Grafton Merchanting GB Limited

Annual report and financial statements

Registered number 04725313

Year ended 31 December 2021

Contents

Company Information Grafton Merchanting GB Limited

Directors	A T Wagstaff (appointed 31 December 2021) J A Maisey C P Bithell (appointed 31 December 2021) I C A Northen (appointed 31 December 2021) M J Sockett
Company Number	04725313
Registered Office	c/o Huws Gray Limited Head Office Llangefni Industrial Estate Llangefni Anglesey Wales LL77 7JA
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants One Chamberlain Square Birmingham B3 3AX
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Strategic report

Introduction

This Strategic Report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006. Its purpose is to inform shareholders and help them to assess how the Directors have performed their duty to promote the success of Grafton Merchanting GB Limited ("the Company" or "GMGB").

Principal activities

The principal activity of the Company is the supply of building and plumbing materials.

Business review

GMGB is a private limited company incorporated in the United Kingdom. Up until 31st December 2021 the Company was owned by Grafton Group UK plc, part of Grafton Group plc and then subsequently on 31st December a deal to sell the Company to Patagonia Bidco Limited was completed.

The builder's merchanting business trades from a network of over 200 branches mainly under the Buildbase Builders Merchants brand. Buildbase is the UK's third largest builders' merchants trading from 146 branches with a strong presence in the South-East, Midlands, and North of England.

Sale of Company

On 16th April 2021, Grafton Group Plc, the previous ultimate parent company, announced that it was undertaking a strategic review of some of its traditional merchanting businesses in Great Britain. As a result of this strategic review Grafton Group Plc announced on 1st July 2021, that it had entered into an agreement to divest its Traditional Merchanting Business in Great Britain, of which the Company is part, to Huws Gray, one of the UK's largest independent builders' merchants, that is controlled by equity funds managed by Blackstone. At the time, Huws Gray notified the transaction to the Competition and Markets Authority ("CMA"). The divestment completed on 31st December 2021 with Company now being owned by its immediate parent undertaking, Patagonia Bidco Limited.

Operations review

The business delivered a strong set of results for the year ended 31 December 2021. Despite the slow start to the year, as a result of the continued challenges faced by the Covid pandemic with the country still remaining under Government imposed restrictions in Q1 the construction industry has been at the forefront of the economic recovery, and this is reflected in the performance of the Company and the strength of its balance sheet.

With colleague and customer safety paramount the Company continued to ensure that all our locations operated to the highest standards of health and safety, maintaining a wide range of protocols and social distancing measures.

Despite the significant supply chain disruptions, leading to product constraints, key materials being on allocation and exceptional cost inflation, the Company has been able to work with its suppliers and industry partners to meet the demands of its customers.

Turnover increased by 26% to £969m (2020: £769m). Operating profit before exceptional administrative items increased/decreased to £44.6m (2020: £24.9m) as it benefitted from internal initiatives and the restructuring undertaken in 2019 and 2020 which delivered in line with expectations. Adjusted EBITDA grew by 32.7% from £54.2 million to £72.8 million.

Strategic report *(continued)*

Operations review *(continued)*

The adjusted EBITDA is set out as follows:

	2021	2020
	£'000	£'000
Profit /(loss) after tax	**27,545**	(352)
Taxation	**9,109**	(617)
Interest payable	**2,516**	6,697
Exceptional items	**5,542**	19,238
Share based payments/other non-trade	**1,077**	209
Depreciation	**23,435**	24,761
Amortisation	**3,623**	4,266
Adjusted EBITDA	**72,847**	54,202

Government Support

In its response to the COVID-19 pandemic, the UK Government continued to provide financial aid packages to support businesses through the period of ongoing uncertainty. In 2021, the Company continued to take advantage of this support benefitting from the Expanded Retail Rates Relief scheme. Included in the results for the year is an amount of £2.9m (2020: £4.3m).

Investment Income and Exceptional Charges

On 28th April 2021 AR Hendricks Limited ("ARH"), a subsidiary of the Company, assigned it liabilities to the Company in exchange for the assignment of certain of its debtors and then subsequently underwent a capital reduction. At this point ARH declared a dividend in specie to the Company. As a result of the above ARH had a share capital of £1 and the Company booked an impairment to write-down its investment to £1 resulting in an exceptional P&L charge of £1.25m, offset by dividend income of £1.25m.

In addition, on 28th April 2021, Grangemouth Property Limited ("GPL"), having assigned certain of its debtors to the Company, in return for the company assuming an equivalent amount of GPL's liabilities, declared a dividend equal to the value of its distributable reserves and the Company booked an impairment to write-down its investment to £1 resulting in an exceptional P&L charge of £1.09m, offset by dividend income of £1.09m.

Also included in exceptional costs is a loss relating to sale and lease back to the previous parent company of three of its freehold trading properties. The IFRS16 loss is £3.2 million.

Defined Benefit Pension Scheme Transfer

On 30th June 2021, in connection with the sale of the Company, the Company transitioned the responsibility for the Grafton (UK) Pension Scheme (the "Scheme") to another Grafton Group Company. This transfer would affect the replacement of the Company by Selco Trade Centres Limited as both principal employer and the party with primary funding responsibility for the Scheme. The impact of this was to remove the pension liability and associated deferred tax asset of £19.7m from the balance sheet of the Company as at that date with a corresponding exceptional credit of £19.7m through the Capital Contribution Reserve in the Statement of Changes in Equity.

Strategic report *(continued)*

Operations review *(continued)*

Buildbase

Buildbase, which operates from a network of 146 branches across England, made good progress in the year benefitting from a strong recovery in the residential repair, maintenance and improvement (RMI) market and increased house building activity that when combined with significant post-pandemic supplier price increases drove strong like-for-like revenue growth. Commercial initiatives around pricing and increasing the customer offer achieved progress towards a more favourable sales mix with corresponding improvements in gross margin. Overall cost control remained strong following the restructuring completed during the pandemic to produce a solid improvement in overall operating profit.

The deployment of the new trading platform was recommenced during quarter 2 and a total of 58 branches have now received training and moved across to the new system. As noted in the subsequent events note the decision was made to discontinue with the development following the decision to move the entire business onto the Huws Gray platform.

Civils & Lintels

A leading distributor of drainage, hard landscaping, civils materials and the UK's No.1 Lintel Distributor, delivered strong revenue and profitability growth in 2021 with heightened demand, in the main, coming from its core Residential market and despite of a backdrop of well documented, significant, supply chain availability and inflationary challenges affecting the construction sector.

The business priorities remain focussed on improving our customer offer by investing in upskilling our People, investing in our footprint, broadening our supply chain / product range in complimentary areas, and investing in IT solutions to enable greater opportunity capture.

PDM Buildbase

PDM Buildbase had a healthy trading performance in the year driven by a buoyant new build and RMI market in Scotland.

Significant and unprecedented supplier price increases contributed to a higher turnover figure with material shortages across a number of key product categories ensuring margins remained healthy. Both PDM branches (Civils, Drainage and Utilities) and Buildbase (General Builders Merchants) benefited from these market conditions.

With a tight control of overheads this resulted in a record profit figure for the business.

Outlook

With the lifting of all or nearly all the COVID-19 restrictions and the unlikely return to any severe form of restrictions there is cautious optimism across the construction sectors. The housebuilding sector is expected to remain buoyant along with the Government's commitment to investment in infrastructure and, although there is an expectation that the private housing RMI market will remain flat in 2022 this is off a high 2021 base.

Consumer price inflation is currently on an upward trend, well above government targets, and is expected to continue to rise throughout 2022 to above 8% before falling back over the following couple of years returning towards Government and BoE targets. That combined with the ongoing impact of the "war" in Ukraine being yet unknown, may impact consumer spending on housing RMI projects depending on their willingness to commit to major projects.

Strategic report *(continued)*

Operations review *(continued)*

Despite some easing, post Covid-19, material supply constraints will still be a factor across the first half of the year as we move into spring and early summer, however we do not expect these to have a significant impact on the Company.

The business is performing in line with expectations. This combined with the takeover and subsequent investment in branches, depots, product offerings and fleet along with a strong balance sheet give management optimism for the rest of 2022 and beyond.

Future Developments

The Directors do not envisage any significant change in the activities of the Company in the forthcoming year as the Company goes through the process of integration into the wider Huws Gray Group of companies.

Risk Management

The Company has established risk registers at individual business unit level which are used to help to identify and manage the Company's principal and emerging risks. These are reviewed and updated on a quarterly basis and assessment is made of the quality of the mitigation available and whether any further action can be taken.

