

Shepherd Group

SHEPHERD BUILDING GROUP LIMITED

REPORT & ACCOUNTS Year ended 31 December 2022

Company registration number 653663

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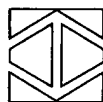
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Shepherd Group

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Shepherd Group Strategic Report

Principal Activities

Shepherd Building Group Limited (company registration number 653663, "the company") is a holding company whose primary trading subsidiary, Portakabin Limited ("Portakabin"), is engaged in the development and manufacture of modular and portable buildings, which are offered for hire and sale across the UK and Europe.

Strategy

The strategy of Shepherd Building Group Limited and its subsidiaries ("Shepherd Group" or "the Group") is to grow the market position and share of the Portakabin business. In 2022 we carried out a full strategic review for the period to 31 December 2027. The strategy is underpinned by a focus on being a safe, responsible, sustainable and efficient business, and one that leads the modular building market through innovation and sustainable solutions, whilst aspiring to be a desirable place to work.

Business Review and Results

The directors would like to thank all employees and other key stakeholders for their part in another successful year for the Group.

The results for the year ended 31 December 2022 are set out in the consolidated profit and loss account on page 15 and include an operating profit from continuing operations of £83.6 million (2021: £85.2 million) and an operating loss from discontinued operations of £8.5 million (2021: £24.4 million). The Group reports an overall profit after taxation of £55.1 million in the year ended 31 December 2022 (2021: £45.4 million).

Continuing Operations

Portakabin

The principal activities of Portakabin are the development and manufacture of modular and portable buildings, which are offered for hire and sale across the UK and Europe.

During the year, Portakabin continued to grow, with operating profit of £86.5 million (2021: £86.4 million), derived primarily from the hire businesses throughout the UK and Europe. We continued to focus on organic growth.

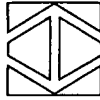
Property Portfolio

The Group retains a small investment property portfolio. There have been no sales transactions involving the investment property portfolio during 2022. A gain of £525,000 arising from revaluation of the property portfolio was recognised in 2022 (2021: £20,000) in respect of investment properties within the investment property portfolio.

Discontinued Operations

Shepherd Construction

Following the sale of the trade and assets of Shepherd Construction Limited ("Shepherd Construction") in 2015 and the completion of all residual retained projects, the company's remaining obligations relate to any defects on contracts completed in earlier periods.



Shepherd Group

Strategic Report (continued)

Principal Risks and Uncertainties

Health, Safety and Wellbeing

The health, safety and wellbeing of our employees is of paramount importance. The Group remains committed to achieving Zero Harm, where we prevent injury and ill-health to everyone who interacts with our business activities. We are creating a culture where everyone is engaged to look after themselves and be mindful of other's physical and mental wellbeing.

Talent management

We recognise the need to attract and cultivate talent within our business and continue to extend and enhance our performance and talent management development programmes, as well as our employee engagement, through surveys and other two-way interactions with employees.

Market and Competition

The Group is alert to the inherent risks to its commercial activity arising from market and competitive factors.

Product compliance

The business continues to work closely with external specialists and wider industry bodies to ensure that it can anticipate and respond to any potential risks associated with legislative changes which may impact fleet design or result in fleet upgrades.

Brand

The Portakabin trademark and our intellectual property are key to the long-term success of the business, and this is therefore carefully controlled and managed both internally and in conjunction with our external advisors. In addition, customer experience and feedback together with brand differentiation are at the heart of our sector focused business development process.

Sustainability and ESG

A materiality assessment was undertaken in 2022 to help us identify the issues that matter most to our business and stakeholders. Key priorities identified included health and safety, sustainable product innovation, decarbonisation, employee development and cyber security, all of which provide the focus for our sustainability agenda in 2023 and beyond.

Macro-economic factors and Supply Chain risks

The business considers there to be a risk of negative impact on its supply chain arising from the ongoing geo-political instability which has resulted in persistent inflationary and supply availability pressures. Actions have been taken to manage the risks of material cost inflation and security of supply.

Cyber

In an environment of heightened risk of cyber-attack, we have a cyber protection programme, which is a key focus of the Board. We have invested in an internal cyber security capability to undertake regular readiness exercises, business-wide educational awareness campaigns and continue to enhance our vigilance with regard to cyber threats.

Pension deficit

The Group continues to have obligations under the Shepherd Group pension scheme, and we work closely with the Board of the Trustees and our advisers to mitigate risks associated with the scheme deficit. This includes a low-risk investment strategy incorporating high levels of hedging against inflation and interest rate movements.



Shepherd Group Strategic Report (continued)

Principal Risks and Uncertainties (continued)

Funding and liquidity

Shepherd Building Group Limited has a £150m revolving credit facility in place, together with a £15m overdraft facility.

Shepherd Group has undertaken a going concern review. The base case financial projections have been stress tested for various scenarios, including income collection, to reflect uncertainty around inflationary and macro-economic uncertainties. More detailed disclosure on the going concern review is included under Basis of Preparation within note 1 to these accounts. The above review indicates that we have sufficient headroom within our committed borrowing facilities, which run until October 2025, and the accounts have therefore been prepared on a going concern basis.

Legacy matters

The Group recognises risks associated with the ongoing responsibility for warranty and contractual limitation periods on the Shepherd Construction project portfolio, and additionally there is uncertainty as to the risk exposure arising from the recently introduced Building Safety Act 2022 which opened up the potential for claims in relation to defects, rendering a building unfit for habitation, relating to residential properties completed within the last 30 years. The business has robust processes and governance to minimise these risks.

Key Performance Indicators (KPIs)

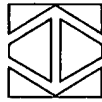
The Group monitors financial performance using a number of measures and indicators as follows:

	<i>Adjusted to Excl Discontinued Operations unless otherwise stated</i>		
	2022	2021	
Operating Profit	£83.6m	£85.2m	Profit before Interest from continuing operations
Profit before Tax	£81.7m	£84.6m	Profit before Tax from continuing operations
EBITDA	£163.8m	£161.7m	Profit before Interest, depreciation and amortisation from continuing operations
Return on Capital	28.4%	33.9%	Annualised Profit before Interest from continuing operations as % of Average Shareholders' Funds plus Net Borrowings
Dividend per Share	2,730p	2,480p	Total dividend paid / payable in respect of the year consisting of interim dividend paid and final dividend proposed for the year
Dividends paid / payable	£23.1m	£21.1m	
Leverage	0.3	Nil	Ratio of net borrowings to EBITDA

We use an industry standard known as Net Promoter Score (NPS) to measure and benchmark our customer satisfaction and performance against competitors and other B2B organisations. The high standard of our customer experience is demonstrated by a NPS of 47% during the year (compared to a B2B benchmark of 33%).

It is the teamwork, integrity, commitment and innovation of our people that sets us apart from our competitors. We monitor employee engagement through our Your Voice survey, exit interviews and employee turnover rates. Our November Your Voice survey indicated strong levels of employee engagement relative to benchmark companies with a score of 7.7 (out of 10) and had a participation rate of 80%.

The health, safety and wellbeing of our employees is of paramount importance and rigorous safety processes are essential if we are to avoid accidents or incidents which could cause injury to people or damage to property. The main metrics we use to measure safety performance are accident frequency rate (AFR) and injury frequency rate (IFR). AFR is frequency rate based on the number of hours worked and IFR is the frequency rate based on the number of employees. Our AFR in 2022 was 0.27 (compared to 0.41 in 2021) and our IFR was 2.1% (compared to 3.6% in 2021). The Group has seen an improvement in its HSE KPIs over the last few years and continues work hard to achieve its objective of Zero Harm.



Shepherd Group Strategic Report (continued)

Future Developments

The Group's priorities are to grow the Portakabin business and to maintain control and rigour around the completion of the obligations in relation to its Discontinued Operations.

Portakabin will continue to pursue a strategy of controlled growth in all territories in which it operates.

S172(1) Statement

The Board of Directors of Shepherd Building Group Limited consider, both individually and collectively, that they have acted in a way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s.172(1) (a) to (f) of the Companies Act 2006) in the decisions taken during the year ended 31 December 2022.

General confirmation of directors' duties

The Board believe that good governance and robust decision making are integral to the sustainable long-term success of the Group. The Board has a clear framework for determining the matters within its remit. The Board operates a number of mechanisms by which the interests of stakeholders are promoted to the Board, and which aim to give due regard to the interests of a broad ranges of stakeholders (including shareholders, employees, suppliers, customers and others) as described below.

