | <u>29,140</u> |
| Cash and cash equivalents at the end of the year | | <u><u>3,984</u></u> | <u><u>6,560</u></u> |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. Accounting policies

Statement of compliance

Arco Limited is a private company limited by shares and it is incorporated and domiciled in England, United Kingdom. The address of its registered office is Waverley Street, Hull HU1 2SJ. The registered number of the Company is 133804.

There has been no change to our principal activities. We continue to build upon our reputation as experts in safety, supplying and servicing a wide range of businesses in the UK, Ireland and the rest of the world through our Export division.

The Group's financial statements have been prepared in compliance with the Companies Act and FRS 102 as it applies to the financial statements of the Group for the year ended 30 June 2020.

a) Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated

b) Basis of accounting

These financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial assets and financial liabilities held at fair value through profit and loss, in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

c) Critical judgements

(i) Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans are subject to significant uncertainty. In determining the appropriate assumptions, management seeks guidance from its professional advisors in determining the appropriate discount rates and inflation assumptions. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates.

(ii) Taxation

The Group establishes provisions based on reasonable judgement for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. Accounting policies (continued)

d) Significant accounting estimates

(i) Provisions

Information about provisions and contingencies, which are considered to have a risk of material adjustment in the next financial period due to the assumptions and estimations used, are disclosed in note 18. The provisions are based on historical experience and management's best knowledge at the time and are reviewed at each balance sheet date. The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

(ii) Stock provisions

Stock provisions are disclosed in note 14. Arco group entities assess at each reporting date whether any inventories are impaired comparing the carrying amount of each item of stock with its selling price less costs to complete and sell. The provisions are based on management's best knowledge at the time and are reviewed at each balance sheet date. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

e) Going Concern

The Group has sufficient financial resources at its disposal and has access to considerable external funding should the need arise. The Group performs long term forecasting to determine its future profitability and cashflows. The directors have reviewed these and expect the Group to continue in operational existence for the foreseeable future.

In particular, the Directors have considered the likely impact of the unprecedented impact of Covid-19 and concluded that any material impact on the Group as a result of the pandemic and associated economic slowdown is likely to be sufficiently mitigated by increased demand for the Company in its capacity as an industry expert in the supply of PPE and safety knowledge. As such the Group continues to adopt the going concern basis of accounting in preparing these financial statements.

f) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with. A qualifying entity is defined as a member of a Group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. Arco Limited can take these exemptions for standalone financial statements.

As a qualifying entity, the Company has taken advantage of the following exemptions:

- i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- ii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- iii) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

g) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and each of its subsidiary undertakings for the year ended 30 June 2020. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. Accounting policies (continued)

power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

Group reconstructions are accounted for by using the merger accounting method. Under this method the results and cash flows of all the combining entities are brought into the combined entity's consolidated financial statements from the date on which the combination occurred, adjusted to achieve uniformity of accounting policies. The carrying amounts of the acquired entity's assets and liabilities are not adjusted to fair value.

h) Foreign currency

(i) Functional and presentation currency

The Group's presentation currency is pound sterling rounded in thousands.

The Company's functional and presentation currency is the pound sterling.

(ii) Transactions and balances

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rate. Non-monetary items measured at historical cost are translated using exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet. The exchange difference arising on the retranslation of opening net assets are recognised in the 'Other comprehensive income' and then it is taken directly to reserves. Foreign exchange gains and losses resulting from foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investments in these enterprises. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

i) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, including forward currency contracts and options to hedge its exposure to the financial risks of changes in foreign exchange rates. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently measured at fair value at each balance sheet date.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting or the ineffective portion of financial instruments that are designated and effective as hedges are recognised in the income statement as they are incurred.

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. Accounting policies (continued)

j) Turnover

Turnover is recognised to the extent that the Group obtains the right to consideration in exchange for its performance and knowledge, i.e. the risks and reward of ownership of the goods have passed to the buyer or the services have been delivered. It is measured at the fair value of the consideration received, excluding discount, rebate, and other sales taxes and duty.

k) Employee benefit

The Group provides a range of benefits to employees, including paid holiday arrangements, defined contribution and defined benefit pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

The Company operated two pension plans, incorporating defined contribution and defined benefit pension scheme.

(ii) Defined contribution pension scheme

The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet.

(iii) Defined benefit pension scheme

The Group operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. The Group engages independent actuaries to conduct a full actuarial valuation to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Re-measurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- (a) the increase in pension benefit liability arising from employee service during the period; and
- (b) the cost of plan introductions, benefit changes, curtailments and settlements.