Principle risks and uncertainties

Macro-Economic Conditions in the UK

Risk

Trading in the Company's business is influenced by macro-economic conditions in the UK. The Company's markets are cyclical in nature and a proportion of revenue is dependent on the willingness of households to incur discretionary expenditure on home improvement projects. Investments of this nature closely correlate with general economic conditions. A deterioration in economic conditions in the UK could result in lower demand in the Company's businesses.

The Company's customers are mainly professional tradespeople engaged in residential, commercial, and industrial maintenance and new-build projects. These markets are affected by trends in improvements, remodelling and maintenance and construction. Demand in these markets is also influenced by economic factors including interest rates, the availability of credit, inflation, changes in property values, demographic trends, tax policy, employment levels and gross domestic product. Any negative movement in one or more of these factors could adversely affect demand in the Company's business.

Mitigation

The Company has taken significant action in previous years in response to the downturn in its markets to increase the operating efficiency of its business which leaves it well positioned to benefit from the continuing recovery.

The mitigation strategy also incorporates proactive cost control in response to changes in market conditions. An assessment of macro-economic, construction and residential market conditions helps inform the allocation of capital resources to new projects.

Strategic report *(continued)*

Operations review *(continued)*

Colleagues

Risk

The Company has about 3,100 colleagues engaged in the operations and management of its various business units. Colleagues are fundamental to the long-term success and development of the business. Attracting and retaining employees with the relevant skills and experience and investing in training and development is essential to sustaining the existing operations and providing a platform for the longer-term development of the Company.

The Company is dependent on the successful recruitment, development, and retention of talented and diverse executives to run the overall Company and its trading businesses.

In addition, the Company's ability to continue to identify and develop opportunities is influenced by management's experience and knowledge of its markets.

The company has recognised an increase in this risk during the year as a result of general tightening of the labour markets and skill shortages in certain sectors, including drivers which has led to pay inflation.

Mitigation

The Company is committed to high standards of employment practice and are recognised as good employers in the UK. Remuneration and benefits are designed to be competitive with other companies in the sectors that the Company operates in and with market practice.

Significant resources and time are devoted to training and development. Turnover is closely monitored, and processes are in place to provide development opportunities and actively manage succession planning. The Company made a number of appointments in recent years in planning for the succession of key executives and to support its longer-term development enabling a number of Business Unit CEO and senior management roles to be filled internally. Succession plans are mainly in place for key management roles.

Under the previous Group ownership, the Company benefitted from the establishment of working groups on gender, sexual orientation, ethnicity, and disability to encourage better representation of diversity amongst colleagues. Annual engagement surveys are carried out which cover a significant number of colleagues, which allow colleagues to provide feedback to management.

Action plans to address key issues arising from the surveys are developed and monitored. It is expected that these will continue as part of the new Group as we move to integrate the teams.

Pandemic Risk - Covid-19

Risk

The Company is exposed to the impact of the Covid-19 virus epidemic in the regions where it operates and in countries where some of its suppliers are based.

There is a risk to profitability from interruption to operations if Governments impose national or local lockdowns resulting in the closure of our branches, stores, and plants or due to an absence of a significant number of colleagues for a period due to contracting the virus. The Company recognises the wider risk of a fall in revenue and profitability due to lower general economic activity in the countries where it operates as a result of the pandemic. The Company has also recognised the risk to the safety and wellbeing of its colleagues and customers from the virus and the changes to working practices required to maintain adequate levels of protection and social distancing.

Finally, the Company recognises a risk to the supply of products as a result of the pandemic because suppliers are unable to supply or deliver their products.

Strategic report *(continued)*

Principle risks and uncertainties *(continued)*

Pandemic Risk - Covid-19 *(continued)*

Mitigation

The health, safety and wellbeing of our colleagues, customers and business partners was our highest priority in shaping our response to the pandemic over the past two years. Best in class operating procedures and protocols were designed and implemented across our businesses in line with or exceeding guidance provided by Governments and health authorities. Throughout 2021 these standards have been maintained whilst branches have continued to trade through further waves of the pandemic. The Company's office-based support colleagues have continued to work effectively with a mix of office and home working whilst following government guidance.

The resilience shown by the business through the pandemic and the low likelihood that branches will be required by Government to close has reduced the profile of this risk.

Competition in the Market Place

Risk

The Company faces volume and price competition in its markets. The Company competes with builders' merchants and retailers of varying sizes and faces competition from existing general and specialist merchants including the national builders' merchanting chains in the UK together with retailers, regional merchants, and independents. The Company also faces the risk of new entrants to its markets, for example, by way of competition from new competitors with low-cost business models and/or new technologies.

Actions taken by the Company's competitors, as well as actions taken by the Company to maintain its own competitiveness and reputation for value for money, may exert pressure on product pricing, margins, and profitability.

Some of the Company's competitors may have access to greater financial resources, greater purchasing economies and a lower cost base, any of which may confer a competitive advantage that could adversely impact the Company's revenues, profits, and margins.

Mitigation

The Company monitors gross margins and, where possible, develop appropriate tactical and trading responses to changes in the competitive and pricing environment. Mitigation of this risk is achieved through ensuring a value proposition for customers through the review of customer pricing metrics, monitoring pricing developments in the marketplace and the active management of pricing.

The Company has established and continues to develop an online sales capability to respond to changing customer requirements. During 2021 the Company continued to invest in its online platforms. This includes activities to further develop the digital capabilities of colleagues. Promotional and marketing activity is also a feature of revenue and margin management. Procurement strategies are focused on reducing costs through supplier consolidation and sourcing, as appropriate, through overseas markets.

The Company maintains an open dialogue with suppliers in order to mitigate the impact on customers and Company profitability from commodity related cost pressures.

Strategic report *(continued)*

Principle risks and uncertainties *(continued)*

Sustainability and Climate Change

Risk

The Company recognises its responsibility to minimise the impact its operations have on the environment and to promote sustainable and ethical business practices amongst its customers, suppliers, and colleagues. The Company is also committed to being an inclusive employer and promoting diversity in its workforce.

The Company also recognises the potential financial and operational impact of wider climate change on its business activities event, or transitional risks including changes in regulation affecting operations, our cost base, or the products we sell.

Mitigation

The wider Company has developed a sustainability strategy covering five key focus areas: customer and product; people; resources; communities; and ethics. The strategy is in the process of being rolled out with each Business Unit setting targets, which will be monitored and reported on, to align with the overall Group goals.

The Company continues to monitor its exposure to climate change risks and take steps to improve its resilience, including improved flood defences for at risk branches.

The Company engages in numerous charitable and community activities across its Business Units. Environmental regulations are complied with and reported on as required. Opportunities to reduce, recycle, and reuse are promoted within the Company.

The Company measures its Scope 1 and 2 emission levels and is committed to reducing its carbon footprint and under its new ownership is in the process of setting further targets over the next three to four years in line with objectives set by The Blackstone Group. Individual business units are taking steps to reduce energy consumption and emission levels including LED lighting projects and moving to alternative-fuelled vehicles.

The Company has a Code of Business Conduct and Ethics which is supported by policies including for Equality, Diversity and Inclusion, Anti-Bribery and Corruption, Modern Slavery, and Timber Sourcing, which are reinforced through mandatory training. During the year, the Company completed numerous inclusion and wellbeing initiatives. These will continue into 2022 with campaigns to promote sustainable living.

Information Technology Systems and Infrastructure

Risk

The Company is dependent on IT systems and supporting infrastructure to trade. Either the failure of key systems or the inability to compete through not having up to date trading platforms could have a serious impact on the business and could potentially result in the loss of revenue and reduced profitability.

The rate and scale of IT change is increasing as the Company undertakes a programme to replace legacy systems. These changes have the potential to disrupt operations

Strategic report *(continued)*

Principle risks and uncertainties *(continued)*

Information Technology Systems and Infrastructure *(continued)*

Mitigation

Back-up facilities and Business Continuity Plans are in place and tested regularly to ensure that interruptions to the business are prevented or minimised and that data is protected from unauthorised access.

The replacement and updating of systems and technologies is supported by a full strategy and business case analysis, planning and risk analysis for each project. Implementation is supported by subject matter experts and colleagues from a cross section of functions to ensure that projects are managed to deliver technical, functional, and business solutions within an appropriate cost and timeframe.

During the year several system implementations have made considerable progress in the case of Buildbase with strong governance maintained. As disclosed in the Subsequent Events section of the Directors report a decision was taken to migrate certain business units from legacy systems and AX onto the system used by Huws Gray. This integration is expected to complete in 2023.

System changes are subject to rigorous testing and confirmation that they meet defined business acceptance criteria prior to full implementation. Systems are in place for the testing of critical IT infrastructure and ERP applications.