The likely consequences of any decisions in the long term (s172(1) (A))

The directors understand the business and the environment in which the Group operates. The Board has overall responsibility for establishing the purpose, values and strategy required to deliver the long-term sustainable success of the Group and generate value for shareholders. The Board sets the strategy for the Group (including approval of the annual budget and management business plan). The Board then oversees the implementation of that strategy and ensures that the Group is suitably resourced to deliver on its strategic objectives. The Board is collectively responsible for ensuring that the Group is well governed, and risk is managed within defined and agreed boundaries. It also reviews trading performance, funding facilities and talent management and maintains oversight of the Group's systems of risk management and internal control as well as ensuring that the Group acts ethically and meets its legal and regulatory responsibilities.

The Board considered and assessed the long-term opportunity for value creation as part of the strategic review work carried out in 2022, including two days spent offsite with the Executive Leadership Team to carry out a 'deep dive' into the constituent elements of the new strategy. The Board also discusses key value drivers and growth opportunities as part of the Group's annual budget, which is presented to the Board for review and approval each year. The Board considers opportunities to improve business performance during the review of commercial, financial and operational matters at each Board meeting. In addition, the Board reviews significant capex investment projects, major contract tenders and potential acquisitions in accordance with the Group Approvals Process before any bids are made or contracts exchanged.

The directors recognise that some decisions they take may not align with all stakeholder interests. Stakeholder interests have been ascertained through a number of different methods, including employee engagement surveys, customer satisfaction scores and an ESG materiality assessment undertaken during 2022 and the outputs of which have formed the basis for the development of our ESG strategy and net zero roadmap.

The interests of employees (s172(1) (B))

The directors recognise that the Group's employees and their knowledge and skills are fundamental underpins of the long-term success of the business. The Group actively promotes being a responsible employer along with a working environment based on the promotion of equal opportunities for all, irrespective of disability, ethnic origin, gender or any other considerations that do not affect a person's ability to perform their job, freedom from discrimination and where every employee can deliver on their potential and make the fullest possible contribution. Our gender pay gap report is available at: <https://www.portakabin.com/gb-en/about-us/responsible-business/gender-pay-gap-report/>.

The Group takes a proactive approach to engaging with employees through a variety of methods such as a company intranet, company website, social media, monthly newsletters, video briefings, weekly health and safety briefings, team talks and 1-2-1 meetings. In 2022 the Board appointed a non-executive director with specific responsibility for employee engagement. The Group has recently been shortlisted for three awards at the UK InsideOut awards, recognising the importance we place on the mental health and wellbeing of our employees.



Shepherd Group

Strategic Report (continued)

S172(1) Statement (continued)

The interests of employees (s172(1) (B)) (continued)

We conduct an employee engagement survey called Your Voice on a regular basis. The results of these surveys are reviewed by the Board and Executive Leadership Team and every employee is provided with a summary of their team's response through their manager. This means that we can reflect on our collective feedback, with managers putting actions in place to respond to the needs of their teams. We carried out two Your Voice surveys in 2022 (May and November). The November survey indicated strong levels of employee engagement relative to benchmark companies with a score of 7.7 (out of 10) and both surveys had a participation rate of over 80%.

In 2022 we partnered with a Health, Safety and Wellbeing culture change consultancy to support the business in the next phase of our journey towards Zero Harm and the further development of our culture.

Our policies for recruitment, training, career development and promotion of employees is based on the suitability of the individual and give those who are disabled equal treatment with the able bodied.

All employees are given the opportunity to develop through a variety of learning interventions - including online digital learning, leadership development, professional skills training and apprenticeships and company sponsored development opportunities.

We have a Code of Conduct which gives all employees guidance on business ethics and expected behaviours. All employees are encouraged to raise concerns through an independently hosted speaking up service.

The need to foster the company's business relationships with suppliers, customers and others (s172(1) (C))

We maintain dialogue with our customers through regular points of engagement (including customer surveys) in order to gain insight into what matters most to our customers. We use industry standard NPS and CSI metrics to measure our performance and customer loyalty. These metrics are used to identify areas for improvement as part of a continual improvement cycle.

Suppliers play a pivotal part in the ability to meet our customers' needs. We engage and have regular dialogue with our strategic suppliers to ensure they understand and meet the standards expected of them in areas such as ethical trading, considerations of safety and environmental impact. Suppliers are required to sign up to a Supplier Code of Conduct and are subject to regular audits to confirm compliance with these standards. The Board is provided with details of the payment practices of the Group's primary trading company, Portakabin Limited, on a regular basis. Details of Portakabin Limited's payment practices, policies and performance can be found at <https://check-payment-practices.service.gov.uk/company/00685303/reports>.

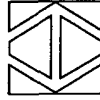
The impact of the company's operations on the community and the environment (s172(1) (D))

The Board recognises that continued urgent action is required to address the global impacts of climate change and take seriously the responsibility the Group has for the impacts it has on the environment. The Group is focused on applying innovations in sustainable technologies for future deployment to customers as well as working with key suppliers to source renewable materials and reduce emissions.

A high priority is placed on safety culture and on engaging with employees, as well as customers, suppliers and the general public, so that all activities minimise the risk of harm. The safety culture is one which is embedded through processes which drive full engagement on safety matters.

The Group has a Community Support Policy that directs funding and resources to support individuals and organisations and has a number of partnerships with a variety of charities, voluntary organisations and community groups. Employees regularly get involved in community activity through our volunteering days.

We seek to employ and train people in the communities we work in, and the Group operates an apprenticeship scheme across a broad range of skills and roles supporting the learning and development of those apprentices as they start their careers.



Shepherd Group Strategic Report (continued)

S172(1) Statement (continued)

The desirability of the company maintaining a reputation for high standards of business conduct (s172(1) (E))

The Board is committed to conducting business with transparency, integrity and honesty. We have implemented a full range of robust ethical compliance policies and an employee Code of Conduct to set clear standards of behaviour for our employees with the aim of ensuring we all act with integrity at all times. We are also committed to ensuring all employees understand these standards and encourage them to "speak up" (including by having provided an anonymous speaking up service) and independently investigating and (where appropriate) acting on any issues.

We apply high standards of conduct across our business, complying with relevant employment, health and safety and human rights laws to ensure our employees are safe. We have a zero-tolerance approach to modern slavery & human trafficking and we extend these requirements into our supply chain and require suppliers to sign up to a Supplier Code of Conduct.

The need to act fairly between members of the company (s172(1) (F))

The Board seeks to act fairly between all of the Group's shareholders by ensuring we act in accordance with our Articles of Association and also through regular interaction and engagement between the Board and shareholders. The primary method of interaction and engagement with shareholders is the independently chaired Shareholder Committee (which includes a representative from each branch of the Group's shareholder base). The Shareholder Committee meets at least four times per year. The Board also engages with shareholders by way of this report, a separate annual shareholder report, the AGM and individual meetings throughout the year. All channels of engagement seek to ensure that all shareholders are provided with information sufficient for them to have a sound understand the Group's performance.

Principal decisions

The Board defines principal decisions as those that are of strategic nature and that are significant to any of our key stakeholder groups. Material decisions taken in the year include the approval of the strategy for the period to the end of 2027, supporting our employees with the "cost of living" crisis, the budget for 2023, and the declaration and payment of dividends.

In making these material decisions, the Board took conscious steps to identify and take account of stakeholder views (in the case of supporting employees with the "cost of living crisis" by considering the feedback employees were giving to management) the potential impact (both positively and negatively) on the key stakeholder groups (such as shareholders, employees, suppliers, customers and society as a whole) and concluded that the decisions taken and the anticipated outcomes were aligned with promoting the success of the Group for the benefit of its members. In particular the budget and strategy are designed to increase shareholder value whilst also delivering increased positive social benefit through continuing to provide employment and support public and private businesses in providing services to the economy.

On Behalf of the Board

S Thomson

S Thomson
Secretary
21 March 2023

Yorkon House
New Lane
Huntington
York
YO32 9PT
Registered in England under Number 0653663



Shepherd Group Report of the Directors

The directors submit their report together with the consolidated accounts for the Group for the year ended 31 December 2022 and the balance sheet of the company as at that date.