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. Accounting policies (continued)

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as "interest payable and similar expense".

l) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable income for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The charge for taxation is based on the income for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

m) Business combination and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Goodwill recognised represent the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Groups' interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Positive goodwill arising on acquisition is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life. It is annually reviewed for the impairment of events or changes in circumstances indicate that the carrying value may not be recoverable.

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. Accounting policies (continued)

n) Intangible Assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of between three and five years, on a straight line basis. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

o) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

The cost of fixed assets is written off over their expected useful lives as follows:

| | |
|------------------------------|---------------|
| Freehold property | 20 years |
| Leasehold property | 2 to 20 years |
| Plant, fixtures and fittings | 3 to 10 years |
| Motor vehicles | 5 years |

In the absence of a full professional valuation the Directors are unable to quantify the value of land included in freehold property. They are of the opinion, however, that such value would not be significant in relation to the building content. Accordingly, the total value of freehold property has been depreciated.

Where land is acquired separately the asset is held at cost.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the consolidated income statement.

p) Investment properties

Investment property is property held for rental income and/or capital appreciation.

Investment property is initially recognised at cost and subsequently carried at fair value determined on an annual basis by independent professional valuers. Changes in fair value are recognised in the profit and loss account within operating profit.

On disposal or reclassification, any difference between the disposal proceeds and the carrying amount is recognised in the profit and loss account.

q) Leased assets

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

(i) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. Accounting policies (continued)

(ii) Lease incentives

Incentives received to enter into an operating lease are credited to the consolidated income statement, to reduce the lease expense, on a straight-line basis over the period of the lease.

The Group has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 July 2014) and continues to credit such lease incentives to the consolidated statement of income over the period to the first review date on which the rent is adjusted to market rates.

r) Investments in subsidiaries

In the parent Company financial statements investments in subsidiaries are accounted for at cost less provision for impairment.

s) Stocks

Stocks are valued at the lower of cost and estimated selling price less cost to complete and sell, with due allowance for any obsolete or slow moving items. Net realisable value is based on the estimated selling price less any further costs expected to be incurred in the sales process.

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition.

t) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

u) Financial Instruments

The Group has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other debtors and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the consolidated statement of income.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the consolidated income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. Accounting policies (continued)

(ii) Financial liabilities

Basic financial liabilities, including trade and other creditors and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

v) Related party transactions

The Company has taken advantage of the exemption, as provided by paragraph 33.1A of FRS 102 on the grounds that it is a wholly owned subsidiary of a Group headed by Arco Limited, whose financial statements are publicly available. Hence, it does not disclose transactions with members of the same Group that are wholly owned. The Company discloses transactions with related parties which are not wholly owned within the same Group.

w) Exceptional costs

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items that are material either because of their size or their nature, or that are nonrecurring are considered as exceptional items and are presented within the line items to which they best relate.

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. Turnover by market / category

Analysis of turnover by market area

| | 2020 £'000 | 2019 £'000 |
|-----------------|----------------|----------------|
| United Kingdom | 301,553 | 274,928 |
| Other countries | 18,415 | 7,911 |
| | <u>319,968</u> | <u>282,839</u> |

Analysis of turnover by category

| | 2020 £'000 | 2019 £'000 |
|---------------|----------------|----------------|
| Sale of goods | 310,565 | 270,203 |
| Services | 9,403 | 12,636 |
| | <u>319,968</u> | <u>282,839</u> |

3. Operating Profit

Operating profit is stated after (charging)/crediting:

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Depreciation of owned assets | (3,951) | (3,102) |
| Goodwill amortisation | (977) | (1,948) |
| Software amortisation | (2,603) | (1,879) |
| Research and development credits (RDEC) | - | 250 |
| Job Retention Scheme ("JRS") Grants | 1,800 | - |
| Foreign exchange gains | 523 | 584 |
| Operating lease rentals | | |
| - land and buildings | (3,793) | (4,222) |
| - other (cars and vans) | (1,713) | (1,727) |

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Fees payable to the Company's auditors for the audit of the parent Company and the Group's consolidated financial statements | (73) | (65) |
| Fees payable to the Company's auditors for the audit of the Group's subsidiaries | (20) | (17) |

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Fees payable to the Company's auditors and its associates for other services | | |
| Tax advisory services | - | (64) |
| Tax compliance services | - | (15) |
| Other | - | (42) |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