Whilst under Grafton Group ownership IT controls were tested by internal audit and findings were reported to the Audit and Risk Committee. Regular progress reports were made to the Board and planning and implementation is subject to review by local and Group Internal Audit, with lessons learnt from those reviews shared with colleagues working on other projects. This approach will continue under the ownership of Huws Gray.

Cyber Security and Data Protection

Risk

Increased levels of cybercrime represent a threat to the Company's business and may lead to business disruption or loss of data. The Company is exposed to the risk of external parties gaining access to Company and Group systems and deliberately disrupting its business. This includes the risk of ransom demands, a material loss of revenue and profitability while systems are being restored, stolen information or fraudulent acts.

Theft of data relating to employees, business partners or customers may result in a regulatory breach and could impact the reputation of the Company and wider Group. System checks and tests will continue to be performed under the new ownership and as part of the new Group. An Integration Management Office Team (IMO) has been created to review the IT systems and wider integration of the businesses.

Mitigation

The Company has a number of IT security controls in place including gateway firewalls, intrusion prevention systems and virus scanning. The Company has a suite of information security policies, which are communicated to colleagues, through mandatory online training and regular security awareness campaigns. Regular IT audits are carried out. The company has put in place a Security Incident Management Plan.

Further initiatives to improve defences will continue into 2022 to manage the continual threat of a cyber-attack as the Company migrates to its new platform within the Huws Gray Group.

A Company-wide programme to oversee the implementation of GDPR was completed in 2018 and compliance activity has now been embedded into business processes, with roles established in each Business Unit to co-ordinate ongoing activities.

Strategic report *(continued)*

Principle risks and uncertainties *(continued)*

Disaster recovery systems and data centres have been implemented to ensure business critical systems are recoverable in the event of a major disaster.

Health and Safety

Risk

The nature of the Company's operations exposes colleagues and third parties to health and safety risks.

The prevention of injury or loss of life to colleagues, customers and third parties is an absolute priority for the Business Unit Boards and executive management. Health and safety risks in branch locations concern the manual handling of products, slips, trips, and falls and incidents involving forklift trucks and delivery vehicles. Outside of the branch locations, the main health and safety risks relate to vehicles engaged in transferring building materials from branch locations to customers' sites.

Mitigation

Health and safety forms part of the agenda at all Operational Board meetings and statistics covering accident frequency rates, lost time, management of risks and the cost of accidents and incidents are reviewed by the Board on a regular basis. The individual business units invest significant resources in health and safety management, training, and awareness, and actively work to minimise health and safety risks. Accidents are monitored and corrective action taken when appropriate to reduce or eliminate the risk of recurrence. Despite the sale of the Company, it continues to follow the standards previously set by the Grafton Group Director of Safety, Health, Environment and Quality, with ownership delegated down to our businesses in conjunction with Business Unit management teams and co-ordinates actions and initiatives to continuously improve the management of health and safety risks across the Company.

Supplier Management Rebates

Risk

Product availability is a key factor for all Business Units; therefore, the Company is exposed to the risk of failure to supply by key suppliers. In addition, the total value of income the Company receives from its suppliers in the form of volume rebates and other amounts, including product and marketing support, represents a material percentage of its operating profit. There is a risk that the Company does not collect all supplier rebates receivable or that rebates are accounted for incorrectly.

Mitigation

The Company seeks to maintain good relations with key suppliers and, to proactively manage instances of supplier shortages and allocations.

The risk of over-reliance on single suppliers is mitigated by dual sourcing or identifying alternative suppliers for key products.

The Company's policy is to have written agreements with all key suppliers detailing the terms and conditions of rebate arrangements. Finance and procurement teams work closely to validate amounts due from suppliers based on these agreements and quantities purchased. Rebates receivables are regularly reviewed, and Business Units engage in dialogue with suppliers regarding collection. A proportion of rebate

agreements provide for repayment of rebates at regular intervals throughout the year thereby reducing the amount receivable by the Company at the year end.

Strategic report *(continued)*

Principle risks and uncertainties *(continued)*

Internal Controls and Fraud

Risk
The Company is exposed to the risk of failure in financial or operational controls in individual Business Units, including the failure to prevent or detect fraud. A breakdown in controls of this nature could lead to a financial loss for the Company.

Mitigation
The Company has established a framework of controls incorporating a "three lines of defence" model to protect against significant control deficiencies and the risk of fraud. This includes documented policies and procedures for key financial and operational processes, ongoing monitoring of management accounts both at Company and Business Unit level, monthly sign-off of business unit level accounts by local finance directors and an annual compliance statement signed by Business Unit Chief Executives and Finance Directors. Business Units also complete an annual self-assessment of key financial controls which was subject to validation by Group Internal Audit. It is expected that these controls will continue into the future and will be aligned with those of the new group as they integrate. Branch procedures are subject to regular review and audit by local internal audit and loss prevention teams.

Health and safety

Health and safety are taken very seriously within the Company with risks including slips and falls at the Company's branches and outside the branches and safety risks to vehicles engaged in transferring building materials from branch locations to customers' sites. Measures in place or to be implemented to lower health and safety risks can be found within the detailed health and safety report below.

Employee involvement

The success of the Company is dependent on the contribution and commitment of its employees. Where appropriate employees are provided with incentives through remuneration policies that promote and encourage commitment and reward achievement. The Company provides appropriate training in order to satisfy business needs and to develop the talents and skills of employees benefiting the individual, the Company, and its customers. There are well established consultative and negotiating arrangements involving employees to ensure that employee's views are considered in relation to employment conditions, health and safety, welfare, and training issues.

Inclusion, Diversity and Equality

We believe that having a diverse workforce brings not only diversity of thought, but it also drives innovation and progress, which is key to everything we do.

In 2021 the Company continued to highlight and promote diversity, running internal communications drives and campaigns celebrating Pride and supporting Global Diversity Awareness Month and International Men's Day all of which give us the opportunity to celebrate all the colleagues that make the Company the business that it is.

As part of its ongoing strategy to improve diversity, the Company launched a diversity action team focusing on four key areas: gender, ethnicity, disability and LGBTQI+. The purpose of these groups is to support the businesses and encourage an inclusive culture that promotes diversity.

Strategic report *(continued)*

Inclusion, Diversity and Equality *(continued)*

In 2021, as part of Grafton Group, the Company continued to be part of the Valuable 500, the global CEO community aimed at promoting disability inclusion. Monitoring the pay between men and women is an important step to ensuring that all colleagues are fairly rewarded for their work and their contribution to our business.

The success of the Company is dependent on the contribution and commitment of its employees. Where appropriate employees are provided with incentives through remuneration policies that promote and encourage commitment and reward achievement. The Company provides appropriate training in order to satisfy business needs and to develop the talents and skills of employees benefiting the individual, the Company, and its customers. There are well established consultative and negotiating arrangements involving employees to ensure that employee's views are considered in relation to employment conditions, health and safety, welfare, and training issues.

The Company is committed to offering equal opportunities to all individuals irrespective of age, ancestry, colour, marital status, medical condition, disability (both mental and physical), national origin, race, religion, political affiliation, sex, sexual orientation, or gender identity. Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged.

Training and Development

Training and development are a key part of our continued investment in our colleagues and is fundamental to our ability to attract, retain and develop top talent. Colleagues are provided with opportunities to maximise their experience, expertise, and skills both for their own career development and for the success of the Company.

2021 saw further rollout of the wider Group's new Learning Management System across all businesses, providing online learning modules and online classroom facilities to all colleagues.

An example of training and development initiatives undertaken by the Company during 2021 include:

- Kickstart Scheme – currently there are 17 colleagues who are currently with the company under the Kickstart Scheme which is an ongoing Government scheme that provides funding to create new job placements for 16 to 24-year-olds who are at risk of long-term unemployment. There are currently an additional seven colleagues from prior intakes that are now permanent employees of the company.
- Commenced working with the DWP again on their new focus campaign which is called "Way to Work" who have a target of getting 500,000 unemployed people into work by end of June 2022.

Financial risk management objectives and policies

The Company's activities expose it to a number of risks including credit risk, pricing risk, liquidity & cashflow risk and interest rate risks.

Credit risk

The Company is exposed to the risk of default by customers who purchase products on credit. One of the key features of customer service in merchanting is the provision of short-term credit to customers, with the Company carrying the associated credit risk. The Company's exposure to customer credit risk is diversified over a large customer base and the incidence of default by customers is tightly managed by Business Unit credit control teams. Credit insurance is in place to cover major exposures in the UK merchanting business. Past-due receivables are monitored and actively managed on an on-going basis and bad debt provisions are made as required.