In accordance with section 414C(11) of the Companies Act 2006, we have included some of the matters normally included in the Report of the Directors which we consider of strategic importance in the Strategic Report. Specifically, these are:

- Business review (including principal risks and uncertainties), results and future developments (pages 1, 2 and 3)
- Disabled employees (page 5)
- Engagement with employees (pages 4 and 5)
- Engagement with suppliers, customers and others (page 5)

Financial Risk Management Objectives and Policies

The financial risk management objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, are detailed in Notes 23 and 24 to the Accounts, which information is incorporated by reference into this Report of the Directors.

Directors

The directors of the company who served during the year or were on the Board at the date of signing these accounts were as follows:

Mr A J Allner (Chairman)
Mr J M Collins
Mr D F Ibbetson
Mrs C A Johnstone
Mr H J Velge
Mr R K Wunderlich
Mrs A Wilcox (appointed 1 January 2023)
Mr G Urwin (appointed 6 March 2023)

Information relating to the retirement and re-election of directors at the forthcoming Annual General Meeting is included in the notice.

Directors' Indemnities

The Company's Articles of Association provide for the indemnification of its directors, the Company Secretary, the Company's auditors or employees to the extent permitted by the Companies Act 2006 and other applicable legislation out of the assets of the company, in the event that they incur certain losses or liabilities in connection with carrying out their duties. In addition, the company has directors' and officers' liability insurance in respect of certain losses or liabilities to which officers of the company may be exposed in the discharge of their duties.

Dividends

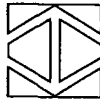
An interim dividend of £9.2 million has been paid in respect of the financial year. The directors propose the payment of a final dividend of £13.8 million (2021: £12.7 million).

Communities

Shepherd Group has a Community Support Fund that directs funding and resources to support people and organisations and has a number of partnerships with a variety of charities, voluntary organisations and community groups. In total, the Group contributed £253,000 (2021: £160,000) during the year to the Fund.

Political Donations

No political donations or contributions to political parties have been made during the year (2021: nil).



Shepherd Group

Report of the Directors (continued)

Share Capital

During the year the company redeemed 7,345 ordinary shares for cash of £8.8m and these shares were cancelled.

Branches

The main trading company in the Group (Portakabin Limited) operates branches in Belgium and Luxembourg.

Post Balance Sheet Events

There were no post balance sheet events requiring disclosure.

Energy and Carbon Reporting

In accordance with the requirements as laid out in the "Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Reporting) Regulations 2018", we report below on our energy usage as under the "Streamlined Energy and Carbon Reporting" (SECR) framework. We have engaged the professional services firm Deloitte LLP to calculate the data we are required to report under SECR (which relates solely to the UK) and which Deloitte obtains from our energy broker Ameresco.

		2022	2021
Breakdown of Energy by source (kWh)	Electricity	7,411,241	7,315,983
	Gas	7,558,911	8,625,578
	Transport	6,793,530	6,106,561
Total Energy consumption (kWh)		21,763,682	22,048,122

Emissions from combustion of gas (Scope 1) / (tonnes of CO2e)	1,541.24	1,601.00
Emissions from combustion of fuel for transport purposes (Scope 1) / (tonnes of CO2e)	1,108.60	1,032.85
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3) / (tonnes of CO2e)	596.94	556.15
Emissions from purchased electricity (Scope 2, location-based) / (tonnes of CO2e)	1,433.47	1,554.00
Total gross CO2e based on above (location-based) / (tonnes of CO2e)	4,680.25	4,744.00
Intensity ratio: kg of CO2e per hour worked in productive and operational activities	1.43	1.36

We have followed the 2019 HM Government Environmental Reporting Guidelines and we have also used the GHG Reporting Protocol - Corporate Standard and have used the 2022 UK Government's Conversion Factors for Company Reporting.

The intensity measure represents total gross emissions in kilograms of CO2e per hour worked on productive and operational activities.



Shepherd Group

Report of the Directors (continued)

Energy and Carbon Reporting (continued)

Our gross CO2 emissions as reported under SECR decreased in 2022, compared with 2021. We saw a reduction in gas usage because the winter of 2021/2022 was warmer than previous years and we required less gas to maintain the heating in our premises. However, whilst emissions reduced due to a milder winter, the intensity ratio increased due to a drop in productive hours worked during the year.

Addressing our overall energy consumption and efficiency of energy usage we undertook a range of energy saving initiatives in 2022. Key initiatives, included:

- Following publication of our road map to Net Zero in early 2022, progress on reducing scope 1 and 2 emissions is progressing well. Contracts for the supply of 100% renewable electricity in the UK and Belgium have been secured with all other operational territories due to follow in 2023. The supply of Biogas has replaced natural gas at our French production facility for 2023 and work on replacing natural gas at the factory in the UK is well underway.
- Portakabin revised its UK company car policy in 2022 to offer electric or, where absolutely necessary, hybrid electric options only. This included the provision of home and site charging points to encourage transition. By the end of 2023, the majority of our UK company car fleet will be electric or hybrid. Our fleet in the other territories in which we operate will begin the transition to electric vehicles from early 2023.

The Portakabin business model - the hire of reusable, reconfigurable and recyclable modular buildings - is inherently sustainable and contributes to a circular economy. However, Scope 3 emissions account for 97% of our carbon footprint and necessitate the greatest area of focus for the business for 2023 onwards. Downstream, innovations in sustainable technologies such as integral photo voltaics and battery storage are in development and on test for future deployment to customers. Upstream, work is underway with key suppliers to source renewable materials and reduce emissions.

Provision of Information to Auditor

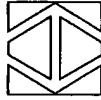
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all steps that they ought to have taken as a director, to make themselves aware of any relevant audit information, and to establish that the Group's auditor is aware of that information.

By order of the Board

S Thomson

S Thomson
Secretary
21 March 2023

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Shepherd Group

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE REPORT OF THE DIRECTORS AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006: They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEPHERD BUILDING GROUP LIMITED

Opinion

We have audited the financial statements of Shepherd Building Group Limited ("the Group") for the year ended 31 December 2022 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Other Comprehensive Income, Consolidated Balance Sheet, Consolidated and Parent Company Statement of Change in Equity, Consolidated Statement of Cash Flows, Parent Company Balance Sheet and related notes, including the accounting policies in note 1.

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 31 December 2022 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or Company or to cease their operations, and as they have concluded that the Group's and Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Group's policies and procedures to prevent and detect fraud, including the internal audit function and the Group's channel for whistleblowing, as well as enquiring whether the directors have knowledge of any actual, suspected or alleged fraud;
- Reading Board minutes;
- Considering remuneration incentive schemes and performance targets; and
- Using analytical procedures to identify unusual or unexpected relationships.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEPHERD BUILDING GROUP LIMITED (continued)

Identifying and responding to risks of material misstatement due to fraud (Continued)

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, including the risk that hire revenue is recorded in the wrong period; the risk that revenue recognised over time is estimated incorrectly for ongoing sales contracts at the period end; and the risk that management may be in a position to make inappropriate accounting entries.

We also identified fraud risks relating to provisions held for anticipated or identified defects on historical construction contracts which are now completed, and the defined benefit pension liability as these are areas of significant estimation uncertainty.

In determining the audit procedures we took into account the results of our evaluation and evaluation and testing of the operating effectiveness of the Group-wide fraud risk management controls. We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts involving revenue.
- For a sample of revenue transactions around the period end, vouching to supporting external documentation to corroborate whether those items were recorded in the correct accounting period.
- Assessing the accounting estimates for ongoing Portakabin sales contracts at the year end where revenue is recognized over time for potential bias.
- Engaging actuarial specialists to assess the validity of judgmental actuarial assumptions informing the estimate of the defined benefit liability at the period end.
- Assessing the accounting estimates for provisions through corroborating to claim information, discussions with legal advisors and making appropriate challenges of management and management's experts over their estimate for the expected economic outflow.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards) the policies and procedures regarding compliance with laws and regulations.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: construction legislation, health and safety, employment law, and certain aspects of company legislation, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEPHERD BUILDING GROUP LIMITED (continued)

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations

Strategic report and Directors' report

The directors are responsible for the strategic and directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic and directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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 or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEPHERD BUILDING GROUP LIMITED (continued)

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

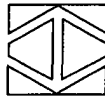
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

A handwritten signature in black ink, appearing to read 'Oliver Stephenson'.