4. Employee Costs

| | Group | |
|-----------------------|---------------|---------------|
| | 2020 | 2019 |
| | £'000 | £'000 |
| Wages and salaries | 47,810 | 45,747 |
| Social security costs | 4,120 | 4,383 |
| Other pension costs | 3,173 | 2,998 |
| | <u>55,103</u> | <u>53,128</u> |

| | Company | |
|-----------------------|---------------|---------------|
| | 2020 | 2019 |
| | £'000 | £'000 |
| Wages and salaries | 41,413 | 39,409 |
| Social security costs | 3,529 | 3,743 |
| Other pension costs | 2,782 | 2,740 |
| | <u>47,724</u> | <u>45,892</u> |

Other Group pension costs of £3,173,000 (2019: £2,998,000) and Company £2,782,000 (2019: £2,740,000) are solely in respect of the defined contribution scheme.

5. Employee Numbers

The monthly average number of persons employed by the Group, including Directors, during the year was as follows:

| | Group | |
|------------------------------------|--------------|--------------|
| | 2020 | 2019 |
| | No | No |
| Management and administration | 304 | 300 |
| Production, distribution and sales | 1,368 | 1,411 |
| | <u>1,672</u> | <u>1,711</u> |

| | Company | |
|------------------------------------|--------------|--------------|
| | 2020 | 2019 |
| | No | No |
| Management and administration | 269 | 264 |
| Production, distribution and sales | 1,217 | 1,248 |
| | <u>1,486</u> | <u>1,512</u> |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

6. Remuneration of Directors

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Remuneration | 2,854 | 2,585 |
| Aggregate amounts receivable under long term incentive schemes | - | - |
| Company contributions paid to money purchase pension schemes | - | - |
| | <u>2,854</u> | <u>2,585</u> |
| | 2020 No | 2019 No |
| Members of money purchase pension schemes | - | - |

The amounts in respect of the highest paid Director are as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Remuneration (including amounts receivable under long term incentive schemes) | <u>721</u> | <u>559</u> |

Key management compensation

Key management includes members of senior management but does not include amounts for directors included above. The compensation paid or payable to key management for employee services is shown below:

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Salaries and other short-term benefits | 4,228 | 3,720 |
| Post-employment benefits | 466 | 483 |
| | <u>4,694</u> | <u>4,203</u> |

7. Interest Receivable and Similar Income

| | 2020 £'000 | 2019 £'000 |
|----------------------------------|---------------|---------------|
| Interest earned on bank deposits | <u>58</u> | <u>172</u> |

8. Interest Payable and Similar Expenses

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Interest expense on bank overdrafts | - | - |
| Net interest expense on defined benefit scheme | <u>582</u> | <u>1,653</u> |
| | <u>582</u> | <u>1,653</u> |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

9. Tax on Profit

a) Tax on income

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Current tax | | |
| UK Corporation tax on profits for the year | 1,257 | 1,006 |
| Adjustments in respect of previous periods | (16) | (517) |
| Total current tax | <u>1,241</u> | <u>489</u> |
| Deferred Tax | | |
| Originating and reversal of timing differences | (78) | 362 |
| Charge to pension liability | 596 | 354 |
| Adjustments in respect of previous periods | 45 | 78 |
| Impact of change in tax rate | (174) | - |
| Total deferred tax | <u>389</u> | <u>794</u> |
| Total tax | <u>1,630</u> | <u>1,283</u> |

b) Tax income / (expense) included in other comprehensive income

| | 2020 £'000 | 2019 £'000 |
|----------------------------------|---------------|---------------|
| Deferred tax | | |
| Actuarial loss on pension scheme | 224 | (995) |
| Cash flow hedges | (27) | 14 |
| Impact of change in tax rate | 543 | 104 |
| | <u>740</u> | <u>(877)</u> |

c) Factors Affecting the Tax Charge for the Year

The tax assessed on the income for the year is lower (2019: lower) than the standard rate of corporation tax in the UK. The differences are explained as follows:

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Profit before tax | 13,095 | 7,672 |
| Profit multiplied by standard rate of Corporation Tax in the UK of 19% (2019: 19%) | 2,488 | 1,458 |
| Income not subject to tax | (1,073) | (212) |
| Expenses not deductible for tax purposes (inc goodwill amortisation) | 759 | 543 |
| Depreciation on assets not qualifying for capital allowances | (85) | (70) |
| Impact of changes in tax rate | (220) | - |
| Impact of overseas tax rate | (106) | 15 |
| Adjustments to tax charge in respect of prior year | 29 | (439) |
| Utilisation of losses brought forward | (162) | (12) |
| Tax charge for year | <u>1,630</u> | <u>1,283</u> |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