Strategic report *(continued)*

Pricing risk

GMGB faces volume and price competition in its markets and is competing with both existing builders' merchants and retailers plus new entrants to its markets. This in turn can exert pressure on product pricing, margins, and profitability. Some of the Company's competitors may have access to greater financial resources, greater purchasing economies and a lower cost base, any of which may confer a competitive advantage that could adversely impact the Company's revenues, profits, and margins. A range of measures by the Company to mitigate these risks include, monitoring gross margins, monitoring market pricing, investment in promotional and marketing activity, implementation of procurement strategies and use of business conduct surveys.

Liquidity and cashflow risk

The Company prepares monthly, annual, and ad-hoc cash flow forecasts. The company is not exposed to any external borrowings other than with other Group companies and has sufficient cash to fund ongoing operations and current commitments. The Directors consider that the Company's banking facilities are adequate going forward and short-term flexibility is achieved by overdraft facilities, cash balances and intragroup funding.

Interest rate risk

With interest rates still remaining relatively low the Company has chosen not to hedge the risk however the management will continue to monitor the situation and mitigate accordingly. The Company finances its operations via cash, external overdraft facilities and internal group funding arrangements. The Directors continue to review the appropriateness of this policy.

Key performance indicators

The directors believe that the following indicators will provide stakeholders with sufficient information to assess how effectively the company is performing.

	2021	2020	Increase/(decrease)
	£'000	£'000	%
Turnover	**968,792**	768,866	26
Gross profit	**257,297**	193,233	33.16
Adjusted EBITDA	**72,847**	54,202	34.4
Employee numbers	**3,109**	3,242	(2.1)

Health, Safety and Wellness

We are committed to creating a culture for everyone to thrive and be safe inside and outside our businesses.

We believe there is nothing we do that is so urgent we cannot do it safely. This belief is central to our leadership of the health, safety, and wellbeing agenda across all GMGB businesses alongside our commitment to send our colleagues, customers, and everyone we work with home safely at the end of each day.

We believe that leadership of the health and safety agenda is most effective when it is integrated into routine business leadership behaviours, and we continue to drive this approach by integrating safety support teams directly into each business. This federated approach creates autonomous local management teams owning their own health, safety, and wellbeing agenda, supported, and challenged at GMGB level.

Strategic report *(continued)*

Health, Safety and Wellness *(continued)*

All colleagues are encouraged to take an active part in maintaining and developing their own health, safety, and wellbeing by raising any concerns they may have and making suggestions to further improve our health, safety, and wellbeing performance. This is achieved in a variety of ways across the businesses through focus groups, team meetings, committee meetings and ultimately through the Risk Committee.

An ongoing priority in 2021 was maintaining a Covid-safe environment in all of our business locations to ensure that we could keep all our colleagues, customers, and suppliers safe. We kept the focus on our bespoke risk assessments at each site and maintained yard, warehouse, and trade counter areas to ensure that safe distances could be observed. We kept most of the screens at counters, supported the use of face coverings and hand sanitisers and continued our online capacity within our businesses to be able to service customers safely at their vehicle.

During 2021, business units have also continued to focus on existing priority areas including traffic management, product storage and handling, and the safe, efficient delivery of products to customers' sites.

Each business unit is committed to maintaining their focus on these priority areas to ensure we continue to eliminate and reduce the potential for injuries to our colleagues, customers and third parties during these activities.

A new safety management system was launched across the business during 2021. Notify is now used for all incident reporting/investigation and also for all audits/monitoring checks across all branches. This has significantly improved the monitoring of resulting actions and compliance.

Colleague wellness continued to be a key focus area across the businesses with the roll out of a wide range of initiatives offering support to colleagues to be healthier and more content both at work and at home. All colleagues have access to a confidential professional advice service to provide assistance with any issues or personal difficulties. Helplines are available 24 hours a day, 365 days a year.

To respond to the changing business environment and in recognition of the changing ways colleagues live and work, we encourage our colleagues to embrace flexible working where appropriate to business needs.

Statement on Section 172(1) of the Companies Act 2006

The directors of the Company, in line with their duties under s172 of the Companies Act 2006, act in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the long term.

Statement of engagement with colleagues, customers and suppliers

The directors consider the potential impact of decisions on relevant stakeholders such as the Company's employees, suppliers and customers while also having regard to a range of broader factors including the impact of the Company's operations on the community and environment and ensuring responsible business practices.

Colleagues

Our people are key to the success of the Company and the company directors have established structures to provide for effective engagement with the wider workforce. These include colleague feedback surveys, and the establishment of Colleague Forums which provide the opportunity for number of colleagues to get together in role-based forums to discuss the relevant issues to them and then feed back to the operational Boards. We also engage with and listen to our people through briefings and town hall meetings, internal

Strategic report *(continued)*

Statement on Section 172(1) of the Companies Act 2006 *(continued)*

Statement of engagement with colleagues, customers, and suppliers *(continued)*

social media platforms, internal communications, and newsletters. Colleagues also have the opportunity to report any concerns through our anonymous and independently run SpeakUp reporting line.

Customers

We value the loyalty and engagement of our customers. Our businesses regularly communicate with our customers in order to drive improvements in the quality of our service proposition, our product offering and to ensure that customer expectations are met e.g., providing them with ethical, sustainable, and high-quality products. We aim to build strong lasting relationships, to understand their needs and views and listen to how we can improve our product offer and service. Customers may also report concerns of any wrongdoing by the Company via SpeakUp, the contact details for which are available on the Group's website.

Suppliers

Our businesses work to maintain an efficient dialogue with suppliers to build strong, long-term relationships. Engagement with suppliers is primarily through a series of interactions and formal reviews. Key areas of focus include innovation, product development, health and safety and compliance with our ethical standards. We discuss specific areas such as reducing packaging waste, product range, quality, and traceability.

Investors and other lenders

The directors value long term partnerships with the funders to and investors in the business. From 31 December 2021, group management retain a significant stake in the equity of the business. A critical element of this relationship is to share common goals and values which support the business trading model, creating a framework for the appropriate approach to and focus on colleagues, customers and suppliers. Now jointly backed by management and private equity investors, the business is funded on a long term and conservative basis to allow prioritisation of investment in improvement of sites and expansion by acquisition over the payment of ongoing returns to investors.

Further detail on how the director's addresses these duties is set out below:

Environmental Management

Grafton recognises the increasingly significant role that effective environmental management must play in its business and acknowledges its corporate responsibilities in this field. All Company branches are accredited to the ISO 14001 environmental management standard. This accreditation is seen as vital in helping to focus on environmental risk management initiatives.

Products and Supply Chain

The Company recognises the importance of supplying renewable and sustainable products. Product ranges designed to provide sustainable building solutions have been introduced in a number of businesses.

These ranges include Solar Thermal and Solar PV, air source heat pumps, ground source heat pumps, biomass heating, rainwater harvesting and heat recovery ventilation systems. The merchanting branches sell condensing boilers which reduce demand for fossil fuels, energy-saving insulation materials and controlled ventilation systems.

Strategic report *(continued)*

Statement on Section 172(1) of the Companies Act 2006 *(continued)*

Transparent Timber Sourcing

Buildbase has adopted the Timber Trades Federation 'Responsible Purchasing Policy', demonstrating that the business is committed to sourcing timber and timber products from legal and well-managed forests. Buildbase holds an internationally recognised environmental certificate for the PEFC scheme (Programme for the Endorsement of Forest Certification), and it is Buildbase policy that its natural timber products are FSC / PEFC accredited. The entire operation is independently audited.

Modern Slavery

Grafton Group issued a Modern Slavery Policy Statement in respect of the year ended 31 December 2021, which is available on its website www.graftonplc.com which covered the Company during 2021. This describes Grafton's policy on forced or involuntary labour and describes the safeguards that the Group has in place to mitigate against the risk of modern slavery in its businesses or supply chains. Going forwards the Company's Modern Slavery Statement can be seen on www.huwsgray.co.uk.

Carbon Footprint and Waste

Greenhouse Gas Emissions

Overall CO2 emissions for GMGB increased by 6% in 2021, and the ongoing electricity contract continues to be free from any fossil-fuel generated electricity. During 2021 we continued to install LED lighting across our branch network as part of re-development work. Despite the absolute increase in carbon emissions, our footprint relative to turnover improved by 16% during 2021.

Ongoing renewal of the businesses fleet has also contributed to our lower carbon footprint with only PHEV and EV cars on the choice list. Our electricity-related emissions reduced by 9% during 2021, primarily as a result of the ongoing LED replacement activities.

The Company has an ongoing target of 15-25% reduction in Scope 1 and 2 carbon emissions by 2025.