Oliver Stephenson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA
21 March 2023



Shepherd Group

Consolidated Profit and Loss Account

for the year ended 31 December 2022

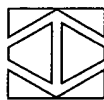
	Note	Year ended 31 December 2022			Year ended 31 December 2021		
		Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
		£m	£m	£m	£m	£m	£m
Turnover	2	393.6	-	393.6	357.9	1.1	359.0
Costs and Overheads less Other Income	3	(310.0)	(1.0)	(311.0)	(272.7)	(2.8)	(275.5)
Operating Profit / (Loss) before Exceptional Items		83.6	(1.0)	82.6	85.2	(1.7)	83.5
Exceptional Items	5	-	(7.5)	(7.5)	-	(22.7)	(22.7)
Operating Profit / (Loss)		83.6	(8.5)	75.1	85.2	(24.4)	60.8
Interest	6	(1.7)	-	(1.7)	(0.4)	-	(0.4)
Other Financial Expense	25	(0.2)	-	(0.2)	(0.2)	-	(0.2)
Profit / (Loss) before Tax		81.7	(8.5)	73.2	84.6	(24.4)	60.2
Tax on Profit / (Loss)	8	(19.1)	1.0	(18.1)	(20.4)	5.6	(14.8)
Profit / (Loss) for the Financial Year		62.6	(7.5)	55.1	64.2	(18.8)	45.4

Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2022

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Profit for the Financial Year (see above)	55.1	45.4
Foreign currency differences arising on retranslation of foreign operations	5.3	(5.6)
Actuarial (loss) / gain on defined benefit schemes (see note 25)	(22.7)	0.6
Deferred tax on actuarial (loss) / gain in the period (see note 19)	5.7	0.9
Total Comprehensive Income for the Financial Year	43.4	41.3

The accompanying notes form part of the financial statements



Shepherd Group

Consolidated Balance Sheet

as at 31 December 2022

	Note	31 December 2022		31 December 2021	
		£m	£m	£m	£m
Fixed Assets					
Intangible assets	10	3.9		4.4	
Tangible assets	11	398.8		341.2	
Investment properties	12	<u>3.2</u>		<u>2.7</u>	
			405.9		348.3
Current Assets					
Stocks	14	24.8		19.4	
Debtors	15	63.8		39.8	
(£nil owed in more than 1 yr (2021: £nil))					
Cash at bank and short term deposits	16	<u>35.2</u>		<u>47.4</u>	
		123.8		106.6	
Creditors					
Due within one year	17	<u>(131.2)</u>		<u>(158.3)</u>	
Net Current Liabilities			(7.4)		(51.7)
Total Assets less Current Liabilities			<u>398.5</u>		<u>296.6</u>
Creditors due after more than one year	18		(87.8)		(20.2)
Provision for Liabilities					
Deferred taxation	19	(8.0)		(2.8)	
Pensions and similar obligations	25	<u>(28.0)</u>		<u>(11.6)</u>	
Total Provisions for Liabilities			(36.0)		(14.4)
Net Assets			<u>274.7</u>		<u>262.0</u>
Capital and Reserves					
Called up share capital	20		0.8		0.9
Capital redemption reserve	21		0.2		0.1
Profit and loss account	21		<u>273.7</u>		<u>261.0</u>
Shareholders' Funds			<u>274.7</u>		<u>262.0</u>

Signed on behalf of the Board

D Ibbetson

D F Ibbetson

Director

21 March 2023

J Collins

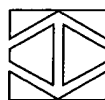
J M Collins

Director

21 March 2023

Company Number 653663

The accompanying notes form part of the financial statements



Shepherd Group

Statement of Changes in Equity

for the year ended 31 December 2022

Group

		Called up Share Capital	Capital Redemption Reserve	Profit and Loss Account	Total
	Note	£m	£m	£m	£m
At 1 January 2021		0.9	0.1	239.4	240.4
Profit for the financial year		-	-	45.4	45.4
Other comprehensive income		-	-	(4.1)	(4.1)
Total comprehensive income for the year		-	-	41.3	41.3
Dividends paid during the year	9	-	-	(19.7)	(19.7)
At 31 December 2021		0.9	0.1	261.0	262.0
Profit for the financial year		-	-	55.1	55.1
Other comprehensive income		-	-	(11.7)	(11.7)
Total comprehensive income for the year		-	-	43.4	43.4
Dividends paid during the year	9	-	-	(21.9)	(21.9)
Redemption of ordinary share capital		(0.1)	0.1	(8.8)	(8.8)
At 31 December 2022		0.8	0.2	273.7	274.7

Company

		Called up Share Capital	Capital Redemption Reserve	Profit and Loss Account	Total
		£m	£m	£m	£m
At 1 January 2021		0.9	0.1	54.4	55.4
Profit for the financial year		-	-	23.7	23.7
Dividends paid during the year	9	-	-	(19.7)	(19.7)
At 31 December 2021		0.9	0.1	58.4	59.4
Profit for the financial year		-	-	19.1	19.1
Dividends paid during the year	9	-	-	(21.9)	(21.9)
Redemption of ordinary share capital		(0.1)	0.1	(8.8)	(8.8)
At 31 December 2022		0.8	0.2	46.8	47.8

The accompanying notes form part of the financial statements



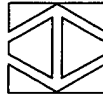
Shepherd Group

Consolidated Statement of Cash Flows

for the year ended 31 December 2022

	Year ended 31 December 2022		Year ended 31 December 2021	
	£m	£m	£m	£m
Cash Flow from Operating Activities				
Profit for the financial year	55.1		45.4	
Adjustments for:				
Amortisation of intangible assets	0.5		0.4	
Depreciation of tangible assets	79.7		76.1	
Movement in the value of investment properties	(0.5)		-	
Profit on disposal of fixed assets	(6.4)		(1.2)	
Interest payable	1.7		0.4	
Taxation	18.1		14.8	
Change in trade and other debtors	(19.2)		1.9	
Change in stocks	(5.1)		(3.6)	
Change in trade and other creditors	(26.7)		14.8	
Excess of pension contributions over P&L pension expense	(6.3)		(5.9)	
	90.9		143.1	
Dividends Paid	(21.9)		(19.7)	
Interest Paid	(1.7)		(0.4)	
Tax Paid	(12.9)		(11.6)	
Net cash generated from operating activities		54.4		111.4
Cash flows from investing activities				
Proceeds from sale of tangible assets	10.5		4.0	
Additions to tangible assets	(135.7)		(110.8)	
Net cash from investing activities		(125.2)		(106.8)
Cash flows from financing activities				
Redemption of ordinary share capital (see note 20)	(8.8)		-	
Increase in medium term bank loans	66.5		-	
Net cash flow from financing activities		57.7		-
Net Increase in cash and cash equivalents		(13.1)		4.6
Foreign exchange translation adjustment		0.8		(1.2)
Cash and cash equivalents brought forward		47.4		44.0
Cash and cash equivalents carried forward		35.1		47.4
	As at 1 January 2022	Cashflow	Foreign exchange movement	As at 31 December 2022
	£m	£m	£m	£m
Cash and cash equivalents	47.4	(13.1)	0.8	35.1
Borrowings due after more than one year	(20.2)	(66.5)	(1.1)	(87.8)
Net Cash / (Debt)	27.2	(79.6)	(0.3)	(52.7)

The accompanying notes form part of the financial statements



Shepherd Group

Parent Company Balance Sheet

as at 31 December 2022

	Note	31 December 2022		31 December 2021	
		£m	£m	£m	£m
Fixed Assets					
Tangible assets	11	-		-	
Investment in subsidiary companies	13	<u>2.4</u>		<u>2.4</u>	
			2.4		2.4
Current Assets					
Debtors					
(£nil owed in more than 1 yr (2021: £nil))	15	51.9		73.3	
Cash at bank and short term deposits	16	<u>74.5</u>		<u>58.9</u>	
		126.4		132.2	
Creditors					
Due within one year	17	<u>(81.0)</u>		<u>(75.2)</u>	
Net Current Assets			45.4		57.0
Net Assets			<u>47.8</u>		<u>59.4</u>
Capital and Reserves					
Called up share capital	20	0.8		0.9	
Capital redemption reserve	21	0.2		0.1	
Profit and loss account	21	<u>46.8</u>		<u>58.4</u>	
Shareholders' Funds		<u>47.8</u>		<u>59.4</u>	

Signed on behalf of the Board

D Ibbetson

D F Ibbetson

Director

21 March 2023

J Collins

J M Collins

Director

21 March 2023

Company Number 653663

The accompanying notes form part of the financial statements



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

1. Accounting Policies

Company Information

Shepherd Building Group Limited (company number 653663) is a private company limited by shares, incorporated in England and Wales. Its registered office and principal place of business is Yorkon House, New Lane, Huntington, York YO32 9PT.