9. Tax on Profit (continued)

d) Deferred tax

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| The deferred tax liability consists of: | | | | |
| Accelerated capital allowances | (689) | (632) | (702) | (628) |
| Other timing differences | 296 | 195 | 286 | 195 |
| Hedging investments | (41) | (12) | (41) | (12) |
| Rolled over capital gains | (1,112) | (1,261) | (1,112) | (1,261) |
| Total deferred tax liability | <u>(1,546)</u> | <u>(1,710)</u> | <u>(1,569)</u> | <u>(1,706)</u> |

Deferred Tax Asset on Defined Benefits Pension Scheme for Group and Company

| | 2020 | 2019 |
|--|--------------|--------------|
| | £'000 | £'000 |
| As at 1 July | 4,619 | 5,864 |
| Movement to income statement | (596) | (354) |
| Movement within consolidated statement of comprehensive income | 767 | (891) |
| As at 30 June | <u>4,790</u> | <u>4,619</u> |

Total deferred tax

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Accelerated capital allowances and other timing differences | (1,546) | (1,710) | (1,569) | (1,706) |
| Employee benefit provision | 4,790 | 4,619 | 4,790 | 4,619 |
| | <u>3,244</u> | <u>2,909</u> | <u>3,221</u> | <u>2,913</u> |

The Company has historically made significant taxable income each year and forecasts to continue to do so. It is reasonable to forecast that future taxable income will arise against which the deferred tax asset can be recovered.

e) Changes in tax rate

Changes to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2020 (on 17 March 2020) and Finance Bill 2016. This maintained the main rate of corporation tax at 19% for future periods. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

10. Dividends

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Declared and paid during the year: | | |
| Ordinary shares (£41 per share) (2019: £41 per share) | 2,570 | 2,570 |
| Redeemable shares (£nil) (2019: £nil per share) | - | - |
| | <u>2,570</u> | <u>2,570</u> |
| Final proposed dividend for 2020 agreed post balance sheet date | | |
| Ordinary shares (£20.50 per share) | <u>1,285</u> | <u>1,285</u> |

11. Intangible Assets

| | Goodwill £'000 | Software £'000 | Total £'000 |
|---------------------------------|-------------------|-------------------|----------------|
| Group | | | |
| Cost | | | |
| At 1 July 2019 | 9,738 | 18,256 | 27,994 |
| Additions | - | 1,014 | 1,014 |
| At 30 June 2020 | <u>9,738</u> | <u>19,270</u> | <u>29,008</u> |
| Accumulated Amortisation | | | |
| At 1 July 2019 | 8,761 | 6,242 | 15,003 |
| Charge for year | 977 | 2,603 | 3,580 |
| At 30 June 2020 | <u>9,738</u> | <u>8,845</u> | <u>18,583</u> |
| Net Book Value | | | |
| 30 June 2020 | <u>-</u> | <u>10,425</u> | <u>10,425</u> |
| 30 June 2019 | <u>977</u> | <u>12,014</u> | <u>12,991</u> |
| Company | | | |
| Cost | | | |
| At 1 July 2019 | | 18,256 | 18,256 |
| Additions | | 1,014 | 1,014 |
| At 30 June 2020 | | <u>19,270</u> | <u>19,270</u> |
| Accumulated Amortisation | | | |
| At 1 July 2019 | | 6,242 | 6,242 |
| Charge for year | | 2,603 | 2,603 |
| At 30 June 2020 | | <u>8,845</u> | <u>8,845</u> |
| Net Book Value | | | |
| 30 June 2020 | | <u>10,425</u> | <u>10,425</u> |
| 30 June 2019 | | <u>12,014</u> | <u>12,014</u> |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