Pollution and Waste

The Company strives to reduce the quantity of waste sent to landfill by implementing recycling measures across its businesses. Landfill diversion rates in 2021 continued to maintain diversion over 90% following our focus on recycling in branches and increased activity from the waste provider, Reconomy. Current target is to increase landfill waste diversion to 95% by 2025.

In 2021 Buildbase launched its "Get Wasted" campaign in ten of the highest waste-generating branches, focussing on correct waste segregation and increased recycling leading to a significant improvement on the zero-waste index. We plan to roll this campaign out to all branches.

Other initiatives underway include:

- Switch to Electric – surveys conducted in our London branches identified all can support Electric Vehicle (EV) charging and next steps are to identify which commercial vehicles can be switched to EV.
- Electric Plant Hire – the Company have introduced new electric plant hire at selected Hirebase locations and will continue to identify opportunities to increase the availability of electric plant hire

Strategic report *(continued)*

Statement on Section 172(1) of the Companies Act 2006 *(continued)*

across our branches.

- Company Cars – since 2019 the Company has been focussed on switching company car fleet to alternately fuelled vehicles. The internal combustion engine vehicles which currently remain are legacy vehicles and all company cars ordered in 2021 have been alternately fuelled vehicles.

The increase in alternately fuelled vehicles has also seen our manufacturer stated fleet average CO_2g/km figure per car reduce over the 3 years.

Streamlined Energy & Carbon Report

Streamlined Energy & Carbon Report	Current Reporting Year 2021		Comparison Reporting Year 2020
	GMGB	% Increase/(reduction) vs 2020	GMGB
Emissions from combustion of gas (Scope 1) / TCO2e	1,962	12.7%	1,741
Emissions from combustion of fuel for transport purposes (Scope 1) / TCO2e	20,665	7.3%	19,257
Emissions from purchase of electricity, steam and cooling purchased for own use (Scope 2 location-based) / TCO2e	2,662	(9.1)%	2,927
Total gross Scope 1 & 2 emissions / TCO2e	25,289	5.7%	23,925
Energy consumption used to calculate above emissions (kWh)	109,499,548	8.3%	101,146,450
Intensity Ratio TCO2e (gross Scope 1 + 2) per £million of turnover	26.1	(19.2)%	31.1

Energy in kWh for each calendar year is collated from smart metering and/or supplier bills. Fuel in litres for each calendar year is collated from suppliers and/or where relevant, calculated from business mileage claims using the 2019/2020 UK Departments for 'Business, Energy & Industrial Strategy' and 'Environment, Food and Rural Affairs' Conversion Factors .
Fuel used for heating purposes (natural gas/LPG/Kerosene) has been included in Scope 1 combustion of gas.
TCO2e and kWh calculations for energy/fuel utilise the 2019/2020 UK Conversion Factors as above
Intensity Ratio utilises turnover relative to Total gross Scope 1 and Scope 2 emissions.

Strategic report *(continued)*

Statement on Section 172(1) of the Companies Act 2006 *(continued)*

Community and Charity support

The Company's businesses are proud to support a range of community and charity initiatives. Due to the safe working restrictions introduced as a result of the Covid-19 pandemic, vending machines were not operational in branches leaving excess stock of hot drinks. Buildbase teamed up with its waste and resource management partner, Reconomy, to find a creative re-use solution that offered both environmental and social benefits. Working together with Centrepoint, the UK charity that provides housing and support for young people, over 90,000 vending machine drinks were donated to people in need. We recognise the brilliant effort of our colleagues with our annual Charity Champion award, celebrating those who have gone above and beyond for a good cause.

- **The likely consequences of any decision in the long term**

Decision making at Board and senior management level takes account of the long-term financial strategy of the Company and the overall Company, and on the requirement to maximising long term returns for the Company's shareholders and the long-term interests of the company's colleagues and other stakeholders as set out below.

Financial strategy is based around the pillars of revenue growth, operating profit margin growth, growing EBITDA, and on generating strong cash flow from operations.

Each of the Company's business units operate independent business risk registers to identify, manage and mitigate key and emerging risks. Business risk management also links with the wider Company risk management process where appropriate.

- **The interests of the company's employees**

Employee engagement

The success of the Company is dependent on the contribution and commitment of its employees. Where appropriate employees are provided with incentives through remuneration policies that promote and encourage commitment and reward achievement. The Company provides appropriate training in order to satisfy business needs and to develop the talents and skills of employees benefiting the individual, the Company, and its customers. There are well established consultative and negotiating arrangements involving employees to ensure that employee's views are considered in relation to employment conditions, health and safety, welfare, and training issues.

Periodic engagement surveys are carried out which cover a majority of Company colleagues, which allow colleagues to provide feedback to management. Action plans to address key issues arising from the surveys are developed and monitored. Members of senior and area management regularly visit branches and depots to meet colleagues.

- **Relationships with suppliers and customers**

Supplier management operates with a balance of direct procurement whereby individual businesses engage directly with local and national suppliers, alongside a combined procurement team across a number of business units.

Customer service is a key priority for the Company and customer needs are prioritised when formulating strategy and making business decisions. The management of customers, marketing and branding is carried out at business unit and branch level. We communicate on a daily basis in order to drive improvements in the quality of our service proposition, our product offering and to ensure that customer expectations are met e.g., providing them with ethical, sustainable, and high-quality products ay a fair price. We aim to build strong lasting relationships, to understand their needs and views and listen to how we can improve our product offer and service.

Strategic report *(continued)*

Statement on Section 172(1) of the Companies Act 2006 *(continued)*

- **Corporate Governance and Business Conduct**

During 2021, up until close of business on 31st December 2021, the Company was part of the Grafton Group Plc group of companies, which is listed on the London Stock Exchange and therefore was subject to the 2018 UK Corporate Governance Code ("the Code"). The Code sets out the key principles and specific provisions which establish standards of good governance practice in relation to leadership, effectiveness, accountability, remuneration and relations with shareholders. This report describes how the Company has applied principles of the Code during the 2021 financial year. More details in relation to how the Company followed the Code can be seen in the Corporate Governance section of the Grafton Group Plc 2021 annual report and they are available on their Group's website www.graftonplc.com.

The Directors are cognisant of the need to maintain high standards of business conduct and the Company adheres to the Grafton Group Code of Business Conduct and Ethics which is supported by policies including for Equality, Diversity and Inclusion, Anti-Bribery and Corruption, Modern Slavery, and Timber Sourcing, which are reinforced through mandatory training for colleagues.

The Company operated as part of a decentralised Group organisational structure that confers significant autonomy on local management teams. Operational and management boards are in place within each Business Unit, supported by appropriate controls at Company and Group level. Business Unit MDs reported directly to the Group CEO or Group Financial Controller/Company Secretary. The Managing Directors and Financial Directors of the Company individual business units maintained regular contact with the Group CEO, CFO and Financial Controller/Company Secretary, each of whom are members of the Board of Directors of the Company.

The Company availed of support as required from Group functions for areas such as procurement, health, and safety, environmental, tax, company secretarial and internal audit, and external advisors are engaged as required. Robust internal audit was carried out both at business unit level by independent branch audit teams and also by the Group Internal Audit function.

In 2022, under the control of Huws Gray directorship, it is expected that the Company will continue to follow the guiding principles it worked under previously and as the two businesses become more integrated new policies and procedures will be implemented and follow accordingly.

The Company reports annually under the Gender Pay Gap Regulations and on a bi-annual basis under the UK Payment Practices reporting requirements. Grafton Group issued a Modern Slavery Policy Statement in respect of the year ended 31 December 2021, which is available on its website www.graftonplc.com which covered the Company during 2021. This describes Grafton's policy on forced or involuntary labour and describes the safeguards that the Group has in place to mitigate against the risk of modern slavery in its businesses or supply chains. Going forwards the Company's Modern Slavery Statement can be seen on www.huwsgray.co.uk.

On behalf of the board

M Sockett
Director

27 May 2022

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Directors' indemnities

The Company maintained indemnity liability insurance for its directors and officers throughout the financial year, which is still in force at the date of approving the Directors' report and which is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006.

Disclosure of information to auditors

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 Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year, principal risks and financial risk management policies and procedures and employee involvement have been included in the Strategic Report on page 5. The Company presents its' corporate governance statement on page 19 of the strategic report and its statement of engagement with colleagues, customers and suppliers can be seen on page 14.

Dividends

No equity dividends were declared or paid during the year *(2020: £nil)*. No non-equity dividends paid during the year *(2020:* 1p per share *£14.7k* total*)*.