Basis of Preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 - *'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102')*, and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments and investment properties as specified in the accounting policies below.

The parent company is included in the consolidated financial statements and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included for a second time;
- No separate parent company Cash Flow Statement with related notes is included;
- Key Management Personnel compensation has not been included for a second time; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

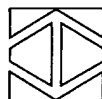
The comparative financial information covers the year ended 31 December 2021 which has been prepared on a consistent basis with that of the current financial year.

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

The directors have undertaken a going concern review in which they considered cash flow forecasts covering a period of at least twelve months from the date of approval of these accounts (the going concern assessment period). This review took place in the context of the Group's £150 million revolving credit facility which is in place until October 2025 and the £15m overdraft facility which is renewable in May 2023. Given the Group's borrowing facilities, the Group's level of borrowings as at 28 February 2023 and the forecast performance of the Group over the going concern assessment period, the Directors are confident that the Group and Company will have sufficient funds to meet their liabilities as they fall due over that period.

In undertaking the going concern review the directors considered the current economic uncertainties and high inflation environment. Within this assessment the scenarios considered included significant stress testing including severe declines in commercial activity levels and severe impacts on the timing of cash collection and claims settlements in the discontinued businesses. The business already operates appropriate cost management controls and these measures were taken into account within the going concern models. However, the modelling did not consider the benefit of further, more extreme, cash conservation strategies which would be available to the Group if required. The modelling indicated that the Group will still be able to operate with comfortable levels of headroom against its covenants and borrowing facilities, even under the most severe downside scenario.

Following this review the directors concluded that, based on the cash forecasts and the funding facilities in place, they are confident that the Group and company will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

1. Accounting Policies continued

Basis of Consolidation

The Group accounts consolidate the accounts of Shepherd Building Group Limited and its subsidiary companies. The results of businesses acquired during the year are consolidated from the date of acquisition. The results of businesses disposed of during the year are included up to the date of disposal. A list of the names of subsidiaries and joint ventures is shown in note 13.

Uniform accounting policies are followed throughout the Group and the accounting reference date of all material subsidiary companies is 31 December.

No profit and loss account is presented for Shepherd Building Group Limited itself as provided by section 408 (3) of the Companies Act 2006. The profit for the year is shown in the Statement of Changes in Equity.

Foreign Currencies

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

Realised differences on exchange are dealt with through the profit and loss account, together with unrealised differences arising from trading transactions. Unrealised differences on exchange arising from investment in foreign subsidiary companies are dealt with through reserves.

The profit and loss accounts of foreign subsidiary companies are translated into sterling at the average rate for the year and their balance sheets are translated at the closing market rates ruling at the balance sheet date.

Turnover

Turnover from sales activities reflects the sales value of products delivered.

Turnover from rental income is recognised on a straight-line basis in the period to which the rental relates.

Turnover on long-term contracts is recognised according to the stage of completion of the contract based on the proportion of costs method.

Commercial and industrial development sales are recognised as turnover when legal completion occurs.

A breakdown of turnover is included in note 2.

Tangible Fixed Assets

Depreciation is provided against the original cost of all tangible fixed assets, except freehold land, at rates calculated to write off the cost of each asset to its residual value on a straight-line basis over its estimated useful life, as follows:

Buildings	50 years
Hire fleet plant and equipment	3 to 12 years
Other plant and equipment	3 to 10 years

Sales of hire fleet fixed assets, usually at the end of their estimated useful life, are recorded under profit or loss on disposal of fixed assets.

Investment Property

Investment property is held at fair value, as determined by third party valuation. Fair value gains and losses are recognised in the profit and loss account as they arise.

Research and Development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

1. Accounting Policies continued

Pensions

The Group operates a pension scheme providing benefits on both a defined benefit and defined contribution basis although the defined benefit sections are now closed to future accrual. The assets of the scheme are held separately from those of the Group. Pension scheme assets are measured as required by FRS 102 at bid price and scheme liabilities are measured using the projected unit method and discounted at the current rate of return on high quality corporate bonds of an appropriate term.

In the case of the defined benefit sections of the pension scheme the pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full and the movement in this figure is split between operating charges and finance items, which are included in the profit and loss account, and actuarial gains and losses which are shown in Other Comprehensive Income. In the case of the elements of the scheme providing benefits on a defined contribution basis the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Significant Estimates

Preparation of the financial statements requires management to make significant estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The items in the financial statements where these estimates and assumptions have been made include:

Retirement benefit schemes

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension scheme depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth and mortality. Differences arising from actual experience or future changes in assumptions will be reflected in subsequent periods. In making estimates, advice is taken from qualified actuaries. Note 25 provides information on the assumptions used in these financial statements.

Contract latent defect provisions

A key area of uncertainty is the cost associated with latent defect claims particularly in relation to the historic operations of Shepherd Construction Limited. Management engage expert advisers including architectural, fire safety, quantum, and legal advisers to assist in reviewing these claims and establishing the validity, culpability, and quantum associated with each defect claim. The outcome of legal claims of this nature is inherently uncertain and, taking account of the expert advice received, where it is appropriate to do so, management make provision for these matters within contract provisions (see note 17).

Uncertainty exists around the extent of any rectification issues identified, the extent of the Shepherd Construction Limited's responsibility, and the nature and timing of the work required to address them. In estimating these provisions, the directors acknowledge movements in assumptions relating to these claims have a significant impact on the provisions balance, but nevertheless consider the position appropriate with reference to the prevailing upside and downside risks.

In addition to the uncertainty surrounding the outcome of known claims, it is not possible to anticipate whether further claims will arise on completed contracts within their contract limitation period.



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

1. Accounting Policies continued

Stocks

Land and Development

Commercial and industrial development and building land are valued at the lower of cost and net realisable value and are stated after deducting cash received on account. All interest payable on money borrowed for the purchase of land and to finance development is written off during the year in which it is incurred.

Profit arising on the sale of land or property development is not included until legal completion has taken place. Provision is made in full for estimated future losses, if any.

Manufacturing and other Stock

Stock is valued at the lower of cost and net realisable value. The value of work-in-progress and finished goods includes production costs and other appropriate overheads which are attributable to the stage of manufacture which has been reached.

Impairment of Assets

At each reporting date assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is any indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, then the carrying amount is reduced to its estimated recoverable amount and an impairment loss is recognised immediately in the profit and loss account.

If an impairment loss subsequently reverses, the carrying amount of the affected asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined for the asset had no impairment loss been recognised in previous years. A reversal of impairment loss is recognised immediately in the profit and loss account.

Interest

All interest is recognised in the profit and loss account in the year in which it is incurred / generated.

Taxation

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

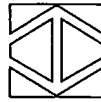
Deferred tax is recognised in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by section 29 of FRS 102. Deferred tax assets are only recognised when they are recoverable against future trading profits.

Dividends on Shares presented within Equity

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Operating Leases

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

1. Accounting Policies continued

Basic Financial Instruments

Trade and other debtors / creditors

Trade and other debtors and creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost, using the effective interest method, less any impairment losses for trade and other debtors.

Derivative financial instruments and hedging

Where the hedged item is the translation risk for the net assets of overseas subsidiaries in the consolidated financial statements, the group may designate borrowings in the same currency as that overseas subsidiary's functional currency as a hedging instrument. In that case, the effective portion of the hedge is recognised in other comprehensive income, and only the ineffective portion of the hedging item's translation value is recorded in profit and loss.

All other derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account.

Interest bearing borrowings

Interest-bearing borrowings are recognised initially at fair value. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest rate method, less any impairment losses.

The Group has borrowing facilities of £150m in the form of a committed bank loan facility which matures in 2025. This facility is in a club arrangement with HSBC UK Bank Plc, National Westminster Bank Plc, Citibank NA London Branch and Lloyds Bank Plc. In addition, the Group has an overdraft facility with HSBC UK Bank plc of £15m which is renewable annually and any drawings under these facilities are held in creditors.

Cash and Liquid Resources

Cash, for the purpose of the statement of cash flows, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are readily convertible into known amounts of cash at their carrying values. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market managed funds.

Goodwill

Goodwill, being the excess of the fair value of consideration paid for acquired businesses over the fair value of net assets acquired, is capitalised and amortised over its useful economic life. Goodwill is immediately written off to the profit and loss account to the extent that the Balance Sheet carrying value exceeds the recoverable amount.