12. Tangible Assets

| | Investment property £'000 | Freehold property £'000 | Leasehold property £'000 | Motor vehicles £'000 | Plant & fittings £'000 | Total £'000 |
|-------------------------------------|---------------------------------|-------------------------------|--------------------------------|----------------------------|------------------------------|----------------|
| Group | | | | | | |
| Cost | | | | | | |
| At 1 July 2019 | 1,478 | 29,408 | 8,430 | 134 | 29,263 | 68,713 |
| Additions | - | 6,108 | 600 | - | 2,645 | 9,353 |
| Disposals | - | (1,859) | (472) | - | (274) | (2,605) |
| Reclassification | (1,478) | 1,478 | - | - | - | - |
| At 30 June 2020 | - | 35,135 | 8,558 | 134 | 31,634 | 75,461 |
| Accumulated Depreciation | | | | | | |
| At 1 July 2019 | - | 4,002 | 4,838 | 93 | 20,739 | 29,672 |
| Charge for year | - | 885 | 782 | 18 | 2,266 | 3,951 |
| Disposals | - | (1,480) | (261) | - | (251) | (1,992) |
| Reclassification | - | - | - | - | - | - |
| At 30 June 2020 | - | 3,407 | 5,359 | 111 | 22,754 | 31,631 |
| Net Book Value | | | | | | |
| 30 June 2020 | - | 31,728 | 3,199 | 23 | 8,880 | 43,830 |
| 30 June 2019 | 1,478 | 25,406 | 3,591 | 41 | 8,524 | 39,041 |

| | Investment property £'000 | Freehold property £'000 | Leasehold property £'000 | Motor vehicles £'000 | Plant & fittings £'000 | Total £'000 |
|-------------------------------------|---------------------------------|-------------------------------|--------------------------------|----------------------------|------------------------------|----------------|
| Company | | | | | | |
| Cost | | | | | | |
| At 1 July 2019 | 1,478 | 29,342 | 8,175 | 134 | 28,149 | 67,278 |
| Additions | - | 6,108 | 269 | - | 2,528 | 8,905 |
| Disposals | - | (1,859) | (472) | - | (274) | (2,605) |
| Reclassification | (1,478) | 1,478 | - | - | - | - |
| At 30 June 2020 | - | 35,070 | 7,972 | 134 | 30,403 | 73,578 |
| Accumulated Depreciation | | | | | | |
| At 1 July 2019 | - | 3,990 | 4,683 | 93 | 19,787 | 28,553 |
| Charge for year | - | 884 | 739 | 18 | 2,207 | 3,848 |
| Disposals | - | (1,480) | (261) | - | (251) | (1,992) |
| Reclassification | - | - | - | - | - | - |
| At 30 June 2020 | - | 3,394 | 5,161 | 111 | 21,742 | 30,409 |
| Net Book Value | | | | | | |
| 30 June 2020 | - | 31,676 | 2,811 | 23 | 8,662 | 43,169 |
| 30 June 2019 | 1,478 | 25,352 | 3,492 | 41 | 8,362 | 38,725 |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

12. Tangible Assets (continued)

Land to the value of £2.4m (2019: £2.4m) is included within Group and Company freehold property.

Assets under construction to the value of £3.9m (2019: £21.5m) is included within freehold property net book value. Additions in respect of the asset under construction amount to £3.6m.

The investment property was brought into use for the trade within the year and was reclassified as freehold property. On reclassification the fair value of the investment property was deemed to be lower than its book value and the difference of £0.4m was recognised in the profit and loss account during the year and is shown within the depreciation charge for freehold property.

13. Investments

| | Subsidiary Undertakings £'000 |
|-------------------------------------|-------------------------------------|
| Company | |
| Shares at cost: | |
| At 1 July 2019 | 21,116 |
| Additions | - |
| At 30 June 2020 | <u>21,116</u> |
| Provision against investment | |
| At 1 July 2019 | 6,672 |
| Charge for the year | - |
| At 30 June 2020 | <u>6,672</u> |
| Net book value | |
| At 30 June 2019 | <u>14,444</u> |
| At 30 June 2020 | <u>14,444</u> |

A detailed listing of all subsidiaries and related undertakings is shown in note 27 on page 43 to 44.

14. Stocks

| | Group | | Company | |
|------------------|---------------|---------------|---------------|---------------|
| | 2020 £'000 | 2019 £'000 | 2020 £'000 | 2019 £'000 |
| Goods for resale | <u>60,007</u> | <u>38,358</u> | <u>59,535</u> | <u>37,792</u> |

In the opinion of the Directors, there is no significant difference between the replacement costs of stock and the value stated in the balance sheet.

The amount of inventories recognised as an expense during the year for Group is £219,660,000 (2019: £182,360,000) and for Company is £207,273,000 (2019: £179,961,000).

Inventories are stated after provisions for impairment in the Group of £9,517,000 (2019: £3,874,000) and Company £9,380,000 (2019: £3,757,000).