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Post Balance Sheet Events

Included in intangible fixed assets on the balance sheet as at 31st December 2021 is an amount of £23.2m in relation to the Microsoft AX ERP system. Subsequent to the year end a decision was made by the Directors, having assessed the appropriateness of this system when compared to the existing systems of the wider Group post acquisition, to discontinue the roll out of the AX trading platform to any further branches and that the company begin an integration plan to move onto one of the Groups' existing systems. This decision and impact has been treated as a non-adjusting post-balance sheet event in accordance with IAS10 *Events after the Balance Sheet Date.*

The asset will be written down over its remaining useful economic life based on number of expected periods it will continue for and number of branches in operation. This is expected to be no more than two years.

The Company, effective 28 February, along with other subsidiaries of Patagonia Bidco Limited, acts as a guarantor for the Group borrowings which drawn at the balance sheet date amounted to £950 million. Undrawn committed facilities at the balance sheet date comprised a Revolving Capital Finance Facility of £125million.

Going Concern

The Group and Company Directors have assessed the viability of the Company over a two-year period to 31 December 2023, taking account of the Company's and because of the cross guarantees in place the wider Group's current position and prospects, and principal risks and how they are managed. Based on this assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due in the foreseeable future, but as a minimum over the period to 31 December 2023. As part of the acquisition the

Directors' report

Going Concern *(continued)*

Company was funded by a term loan repayable in May 2031 provided by Patagonia Bidco Limited, it's immediate parent company and is part of a Group funding arrangement, with ongoing trading continuing to be funded out of its own working capital. The forecasts that have been completed show significant positive cash generation and even when stress tested continue to be cash generative.

In making this statement the Directors have considered the resilience of the Company and the wider Group, taking account of its current position, the principal risks facing the business in severe and reasonable scenarios, and the effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks that would realistically be open to them in the circumstances. This assessment has considered the potential impacts of these risks on the future performance over the period, with particular consideration given to the Group's debt funding covenants. The Directors have also considered the Company's resilience and management response to the Covid-19 pandemic as well as the experience from the 2008 Global Financial Crisis.

The principal scenarios considered in the review are those where negative macroeconomic and other impacts would be experienced across all of the Group's businesses. The Directors stress tested plausible downside scenarios. No covenants were required to be tested based on this assessment and the wider Group has significant liquidity headroom. The Directors believe, whilst these scenarios are highly unlikely, the Company would be able to take a number of further mitigating actions including management of working capital, capital expenditure and tighter overhead cost management.

In addition, the Directors have received confirmation that Patagonia Bidco Limited, the parent company, will use its best endeavours to provide financial support for at least 13 months from the date of signing of the financial statements in order to enable the Company to meet its liabilities as they fall due.

Directors

The directors who held office during the year and up to the signing of the financial statements were as follows:

C P Bithell (appointed - 31 December 2021)
J A Maisey
I CA Northen (appointed - 31 December 2021)
M J Sockett
A T Wagstaff (appointed - 31 December 2021)
J Sowton (Resigned 31 December 2021)
D Arnold (Resigned 31 December 2021)
G Slark (Resigned 31 December 2021)
C Rinn (Resigned 31 December 2021)

Independent auditors

On behalf of the board

M Sockett
Director

27 May 2022

Statement of directors' responsibilities in respect of the strategic report, directors' report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

On behalf of the board

M Sockett
Director

27 May 2022

Independent auditors' report to the members of Grafton Merchanting GB Limited

Report on the audit of the financial statements

Opinion

In our opinion, Grafton Merchanting GB Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2021; the statement of profit or loss and other comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of Grafton Merchanting GB Limited

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can

Independent auditors' report to the members of Grafton Merchanting GB Limited

arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, UK employment regulations, health and safety legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to journal entries to manipulate the financial position and/or performance of the business and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- enquiries of management and those charged with governance around actual or potential litigations or instances of known or suspected non compliance with applicable laws and regulations;
- review of minutes of meeting with those charged with governance;
- reviewing internal audit reports;
- reviewing financial statement disclosures and testing these to supporting documentation to assess compliance with applicable laws and regulations;
- auditing the risk of management override of controls, including through testing journal entries (using a risk based audit approach) with a specific focus on revenue journals with unusual account combinations and other adjustments for appropriateness, testing accounting estimates for reasonableness, and evaluating the business rationale of significant transactions outside the normal course of business.
- incorporating elements of unpredictability in the audit procedures

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Grafton Merchanting GB Limited

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility

Neil Philpott

Neil Philpott (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

27 May 2022

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Turnover	2	**968,792**	768,866
Cost of sales		**(711,495)**	(575,633)
Gross profit		**257,297**	193,233
Distribution costs		**(43,028)**	(36,563)
Administrative expenses		**(177,903)**	(160,895)
Other operating income	3	**2,731**	9,864
Operating profit before exceptional items		**44,639**	24,877
Administrative expenses - exceptional items	5	**(5,542)**	(19,238)
Operating profit	4	**39,097**	5,639
Interest receivable and similar income	9	**73**	89
Interest payable and similar expenses	8	**(2,516)**	(6,697)
Profit/(loss) before taxation		**36,654**	(969)
Tax on profit/(loss)	10	**(9,109)**	617
Profit/(loss) for the financial year		**27,545**	(352)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Re-measurement profit/(loss) on defined benefit pension schemes	25	**8,157**	(16,060)
Deferred tax on defined benefit pension schemes		**(2,039)**	3,051
Total other comprehensive income/(expense)		**6,118**	(13,009)
Total comprehensive income/(expense) for the financial year		**33,663**	(13,361)

Amounts relate to continuing and discontinuing operations.
The notes on pages 32 to 65 form part of the financial statements.

Balance Sheet
as at 31 December 2021

	Note/(-s)	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Fixed assets					
Intangible assets	11	**25,553**		29,176	
Goodwill	12	**32,444**		32,444	
Property, plant and equipment	13	**164,868**		177,577	
Right of use assets	14	**55,804**		63,249	
Investments	16	**-**		2,342	
Deferred tax assets	18,23	**1,840**		9,158	
Amounts due from group companies	18	**11,560**		-	
			292,069		313,946
Current assets					
Stocks	17	**120,107**		82,040	
Debtors	18	**182,440**		506,127	
Properties held for sale	15	**-**		658	
Cash at bank and in hand	19	**71,062**		22,859	
		373,609		611,684	
Creditors: amounts falling due within one year	20	**(222,148)**		(603,205)	
Net current assets			**151,461**		8,479
Total assets less current liabilities			**443,530**		322,425
Creditors: amounts falling due after more than one year	21	**(162,150)**		**(63,285)**	
Provisions for liabilities					
Deferred tax liability	23	**(17,658)**		**(13,925)**	
Other provisions	24	**(4,727)**		**(5,377)**	
Pensions and similar obligations	25	**-**		**(34,346)**	
			(184,535)		(116,933)
Net assets			**258,995**		205,492
Capital and reserves					
Called up share capital	27		**11,625**		11,625
Capital reserves			**2,000**		2,000
Share premium account			**98,375**		98,375
Capital contribution reserve			**19,701**		1,305
Profit and loss account			**127,294**		92,187
Total shareholders' funds			**258,995**		205,492

Balance Sheet
as at 31 December 2021 (continued)

These financial statements on pages 27 to 65 were approved by the board of directors on 27 May 2022 and were signed on its behalf by:

M Sockett
Director

27 May 2022

Statement of changes in equity
for the year ended 31 December 2021

	Called up share Capital £'000	Capital Reserve £'000	Share premium account £'000	Capital contribution reserve £'000	Profit and loss account £'000	Total shareholders' Funds £'000
Balance at 1 January 2021	**11,625**	**2,000**	**98,375**	**1,305**	**92,187**	**205,492**
Profit for the financial year	-	-	-	-	27,545	27,545
Re-measurement profit on pensions (net of tax)	-	-	-	-	6,118	6,118
Total comprehensive income for the financial year	-	-	-	-	33,663	33,663
Reversal of pension scheme asset	-	-	-	-	-	-
Transactions with owners recorded directly in equity						
Share-based payment charge	-	-	-	136	3	139
Tax on share-based payment charge	-	-	-	(943)	-	(943)
Transfer from capital contribution reserve	-	-	-	(498)	1,441	943
Pension obligation transfer	-	-	-	19,701	-	19,701
Balance at 31 December 2021	**11,625**	**2,000**	**98,375**	**19,701**	**127,294**	**258,995**