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

2. Turnover

	Year ended 31 December 2022	Year ended 31 December 2021
<i>By geographical region</i>	£m	£m
Within the United Kingdom	266.6	247.4
Overseas	127.0	111.6
	<u>393.6</u>	<u>359.0</u>
<i>By activity</i>		
Hire Income	233.3	231.6
Sales Income	87.2	58.0
Other	73.1	69.4
	<u>393.6</u>	<u>359.0</u>

3. Costs and Overheads less Other Income

	Year ended 31 December 2022			Year ended 31 December 2021		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
	2022	2022	2022	2021	2021	2021
	£m	£m	£m	£m	£m	£m
Change in stocks of finished goods and work in progress	(1.1)	-	(1.1)	(1.1)	-	(1.1)
Own work capitalised	(33.1)	-	(33.1)	(25.8)	-	(25.8)
Profit on sale of fixed assets	(6.6)	-	(6.6)	(1.2)	-	(1.2)
Raw materials and consumables	54.1	-	54.1	32.9	-	32.9
Employment costs (see note 7)	105.6	1.0	106.6	96.9	1.5	98.4
Depreciation and amortisation	80.2	-	80.2	76.5	-	76.5
Auditor's fees	0.6	-	0.6	0.4	-	0.4
- for audit work pursuant to legislation	0.1	-	0.1	0.1	-	0.1
- for services relating to tax & other items	4.2	-	4.2	4.0	-	4.0
Operating lease rentals	6.9	-	6.9	6.1	-	6.1
- plant and machinery	(0.5)	-	(0.5)	-	-	-
- other						
Movements in the value of investment properties	99.6	-	99.6	83.9	1.3	85.2
Other external and operating charges less other operating income	<u>310.0</u>	<u>1.0</u>	<u>311.0</u>	<u>272.7</u>	<u>2.8</u>	<u>275.5</u>

The Research and Development expenditure included within the above figures was £1.5 million (2021: £1.2 million).

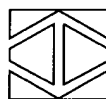
Fees paid to KPMG in relation to non audit services in the year amounted to £104,000 (2021: £70,000).

4. Discontinued Operations

Within discontinued operations the Group is including the residual costs associated with its legacy obligations relating to historic operations for Shepherd Construction Limited. In addition Erebus 1 (formerly Portasilo Limited) and Shepherd Homes Limited are in Members Voluntary Liquidation. The results of those operations, up the point of liquidation, are also included in discontinued operations.

	Year ended 31 December 2022		
	Shepherd Homes Ltd	Shepherd Construction Ltd	Total
	£m	£m	£m
Turnover	-	-	-
Operating loss	-	(1.0)	(1.0)
Exceptional losses (see note 5)	-	(7.5)	(7.5)
	<u>-</u>	<u>(8.5)</u>	<u>(8.5)</u>

	Year ended 31 December 2021		
	Shepherd Homes Ltd	Shepherd Construction Ltd	Total
	£m	£m	£m
Turnover	-	1.1	1.1
Operating loss	(0.1)	(1.6)	(1.7)
Exceptional losses (see note 5)	-	(22.7)	(22.7)
	<u>(0.1)</u>	<u>(24.3)</u>	<u>(24.4)</u>



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

5. Exceptional Items

	Year ended 31 December 2022			Year ended 31 December 2021		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
	Operations	Operations		Operations	Operations	
	2022	2022	2022	2021	2021	2021
	£m	£m	£m	£m	£m	£m
Exceptional contract and legacy provisions	-	7.5	7.5	-	22.7	22.7
	<u>-</u>	<u>7.5</u>	<u>7.5</u>	<u>-</u>	<u>22.7</u>	<u>22.7</u>

The company retains obligations within Shepherd Construction Limited relating to defects on completed contracts. The above costs relate to the impact of those obligations during the year.

6. Interest

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Interest receivable on cash and short term deposits	(0.1)	-
Interest payable on loans	1.8	0.3
Other Interest payable	-	0.1
	<u>1.7</u>	<u>0.4</u>

7. Directors and Employees

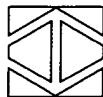
	Year ended 31 December 2022			Year ended 31 December 2021		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
	Operations	Operations		Operations	Operations	
	2022	2022	2022	2021	2021	2021
	£m	£m	£m	£m	£m	£m
Employment costs (including directors)						
Wages and salaries	88.8	0.8	89.6	80.3	1.1	81.4
Social security costs	11.7	0.1	11.8	11.4	0.2	11.6
Severance costs in operating profit	-	-	-	0.2	0.1	0.3
Other pension costs (see note 25)	5.1	0.1	5.2	5.0	0.1	5.1
	<u>105.6</u>	<u>1.0</u>	<u>106.6</u>	<u>96.9</u>	<u>1.5</u>	<u>98.4</u>

The average number of employees during the year was 1,929 (2021: 1,848).

The remuneration of the directors of the parent company totalled £3.9 million in the year (2021: £2.9 million) this included £44,086 (2021: £37,827) contributions to the Group defined contribution pension scheme.

The aggregate emoluments of the highest paid director were £1.7 million in the year (2021: £1.5 million). That director was not a member of the Group pension scheme during the year.

- During the year 2 directors accrued pension benefits in a defined contribution scheme (2021: 2).



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

8. Taxation

	Year ended 31 December 2022		Year ended 31 December 2021	
	£m	£m	£m	£m
i) Analysis of charge for the year				
<i>Current tax:</i>				
UK tax		3.8		8.8
Overseas tax		3.4		4.0
Total current tax		7.2		12.8
<i>Deferred tax:</i>				
Origination and reversal of timing differences	10.7		1.9	
Adjustment relating to previous years	0.2		0.1	
Total deferred tax		10.9		2.0
Tax charge on profit on ordinary activities		18.1		14.8

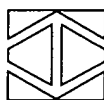
ii) Factors affecting tax charge for the year

The tax assessed for the year reconciles to the standard rate of corporation tax in the UK of 19% (2021: 19%) as follows:

	2022 £m	2021 £m
Profit before tax for the year	73.2	60.2
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 19%	13.9	11.4
Effects of:		
Income not subject to corporation tax and costs not tax deductible	0.1	0.5
Patent Box relief	-	(0.1)
Overseas tax rate differences	0.9	1.6
Impairment and amortisation of goodwill	0.1	0.1
Changes in deferred tax rates	2.8	1.0
Other timing differences	0.1	0.2
Adjustment to tax charge in respect of previous years	0.2	0.1
Tax charge for the year	18.1	14.8

9. Dividends

	2022 £m	2021 £m
Final dividend paid (in respect of previous year)	12.7	11.2
Interim dividends paid (current year)	9.2	8.5
	21.9	19.7



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

10. Intangible Fixed Assets

	Goodwill	
	2022	2021
	£m	£m
Cost		
Opening at 1 January	12.3	12.3
Additions	-	-
Closing at 31 December	<u>12.3</u>	<u>12.3</u>
Amortisation		
Opening at 1 January	7.9	7.5
Charge for the period	0.5	0.4
Closing at 31 December	<u>8.4</u>	<u>7.9</u>
Net Book Value	<u>3.9</u>	<u>4.4</u>

Goodwill arising on acquisition of subsidiary companies and businesses is capitalised as an asset and amortised over its useful economic life. The useful economic life of goodwill is assessed separately for each acquisition and reviewed for any impairment on an annual basis. The remaining anticipated useful life of goodwill ranges from 0 to 11 years.

11. Tangible Fixed Assets

	Portakabin Hire Fleet	Land and buildings	Plant and equipment	Total
	£m	£m	£m	£m
Cost				
At 1 January 2022	649.0	47.7	53.0	749.7
Additions	127.6	2.5	4.9	135.0
Disposals	(46.3)	(0.8)	(1.3)	(48.4)
Exchange and other adjustments	11.9	0.7	0.2	12.8
At 31 December 2022	<u>742.2</u>	<u>50.1</u>	<u>56.8</u>	<u>849.1</u>
Depreciation				
At 1 January 2022	353.3	20.6	34.6	408.5
Charge for the year	74.6	1.3	3.8	79.7
Disposals	(42.6)	(0.7)	(1.1)	(44.4)
Exchange and other adjustments	6.1	0.3	0.1	6.5
At 31 December 2022	<u>391.4</u>	<u>21.5</u>	<u>37.4</u>	<u>450.3</u>
Net Book Value at 31 December 2022	<u>350.8</u>	<u>28.6</u>	<u>19.4</u>	<u>398.8</u>
Net Book Value at 31 December 2021	<u>295.7</u>	<u>27.1</u>	<u>18.4</u>	<u>341.2</u>

The fixed assets of the parent company at net book value comprised plant and equipment of £nil (2021: £nil).