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

15. Debtors

| | Group | | Company | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade debtors | 68,961 | 55,329 | 63,522 | 50,959 |
| Other debtors | 7 | 3 | - | - |
| Social security and other taxation | - | - | - | - |
| Derivatives | 213 | 73 | 213 | 73 |
| Amounts owed by group undertakings | - | - | - | - |
| Corporation tax | - | 428 | - | 396 |
| Prepayments and accrued income | 1,461 | 4,059 | 1,426 | 3,810 |
| | <u>70,642</u> | <u>59,892</u> | <u>65,161</u> | <u>55,238</u> |

Trade debtors within the Group are stated after provisions for impairment of £1,756,000 (2019: £1,024,000) and Company £1,305,000 (2019: £698,000).

Amounts owed by subsidiary undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

16. Financial instruments

| | | Group | | Company | |
|---|----|---------------|---------------|---------------|---------------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | £'000 | £'000 | £'000 | £'000 |
| <i>Financial assets</i> | | | | | |
| Financial assets measured at fair value | | | | | |
| Derivative financial instruments | | <u>213</u> | <u>73</u> | <u>213</u> | <u>73</u> |
| Financial assets measured at amortised costs | | | | | |
| Trade debtors | 19 | 68,961 | 55,328 | 63,522 | 50,959 |
| Other debtors | 19 | 7 | 3 | - | - |
| Amounts owed by subsidiary undertakings | | - | - | - | - |
| | | <u>68,968</u> | <u>55,331</u> | <u>63,522</u> | <u>50,959</u> |
| Financial liabilities measured at amortised cost | | | | | |
| Trade creditors | 21 | 59,687 | 37,580 | 56,445 | 36,510 |
| Amounts owed to subsidiary undertakings | | - | - | 5,671 | 6,472 |
| | | <u>59,687</u> | <u>37,580</u> | <u>62,116</u> | <u>42,982</u> |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

17. Trade and other payables

| | Group | | Company | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade creditors | 59,687 | 37,580 | 56,445 | 36,510 |
| Other taxation and Social Security | 6,318 | 5,126 | 5,195 | 4,244 |
| Accruals and deferred income | 12,434 | 10,109 | 11,060 | 9,256 |
| Derivative financial instruments | - | - | - | - |
| Amounts owed to group undertakings | - | - | 5,671 | 6,472 |
| Corporation tax | 168 | - | 533 | - |
| | <u>78,607</u> | <u>52,815</u> | <u>78,904</u> | <u>56,482</u> |

18. Provisions for Liabilities

| GROUP AND COMPANY | 2020 | 2019 |
|--------------------------|--------------|--------------|
| | £'000 | £'000 |
| At 1 July 2019 | 3,451 | 3,907 |
| Charge in the year | 274 | 330 |
| Utilised in year | (340) | (786) |
| At 30 June 2020 | <u>3,385</u> | <u>3,451</u> |

The provision for liabilities relates to property costs.

19. Reconciliation of Profit before Taxation to Net Cash Inflow from Operating Activities

| | 2020 | 2019 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Profit before taxation | 13,095 | 7,672 |
| Profit on sale of fixed assets | (2,888) | (788) |
| Impairment of intangible asset | - | 1 |
| Interest receivable | (58) | (172) |
| Other finance income and charges | 582 | 1,653 |
| Depreciation of tangible fixed assets | 3,951 | 3,102 |
| Amortisation of intangible fixed assets | 3,580 | 3,827 |
| Research and development credits | - | (250) |
| (Increase)/Decrease in stocks | (21,177) | (2,775) |
| (Increase)/Decrease in debtors | (11,038) | 1,344 |
| (Decrease)/Increase in creditors | 25,624 | (4,156) |
| (Decrease)/Increase in provisions for liabilities | 66 | 456 |
| Contributions to pension scheme | (3,738) | (3,738) |
| Net cash inflow from operating activities | <u>7,999</u> | <u>6,129</u> |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

20. Pension Arrangements

During the year, Arco Limited operated the Arco Stakeholder Pension Plan, which is a defined contribution arrangement and in addition Arco also operated the Arco Group Pension and Life Assurance Scheme (GPLA), which offers a defined benefit arrangement.

The Arco Stakeholder Pension Plan provides the framework under which employees can arrange personal pension plans with Legal and General. Both the employee and company contribute to these plans.