Statement of changes in equity *(continued)*
for the year ended 31 December 2021

	Called up share Capital £'000	Capital Reserve £'000	Share premium account £'000	Capital contribution reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 January 2020	**11,625**	**2,000**	**98,375**	**3,317**	**103,032**	**218,349**
Loss for the financial year	-	-	-	-	(352)	(352)
Re-measurement gain on pensions (net of tax)	-	-	-	-	(13,009)	(13,009)
Total comprehensive income for the financial year	-	-	-	-	(13,361)	(13,361)
Reversal of pension scheme asset	-	-	-	-	348	348
Transactions with owners recorded directly in equity						
Share-based payment charge	-	-	-	(222)	-	(222)
Tax on share-based payment charge	-	-	-	(352)	-	(352)
Transfer from capital contribution reserve	-	-	-	(1,438)	1,438	-
IFRS 16 adjustment	-	-	-	-	730	730
Balance at 31 December 2020	**11,625**	**2,000**	**98,375**	**1,305**	**92,187**	**205,492**

Notes (forming part of the financial statements)

1 Accounting policies

Grafton Merchanting GB Limited (the "Company") is a private company limited by shares, incorporated and domiciled in the UK. The Company's principal activity is the supply of building and plumbing materials. The address of its registered office is Huws Gray Limited Head Office, Llangefni Industrial Estate, Llangefni, Anglesey, Wales, LL77 7JA, UK.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101")*. The financial statements are therefore prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 3 – note to restate business combinations before the date of transition,
- IFRS 7 – financial instruments disclosures
- IFRS 13 – disclosure of valuation techniques and inputs for fair value measurement of assets and liabilities,
- IAS 1 – information on management capital,
- IAS 7 – statement of cashflows,
- IAS 8 – disclosures in respect of new standards and interpretations that have been issued but are not yet effective.
- IAS 24 – disclosure of key management compensation and for related party disclosures entered into between two or more members of the group,
- IAS 1 – the requirement to present roll forward reconciliations in respect of share capital,
- IAS 16 – the requirement to present roll forward reconciliations in respect of property, plant and equipment,
- IFRS 15 – Revenue from Contracts with Customers paragraphs 110b, 113a, 114, 115, 118, 119a-c, 121-127, 129.

The Company's ultimate parent undertaking is Echo Topco Limited a company registered in Jersey. The top company registered in England and Wales which will prepare group consolidated financial statements which will include the Company is Patagonia Holdco 3 Limited (The Group), the financial statements of which are available from the registered office. As included in the consolidated financial statements of Patagonia Holdco 3 Limited, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations; and
- IFRS 16 *Leases* in respect of disclosing the impact of the change in lease classification and treatment.

Adoption of new and revised Standards

- There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2021 that have a material impact on the company's financial statements.

Notes (forming part of the financial statements)

1 Accounting policies *(continued)*

Adoption of new and revised Standards

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except investment properties that are stated at their fair value.

Going concern

The Group and Company Directors have assessed the viability of the Company over a two-year period to 31 December 2023, taking account of the Company's and because of the cross guarantees in place the wider Group's current position and prospects, and principal risks and how they are managed. Based on this assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due in the foreseeable future, but as a minimum over the period to 31 December 2023. As part of the acquisition the Company was funded by a term loan repayable in May 2031 provided by Patagonia Bidco Limited, it's immediate parent company and is part of a Group funding arrangement, with ongoing trading continuing to be funded out of its own working capital. The forecasts that have been completed show significant positive cash generation and even when stress tested continue to be cash generative.

In making this statement the Directors have considered the resilience of the Company and the wider Group, taking account of its current position, the principal risks facing the business in severe and reasonable scenarios, and the effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks that would realistically be open to them in the circumstances. This assessment has considered the potential impacts of these risks on the future performance over the period, with particular consideration given to the Group's debt funding covenants. The Directors have also considered the Company's resilience and management response to the Covid-19 pandemic as well as the experience from the 2008 Global Financial Crisis.

The principal scenarios considered in the review are those where negative macroeconomic and other impacts would be experienced across all of the Group's businesses. The Directors stress tested plausible downside scenarios. No covenants were required to be tested based on this assessment and the wider Group has significant liquidity headroom. The Directors believe, whilst these scenarios are highly unlikely, the Company would be able to take a number of further mitigating actions including management of working capital, capital expenditure and tighter overhead cost management.

In addition, the Directors have received confirmation that Patagonia Bidco Limited, the parent company, will use its best endeavours to provide financial support for at least 13 months from the date of signing of the financial statements in order to enable the Company to meet its liabilities as they fall due.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Exceptional Items and Non-recurring Items

The Company has adopted a policy in relation to its income statement which seeks to highlight significant items within the Company's results. Such items may include significant restructuring and onerous lease provisions, profit or loss on disposal or termination of operations, litigation costs and settlements and impairment of assets. Judgement is used by the Company in assessing the particular items which, by virtue

Notes (forming part of the financial statements)

1 Accounting policies *(continued)*

Exceptional Items and Non-recurring Items *(continued)*

of their scale and nature, should be disclosed in the income statement or related notes. Where exceptional items are not significant for separate presentation, they are disclosed as non-recurring items.

Property profit/(loss) is included in other income on the face of the Income Statement. Property profit arises when the proceeds, less costs to sell, exceed the carrying value of the disposed property.

Group financial statements

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Financial instruments

IFRS 9 Financial Instruments, effective 1 January 2019, addresses the classification, measurement and recognition of financial assets and financial liabilities. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income, not recycling. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The classification and measurement basis for the Company's financial assets and liabilities is unchanged.

Classification of financial instruments issued by the Company

Preference shares are presented as a liability when in substance those shares are equivalent to a liability. Dividends arising on the preference shares are shown as finance charges in the profit and loss account.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Stock

Stocks are stated at the lower of cost and net realisable value, and net of rebates, after deduction of provisions for slow moving or obsolete stock. Cost of stock is based on the FIFO basis.

Trade and Other Receivables and Payables

Trade and other receivables and payables are stated at amortised cost (less any impairment losses), which approximates to fair value given the short-term nature of these assets and liabilities.

Trade receivables are carried at original invoice amount less an allowance for potentially uncollectable debts. Provision is made when there is objective evidence that the Company will not be in a position to collect all of its receivables when they fall due. Bad debts are written-off in the profit and loss account on identification. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments.

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment.

Notes (forming part of the financial statements)

1 Accounting policies *(continued)*

Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Borrowings are classified as creditors: amounts falling due within one year unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period in which case they are classified as creditors: amounts falling due after more than one year

Property, plant and equipment, freehold land and buildings

Property, plant and equipment, freehold land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment, freehold land and buildings have different useful lives, they are accounted for as separate items of property, plant and equipment, freehold land and buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, freehold land and buildings. Land is not depreciated. The estimated useful lives are as follows:

- freehold land and buildings — 50-100 years
- leasehold land and buildings — Lease term or up to 100 years
- plant and equipment — 3-20 years
- plant hire equipment — 6-10 years
- fixtures and fittings — 3-10 years
- Motor Vehicles — 4-9 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment, see note 31 for details of the key judgements and estimates.

Intangible assets (Computer software)

Computer software, including computer software which is not an integrated part of an item of computer hardware, is stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises purchase price and any other directly attributable costs.

Computer software is recognised if it meets the following criteria:

1. an asset can be separately identified;

2. it is probable that the asset created will generate future economic benefits;

3. the development cost of the asset can be measured reliably;

4. it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

5. the cost of the asset can be measured reliably

Notes (forming part of the financial statements)

1 Accounting policies *(continued)*

Intangible assets (Computer software) *(continued)*

Costs relating to the development of computer software for internal use are capitalised once the recognition criteria outlined above are met. Computer software is amortised over its expected useful life, which ranges from 3 to 10 years, by charging equal instalments to the profit and loss account within administrative expenses from the assets are ready for use.

Investments

Investments in the balance sheet are shown at cost less provision for impairment. Impairment reviews are performed by the directors when there has been an indicator of potential impairment.

Assets Held for Sale

Non-current assets that are expected to be recovered principally through sale rather than continuing use and meet the IFRS 5 criteria are classified as held for sale. These assets are shown in the balance sheet at the lower of their carrying amount and fair value less any costs to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains or losses on re-measurement are recognised in the profit and loss account.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Pension and similar obligations

For part of the year, the Company operated a number of defined benefit pension schemes which require contributions to be made to separately administered funds. The Company's net obligation in respect of defined benefit pension schemes was calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit was discounted to determine its present value, and the fair value of any plan asset was deducted. The discount rate employed in determining the present value of the schemes' liabilities was determined by reference to market yields at the balance sheet date on high quality corporate bonds for a term consistent with the currency and term of the associated post-employment benefit obligations.