Hire income received during the year was £233.3 million (2021: £231.6 million).

12. Investment Property

	2022	2021
	£m	£m
Brought forward	2.7	2.7
Net gain from fair value adjustments	0.5	-
Carried forward	<u>3.2</u>	<u>2.7</u>
Historical cost net book value	<u>0.9</u>	<u>0.9</u>

The fair value of investment property is based on a valuation undertaken in the year by an external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued.

Group retained Profit and Loss account at 31 December 2022 includes £2.3 million (2021: £1.8 million) in relation to unrealised revaluation profits on investment properties.



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

13. Investment in Subsidiary Companies and Joint Ventures

	Company	
	2022	2021
	£m	£m
Investment in subsidiary companies		
Shares in subsidiaries, mainly at cost	<u>2.4</u>	<u>2.4</u>

The company's subsidiaries at 31 December 2022 are shown below, all being wholly owned and incorporated in England except where otherwise stated. All shares held by Shepherd Building Group Limited are ordinary shares, and where ownership is not directly held by Shepherd Building Group Limited the company's name is inset beneath that of its parent company.

Shepherd Industries Limited

Portakabin Limited

Paton Plant Limited

Portakabin Hire Limited

Portakabin (Ireland) Limited (incorporated in Ireland)

Allspace Limited (incorporated in Ireland)

Portakabin (Refurbished) Limited

Foremans Hire Limited

Portakabin (Site Accommodation) Limited

Portakabin (Scotland) Limited (incorporated in Scotland)

Portakabin BV (incorporated in The Netherlands)

Portakabin SAS (incorporated in France)

Portakabin Modulaire SAS (incorporated in France)

Yorkon Limited

Portakabin Europe Limited

Portakabin Holdings GmbH (incorporated in Germany)

Portakabin Mobilraum GmbH (incorporated in Germany)

Portakabin Produktions GmbH (incorporated in Germany)

Erebus 1 Limited (formerly Portasilo Limited) in liquidation

Erebus 3 Limited (formerly Portasilo Bulk Handling (Asia) Limited) in liquidation

Portasilo Bulk Handling (India) Private Limited (incorporated in India) in liquidation

Shepherd Construction Limited

Shepherd Development Company Limited

Crossways Commercial Estates Limited

Shepherd Group Limited

Shepherd Homes Limited in liquidation

Shepherd Group Properties Limited

The Shepherd Group Pension Trust Limited

Registered offices for companies incorporated in each country are:

England other than those in liquidation - Yorkon House, New Lahe, Huntington, York YO32 9PT

In liquidation - Resolution House, 12 Mill Hill, Leeds, LS1 5DQ

Scotland - Whistleberry Rd, Hamilton, Lanarkshire, ML3 0EJ

Germany other than Portakabin Produktions - Zum Flugplatz 1, D-73566 Bartholoma

Portakabin Produktions - Deitzscher Strasse 88, 06112, Halle, Saale, Germany

France - ZI de Templemars, 8 Rue de l'Epinoy, BP 50020, 59175 Templemars, France

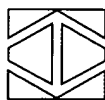
Ireland - Roseville Business Park, Turvey Avenue, Donabate, Co Dublin, Ireland

Netherlands - Postbus 115, 3360 AC Sliedrecht, Netherlands

India - No.6 3rd Street, Railway Colony, Chennai, Chennai TN, 600029, India

14. Stocks

	Group	
	2022	2021
	£m	£m
Manufacturing and other stock	<u>24.8</u>	<u>19.4</u>
	<u>24.8</u>	<u>19.4</u>



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

15. Debtors

	Company		Group	
	2022	2021	2022	2021
	£m	£m	£m	£m
Trade debtors	-	-	36.3	28.4
Amounts recoverable on contracts	-	-	14.8	4.2
Corporation tax	-	0.9	4.5	0.5
Deferred tax (see note 19)	0.2	0.1	-	-
Amounts due from subsidiary companies	0.3	20.5	-	-
Loans to subsidiary companies	50.0	50.0	-	-
Other debtors, prepayments and accrued income	1.4	1.8	8.2	6.7
	<u>51.9</u>	<u>73.3</u>	<u>63.8</u>	<u>39.8</u>

Within other debtors and prepayments for the company and Group there is £nil (2021: £nil) which is due in more than a year. Within amounts recoverable on contracts for the Group there is £nil (2021: £nil) which is due in more than 1 year.

Amounts due from subsidiary companies include an internal dividend of £nil (2021: £20 million paid in January 2022). Internal loans are non interest bearing and repayable on demand. Other amounts are repayable on normal commercial terms.

16. Cash at bank and on deposit

	Company		Group	
	2022	2021	2022	2021
	£m	£m	£m	£m
Cash on demand	<u>74.5</u>	<u>58.9</u>	<u>35.2</u>	<u>47.4</u>

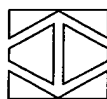
17. Creditors due within one year

	Company		Group	
	2022	2021	2022	2021
	£m	£m	£m	£m
Trade creditors	0.1	-	49.7	33.4
Current corporation tax	0.1	-	2.9	4.2
Other taxes and social security	0.2	0.3	10.6	9.1
Other creditors	-	-	3.5	8.7
Contract provisions (see analysis below)	-	-	31.7	72.0
Accruals and deferred income	80.6	74.9	32.8	30.9
	<u>81.0</u>	<u>75.2</u>	<u>131.2</u>	<u>158.3</u>

Analysis of Contract Provisions

	Total Provisions
	£m
Balance at 1 January 2022	72.0
Additions and adjustments	7.5
Charged against provision	(47.8)
Balance at 31 December 2022	<u>31.7</u>

Contract provisions include provisions against latent defect claims on completed contracts, where there is significant uncertainty on the outcome of those claims, many of which relate to cladding design and other fire safety matters. Management engage expert advisers including architectural, fire safety, quantum, and legal advisers to assist in reviewing these claims and establishing the validity, culpability, and quantum associated with each defect claim. The outcome of legal claims of this nature is inherently uncertain and, taking account of the expert advice received, where it is appropriate to do so, management make provision for these matters as included above.



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

18. Creditors due after more than one year

	Company		Group	
	2022	2021	2022	2021
	£m	£m	£m	£m
Bank term loan	-	-	87.8	20.2
	-	-	87.8	20.2

The Group has borrowing facilities of £150m in the form of a committed bank loan facility which matures in 2025. This facility is in a club arrangement with HSBC UK Bank Plc, National Westminster Bank Plc, Citibank NA London Branch and Lloyds Bank Plc. In addition the Group has an overdraft facility with HSBC UK Bank plc of £15m which is renewable annually.

19. Provision for Deferred Taxation

	Company		Group	
	2022	2021	2022	2021
	£m	£m	£m	£m
Effect of capital allowances	(0.1)	-	15.5	9.8
Other timing differences	(0.1)	(0.1)	(7.5)	(7.0)
Provision for deferred tax	(0.2)	(0.1)	8.0	2.8
Opening provision	(0.1)	(0.2)	2.8	1.7
Deferred tax charge in profit and loss account for the period (note 8)	(0.1)	0.1	10.9	2.0
Deferred tax on Pension deficit movements through OCI	-	-	(5.7)	(0.9)
Closing (asset) / liability (see note 15)	(0.2)	(0.1)	8.0	2.8

Deferred tax balances are calculated at the corporation tax rate of 25% (2021: 25%) which is the rate enacted at the balance sheet date.

20. Share Capital

	2022	2021
	£m	£m
Allotted, called up and fully paid		
845,348 (2021: 852,693) ordinary shares of £1 each	0.8	0.9

During the year the company redeemed 7,345 ordinary shares for cash of £8.8m and these shares were cancelled.

21. Reserves

Called up share capital

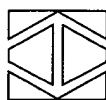
Represents the nominal value of shares that have been issued.

Profit and loss account

Includes all current and prior period retained profits and losses. In addition this includes £2.3 million (2021: £1.8 million) relating to unrealised property revaluations which is not distributable.

Capital Redemption Reserve

Represents the value of share capital redeemed in previous years by way of purchase of shares from shareholders.