The GPLA Defined Benefit Scheme

The GPLA scheme is funded and the assets are held by Trustees separately from the assets of the Company. Contributions to the scheme are based on the results of regular actuarial reviews of the scheme's financial position which are undertaken by an independent and professionally qualified actuary. The scheme is now closed to new members and in April 2010 the scheme closed to future accrual. However, transitional arrangements were in place for those who were within 3 years of their expected retirement date. The employer contributed £3,738,000 in 2020 (2019: £3,738,000).

a) The amounts recognised in the statement of comprehensive income are as follows:

| | 2020 £'000 | 2019 £'000 |
|--|----------------|---------------|
| Return on scheme assets (excluding net interest expense) | 18,409 | 12,863 |
| Actuarial gains / (losses) | (19,586) | (7,624) |
| | <u>(1,177)</u> | <u>5,239</u> |

b) The other finance (charge) is:

| | 2020 £'000 | 2019 £'000 |
|----------------------------------|---------------|----------------|
| Interest on obligation | (4,300) | (4,922) |
| Impact of GMP equalisation | - | (762) |
| Expected return on scheme assets | 3,718 | 4,031 |
| | <u>(582)</u> | <u>(1,653)</u> |

c) Details of the amounts recognised in the balance sheet are set out below

| | 2020 £'000 | 2019 £'000 |
|-------------------------------------|-----------------|-----------------|
| Present value of funded obligations | (206,603) | (191,227) |
| Fair value of scheme assets | 181,412 | 164,057 |
| Deficit | <u>(25,191)</u> | <u>(27,170)</u> |

The principal actuarial assumptions used at the balance sheet date are:

| | 2020 | 2019 |
|---|-------|-------|
| Discount rate at end of year | 1.5% | 2.3% |
| Inflation assumption – RPI | 2.9% | 3.2% |
| Inflation assumption – CPI | 2.0% | 2.2% |
| Revaluation of deferred pension | | |
| - GMP for leavers pre 5 April 1997 | 4.2% | 4.2% |
| - GMP for leavers post 6 April 1997 | Fixed | Fixed |
| - In excess of GMP | 2.0% | 2.2% |
| Expected return on scheme assets at end of year | | |
| Future pension increases | | |
| - pensions in payment | 3.4% | 3.5% |
| - revaluation of deferred pensions | 2.9% | 3.2% |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

20. Pension Arrangements (continued)

| | 2020 | 2019 |
|---|------|------|
| Expected age of death of current pensioner at age 65: | | |
| Male aged 65 at the year end | 86.9 | 87.2 |
| Female aged 65 at the year end | 88.8 | 89.1 |
| Expected age of death of future pensioner at age 65: | | |
| | 2020 | 2019 |
| Male aged 45 at year end | 87.9 | 88.3 |
| Female aged 45 at the year end | 90.0 | 90.2 |

d) Changes in the present value of the defined benefit obligation are as follows:

| | 2020 £'000 | 2019 £'000 |
|------------------------------------|----------------|----------------|
| Opening defined benefit obligation | 191,227 | 185,912 |
| Interest expense | 4,300 | 4,922 |
| GMP equalisation | - | 762 |
| Actuarial (gains) / losses | 19,586 | 7,624 |
| Benefits paid | (8,510) | (7,993) |
| Closing defined benefit obligation | <u>206,603</u> | <u>191,227</u> |

No further charge (2019: £762,000) has been recognised in the profit and loss account in respect of GMP equalisation. The charge in the prior year equated to roughly 0.4% of scheme liabilities and was based on estimates.

e) Changes in the fair value of scheme assets are as follows

| | 2020 £'000 | 2019 £'000 |
|---|----------------|----------------|
| Opening fair value of scheme assets | 164,057 | 151,418 |
| Interest income | 3,718 | 4,031 |
| Return on plan assets excluding interest income | 18,409 | 12,863 |
| Employer contribution | 3,738 | 3,738 |
| Benefits paid | (8,510) | (7,993) |
| Fair value of scheme assets at end of year | <u>181,412</u> | <u>164,057</u> |

f) Fair value of plan assets

| | 2020 | 2019 | 2020 £'000 | 2019 £'000 |
|-----------------------|------|------|----------------|----------------|
| Return seeking assets | 51% | 53% | 92,550 | 87,562 |
| Matching assets | 48% | 46% | 87,947 | 75,198 |
| Cash | 1% | 1% | 915 | 1,297 |
| | | | <u>181,412</u> | <u>164,057</u> |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

21. Called up share capital

| | Allotted, issued, called up and fully paid | |
|--|---|-----------|
| | 2020 | 2019 |
| | £'000 | £'000 |
| 62,828 (2018: 62,828) Ordinary shares of £1 each | 62 | 62 |
| 5,000 (2018: 5,000) Ordinary "B" shares of £1 each | 5 | 5 |
| | <u>67</u> | <u>67</u> |

Ordinary shares include 135 shares held centrally and no dividend payment is made on these shares.

Pursuant to the Company's Articles of Association, the ordinary "B" shares carry no right to vote and no right to participate in any dividend. However, they are redeemable on the basis set out therein. In particular, the B shareholders have the right to require the Company to redeem 3,333 of the 5000 issued 'B' Shares on or after 30 June 2020, with the remaining 1,667 not redeemable until 30 June 2022.

22. Reserves

Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Capital redemption reserve

This reserve records the nominal value of shares repurchased by the Company.

23. Operating Lease Commitments

At 30 June 2020 the Company and Group had the following total lease payments under non-cancellable operating lease for each of the following periods:

| | Other | | Land and Buildings | |
|---|--------------|--------------|--------------------|---------------|
| Payment due | 2020 | 2019 | 2020 | 2019 |
| | £'000 | £'000 | £'000 | £'000 |
| Not later than one year | 879 | 721 | 3,504 | 3,215 |
| Later than one year and not later than five years | 1,163 | 344 | 7,709 | 9,241 |
| Later than five years | - | - | 12,515 | 15,066 |
| | <u>2,042</u> | <u>1,065</u> | <u>23,728</u> | <u>27,522</u> |

24. Financial Commitments

At 30 June 2020 the Group had contracted for future capital expenditure to the sum of £11.7m (2019 - £3.9m).

At 30 June 2020 the Group had contracted for future forward contracts in relation to currency hedging to the sum of £34.2m (2019: £26.9m).

25. Related party transactions

The company has taken advantage of the exemption as per paragraph 33.1A of FRS 102 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

26. Ultimate controlling party

In the Directors' opinion, the company has no ultimate controlling party. The Company is the parent undertaking of the largest and smallest group in which the financial statements of the Company are consolidated. Copies of the financial statements are publicly available from the Registrar of Companies in the UK.

27. Subsidiaries and Related Undertakings

| <u>Name of Company</u> | <u>Country of Incorporation</u> | <u>Nature</u> | <u>Direct/Indirect</u> | <u>Interest</u> | <u>Registered Office</u> |
|---|---------------------------------|--------------------|------------------------|-----------------|--|
| Arco Safety Limited | Eire | Safety distributor | Direct | 100% | Suite 3, One Earlsfort Centre Earlsfort Terrace Dublin 2 |
| Arco Professional Safety Services Limited | England | Safety provider | Direct | 100% | Unit 5, Raleigh Hall Industrial Estate, Eccleshall, Stafford, ST21 6JL |
| Confined Spaces Training Services Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Occupational Safety Services Limited | Northern Ireland | Dormant | Direct | 100% | 7 Trench Road, Mallusk, Newtonabbey, Co Antrim, BT36 4TY |
| Gilpins the Shop for Men Limited | Northern Ireland | Dormant | Indirect | 100% | 7 Trench Road, Mallusk, Newtonabbey, Co Antrim, BT36 4TY |
| Arco Gilpins Limited | Northern Ireland | Dormant | Direct | 100% | 7 Trench Road, Mallusk, Newtonabbey, Co Antrim, BT36 4TY |
| Arco Hollman Nicholls Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco Humberside Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco Group Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco Central Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco West Midlands Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco Tyne & Wear Limited | England | Dormant | Indirect | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco (GB) Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco Holdings Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco Cleveland Limited | England | Dormant | Direct | 50% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco MTM Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Arco Atholl Limited | Scotland | Dormant | Direct | 100% | Unit 3, Watt Street, Kingston Bridge Trading Estate Glasgow G5 8RR |
| W Walker & Sons (Safety) Limited | Scotland | Dormant | Direct | 100% | Unit 3, Watt Street, Kingston Bridge Trading Estate Glasgow G5 8RR |
| Melrite (Industrial Supplies) Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |

ARCO LIMITED AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

27. Subsidiaries and Related Undertakings (cont)

| <u>Name of Company</u> | <u>Country of Incorporation</u> | <u>Nature</u> | <u>Direct/Indirect</u> | <u>Interest</u> | <u>Registered Office</u> |
|--|-------------------------------------|---------------|------------------------|-----------------|--|
| Total Access (UK) Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Safestyle Workwear Limited | England | Dormant | Indirect | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Safety Navigator Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| Commercial Debt Recovery Services Limited | England | Dormant | Direct | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |
| CSTS Inspection Body Limited | England | Dormant | Indirect | 100% | PO Box 21, Waverley Street, Hull, HU1 2SJ |