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

22. Financial Instruments

Measured at amortised cost

Financial Assets

Cash at bank and in hand

Trade debtors

Other debtors

Total

Financial Liabilities

Trade creditors

Accruals and deferred income

Interest bearing borrowings

Other liabilities

Total

Company		Group	
2022	2021	2022	2021
£m	£m	£m	£m
74.5	58.9	35.2	47.4
-	-	36.3	28.4
51.9	73.3	27.5	11.4
<u>126.4</u>	<u>132.2</u>	<u>99.0</u>	<u>87.2</u>
0.1	-	49.7	33.4
80.6	74.9	32.8	30.9
-	-	87.8	20.2
0.3	0.3	48.7	94.0
<u>81.0</u>	<u>75.2</u>	<u>219.0</u>	<u>178.5</u>

23. Hedge Accounting

The group is exposed to foreign exchange risk due to the investment in European subsidiaries. Borrowings denominated in Euros are held by the Group and have been designated as a hedging instrument in order to hedge the risk in the net investment in the Group's European operations.

Hedge effectiveness is assessed by Management to demonstrate that the hedge continues to be highly effective.

During the year, foreign currency losses of £1.1 million (2021: gains of £1.4 million) in respect of the borrowings and foreign currency gains of £6.4 million (2021: losses of £7.1 million) in respect of the translation of investment in foreign subsidiaries have been included in other comprehensive income.

24. Financial Risk Management

The group has exposure to four main areas of financial risk - interest rate risk, foreign exchange currency exposure, liquidity risk and customer credit exposure.

Interest rate risk

The Group borrows from its bankers using either overdrafts or term loans. The exposure to interest rate fluctuations is constantly monitored and managed.

Foreign exchange transactional currency exposure

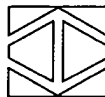
The Group is exposed to currency exchange rate risk due to a significant proportion of its receivables, operating expenses and profit generation being denominated in Euros. The net exposure to Euros is monitored and managed including the use where appropriate of forward exchange contracts and vanilla exchange options.

Liquidity risk

The objective of the Group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The Group has extensive committed borrowing facilities as outlined in note 18.

Customer credit exposure

The Group may offer credit terms to its customers which allow payment of the debt after delivery of the goods or services. The Group is at risk to the extent that a customer may be unable to pay the debt on the specified due date. This risk is mitigated by strong on-going customer relationships and by robust credit checking and credit control procedures.



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

25. Pensions

The company sponsors a funded defined benefit pension plan for qualifying UK employees, the Shepherd Group Pension Fund. The level of benefits provided by the Fund depends on a member's length of service and their salary at their date of leaving the Fund. The Fund closed to future accrual on 30 June 2011.

Past service benefits were partly linked to salary through an underpin until 30 November 2018, when benefits were tested on a prudent basis and additional pension granted in lieu of salary link.

During 2018, the defined contribution section of the Fund was closed to future contributions and all defined contribution assets were moved to an alternative pension scheme. As a result, the defined contribution underpin on the defined benefits was removed.

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Fund was carried out by a qualified actuary as at 31 December 2021 and showed a deficit of £28.5 million. The company agreed to pay contributions of £6.5 million per annum, which are set out in the formal Recovery Plan until 31 December 2028 in order to reach the long-term funding target. The next funding valuation is due with an effective date of 31 December 2024, at which progress towards full-funding will be reviewed.

During 2022 deficit contributions of £6.5 million were paid into the Fund by the company. Deficit contributions of £6.5 million are expected to be paid by the company during the year ending on 31 December 2023.

The results of the latest funding valuation at 31 December 2021 have been adjusted to the new balance sheet date, taking account of experience over the period since 31 December 2021, changes in market conditions and differences in the financial and demographic assumptions. The present value of the Defined Benefit Obligation and the related current service cost, were measured using the projected unit credit method.

The principal assumptions used by the independent qualified actuaries at the balance sheet date (expressed as weighted averages) are as follows:

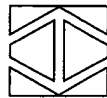
	2022	2021
Rate of increase of pensions in payment	2.80%	3.20%
Discount rate for scheme liabilities	4.85%	2.00%
Inflation assumption (RPI)	3.00%	3.30%
Inflation assumption (CPI)	2.35%	3.00%

The assumptions are that a member will live for the following number of years beyond the age of 65:

	2022 Years		2021 Years	
	Male	Female	Male	Female
Member currently aged 65	22.1	24.2	22.4	24.5
Member reaching 65 in 20 years	22.6	24.5	23.0	24.8

The amounts recognised in the balance sheet are as follows:

	2022	2021
	£m	£m
Present value of funded defined benefit obligations	(168.6)	(253.6)
Fair value of defined benefit scheme assets	140.6	242.0
Deficit as included on the balance sheet	(28.0)	(11.6)
Related deferred tax asset included in debtors	7.0	2.9
Net deficit	(21.0)	(8.7)



Shepherd Group

Notes to the Consolidated Financial Statements

for the year ended 31 December 2022

25. Pensions (continued)

In addition to defined benefit pension contributions, the Group also makes contributions on behalf of eligible employees to other pension schemes which operate on a defined contribution basis. At 31 December 2022 there were unpaid contributions of £0.5 million (2021: £0.5 million) to the defined benefit scheme and £nil to the defined contribution schemes (2021: £nil).

Movements in the present value of the defined benefit scheme obligations	2022	2021
	£m	£m
Opening obligations	253.6	256.5
Interest cost	5.0	3.6
Actuarial (gain) / losses	(77.6)	4.9
Benefits paid	(12.4)	(11.4)
Closing obligations	<u>168.6</u>	<u>253.6</u>

Movements in the fair value of defined benefit scheme assets	2022	2021
	£m	£m
Opening defined benefit scheme assets	242.0	238.0
Interest income on fund assets	4.8	3.4
Actuarial (losses) / gains	(100.3)	5.5
Employer contributions	7.2	7.2
Administration costs incurred	(0.7)	(0.7)
Benefits paid	(12.4)	(11.4)
Closing defined benefit scheme assets	<u>140.6</u>	<u>242.0</u>

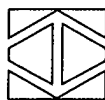
The amounts recognised in the Profit and Loss account are:	Year ended 31 December	Year ended 31 December
	2022	2021
	£m	£m
Analysis of other pension costs charged in arriving at operating profit		
<i>Operating costs</i>		
Administration costs incurred	(0.7)	(0.7)
<i>Financing costs</i>		
Interest on net defined benefit liability	(0.2)	(0.2)
Defined benefit pension charge within Profit and Loss Account	<u>(0.9)</u>	<u>(0.9)</u>

In addition the following figures have been included in the profit and loss account in relation to defined contribution schemes

Contributions made to defined contribution schemes	<u>(4.5)</u>	<u>(4.4)</u>
Total pension charge to Profit and Loss account	<u>(5.4)</u>	<u>(5.3)</u>

The amounts recognised in Other Comprehensive Income are:

	2022	2021
	£m	£m
Asset (loss) / gain arising during the year	(100.3)	5.5
Liability gain / (loss) arising during the year	77.6	(4.9)
Total amount recognised in Other Comprehensive Income	<u>(22.7)</u>	<u>0.6</u>



Shepherd Group

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25. Pensions (continued)

Fair Value of Plan Assets

	2022	2021
	£m	£m
Equities	14.2	26.3
Property	12.3	13.4
Multi Asset Credit Funds	40.9	53.9
LDI Funds	59.0	116.1
Absolute Return Bonds	4.4	27.1
Other	9.8	5.2
Total Assets	<u>140.6</u>	<u>242.0</u>

None of the assets are invested in the Group's financial instruments or in property occupied by, or other assets used by, any member of the Group.

26. Guarantees and Other Financial Commitments

The principal banking facilities of the Group are covered by multilateral guarantees by the holding company and its subsidiaries. Guarantees and counter-indemnities have also been given in relation to certain subsidiary companies for the due performance of contracts and the repayment of advances in the normal course of business. No liability is expected to arise under any of the above undertakings.

At 31 December the Group had the following commitments under operating leases:

	2022	2021
	£m	£m
Operating lease payment due:		
Within one year	7.7	6.7
In two to five years	17.0	16.4
In more than five years	7.0	6.8
	<u>31.7</u>	<u>29.9</u>

27. Related Party Transactions

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group or its major operating subsidiaries are considered to be key management personnel. Payments to key management personnel during the year ended 31 December 2022 amounted to £6.9 million (2021: £6.3 million).