The deficit arising in the Company's defined benefit pension schemes was shown within non-current liabilities on the face of the Company Balance Sheet. The deferred tax impact of pension scheme deficits was disclosed separately within deferred tax assets as appropriate. Any resulting defined benefit asset is not recognised by the company and is de-recognised through the Statement of Changes in Equity. The Company recognises actuarial gains and losses immediately in other comprehensive income.

Any increase in the present value of the plans' liabilities expected to arise from employee service during the period is charged to operating profit. The Company determined net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period. Differences between the income recognised based on the discount rate and the actual return on plan assets, together with the effect of changes in the current or prior assumptions underlying the liabilities are recognised in other comprehensive income. When the benefits of a defined benefit plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss account over the remaining average period until the benefits vest. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit and loss account.

Share based payment transactions

The 2011 Long-Term Incentive Plan (LTIP), the 1999 Grafton Group Share Scheme for Senior Executives and the SAYE Scheme for UK employees should enable employees to acquire shares in the Group subject to the conditions of these schemes. New units are issued to satisfy obligations under the 1999 Grafton Group Share Scheme and the SAYE scheme. Entitlements under the LTIP may be satisfied by the issue of units or by a market purchase of units. The fair value of share entitlements at the grant date is recognised

Notes (forming part of the financial statements)

1 Accounting policies *(continued)*

***Share based payment transactions** (continued)*

as an employee expense in the profit and loss account over the vesting period with a corresponding increase in equity. The fair value is determined by an external valuer using a binomial model. Share entitlements granted by the Group are subject to certain non-market based vesting conditions. Non-market vesting conditions are not taken into account when estimating the fair value of entitlements as at the grant date. The expense for share entitlements shown in the profit and loss account is adjusted to reflect the number of awards for which the related non-market based vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related non-market based vesting conditions at the vesting date. Where the Company's parent grants rights to its equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated financial statements of the parent, the Group or the Company as the case may be account for these share-based payments as equity-settled. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to equity.

Provisions

A provision is recognised on a discounted basis when the Company has a present (either legal or constructive) obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount required to settle the obligation. A provision for restructuring is recognised when the Company has approved a restructuring plan and the restructuring has commenced. A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Revenue from contracts with customers

IFRS 15 revenue from contracts with customers effective 1 January 2019, deals with revenues recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The company carried out a review of existing contractual arrangements and determined that there was no material impact for the Company's revenue streams.

Turnover

Turnover is derived from the provision of goods and services to customers during the year. Turnover is derived from the 2 activities of the Company, those being the supply of building materials and also the hiring of plant and equipment and wholly from within the UK.

Turnover represents the fair value of goods, excluding value added tax, delivered or hired to or collected by third party customers in the year. Goods are deemed to have been delivered to customers when the customer has access to the significant benefits inherent in the goods and exposure to the risks inherent in those benefits.

Rebate arrangements

Rebate arrangements are a common component of supplier agreements in the merchanting industry. As part of its on-going business activities, Grafton Merchanting GB Limited has entered into such arrangements with a significant number of its suppliers.

Supplier rebates received and receivable in respect of goods which have been sold to the Company's customers are deducted from cost of sales in the profit and loss. Where goods on which rebate has been earned remain in inventory at the year-end, an appropriate rebate deduction is made from the gross balance sheet carrying value of that stock. The rebate deduction is only released to the profit and loss account when the goods are ultimately sold.

At the year-end the balance sheet includes a balance representing unpaid amounts receivable from suppliers.

Notes (forming part of the financial statements)

1 Accounting policies *(continued)*

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease which are short term and low value leases. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

IFRS 16 Leases

IFRS 16 introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, with a practical expedient for short-term leases and leases of low value assets. IFRS16 changes how the Company accounts for leases previously classified as operating leases under IAS17, which were off-balance sheet.

The Company has applied IFRS16 using the modified retrospective approach without restatement of comparative information from 1 January 2019. In respect of those leases the Company previously treated as operating leases, the Company has elected to measure its right of use assets arising from property leases using the approach set out in IFRS16.C8(b)(ii). Under IFRS16C8(b)(ii) right of use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including un-amortised lease incentives. The Company leases various properties and motor vehicles as well as a small number of leases where the Company acts as a lessor. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The standard has a material impact on the Company with the recognition of lease liabilities and right-of-use assets, however the overall impact on the Income Statement of adopting IFRS 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in the later years.

Identification of leases

The identification of leases involves judgement as IFRS 16 defines a lease as a contract (or part of a contract) that, for a period of time in exchange for consideration, conveys the right to:

- control an identified asset;
- obtain substantially all economic benefits from use of the asset;
- direct the use of the asset

The company has availed of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17

Lease term

and the guidance in IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.

The lease term is the non-cancellable period for which the Company has the right to use an underlying asset together with:

- periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

This assessment involves the exercise of judgement by the Company.

Notes (forming part of the financial statements)

1 Accounting policies *(continued)*

Initial measurement of lease liability

The lease liability arising is initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments: The Company's weighted average (by lease liability) incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.7 per cent.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments)
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees (e.g. if the fair value of the asset at the end of the lease term is below an agreed amount, the lessee would pay to the lessor an amount equal to the difference between the fair value and agreed amount);
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability does not include variable element which are dependent on external factors, e.g. payments that are based on turnover. Instead such variable element are recognised directly in the income statement.

Judgements applied include determining the lease term for those leases with termination extension options and the discount rate used which is based on the incremental borrowing rate. Such judgements could impact the lease term and significant lease liability and right-of -use asset recognised.

Where a lease agreement contains a clause to restore the asset to a specified condition i.e. dilapidation costs, the Company recognises a provision for dilapidations under IAS 37 in its balance sheet.

Initial measurement of right-of-use asset

The right-of-use asset comprises the amount of the initial measurement of the lease liability, adjusted for:

- any lease payments made at or before the commencement date, less any lease incentives
- any initial direct costs incurred by the Company.

In addition, where the Company subleases a headlease (or part thereof) to a third party and such sublease is deemed by the Company to be a finance sublease, the right-of-use asset relating to sublease is derecognised and a finance lease receivable is recognised.

Subsequent measurement of lease liability

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

Notes (forming part of the financial statements)

1 Accounting policies *(continued)*

Subsequent measurement of lease liability *(continued)*

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any material adjustments outlined above during the years presented.

After initial measurement, the right-of-use assets are measured at cost less accumulated depreciation, adjusted for:

After initial measurement, the right-of-use assets are measured at cost less accumulated depreciation,

adjusted for:

- any impairment losses in accordance with IAS 36 Impairment of Assets
- any remeasurement of the lease liability.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Lease modifications

A lease modification is a change to the original terms and conditions of the lease. The effective date of the modification is deemed to be the date when both parties agree to a lease modification.

A lease modification is accounted for as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope of the lease.

If both criteria are met, the Company adopts the accounting policy on the initial recognition and measurement of lease liabilities and right-of use assets.

If a change in the lease terms does not meet the test outlined above, the Company must modify the initially recognised components of the lease contract.

Sub-lease accounting

Where the Company acts as a lessor, the sublease is classified as a finance lease or an operating lease. A lease is deemed to be a finance lease where the lease transfers substantially all the risks and rewards incidental to the ownership of the underlying asset. Otherwise, the lease is deemed to be an operating lease.

Where the Company is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. The Company assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

If the head lease is not a short-term lease or low-value lease and the sublease is deemed to be a finance lease, the Company recognises a lease liability relating to the head lease but does not recognise a corresponding right-of-use asset. Instead, the Company recognises a finance lease debtor relating to the sublease.

Interest receivable and Interest payable

Interest payable and similar charges includes interest payable on intercompany interest-bearing loans and net foreign exchange losses that are recognised in the profit and loss account. Interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Notes (forming part of the financial statements)

1 Accounting policies *(continued)*

***Interest receivable and Interest payable** (continued)*

Interest income and interest payable are recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Taxation

Income tax in the profit and loss account represents the sum of current tax and deferred tax.

Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is based on taxable profit and represents the expected tax payable for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes certain items that are not tax deductible including property depreciation. The Company's liability for current tax is calculated using rates that have been enacted or substantively enacted at the balance sheet date. The Company's income tax charge reflects various allowances and reliefs and planning opportunities available in the tax jurisdictions in which the Company operates. The determination of the Company's charge for income tax in the profit and loss account requires estimates to be made, on the basis of professional advice, in relation to certain matters where the ultimate outcome may not be certain and where an extended period may be required before such matters are determined. The estimates for income tax included in the financial statements are considered appropriate but no assurance can be given that the final determination of these matters will not be materially different to the estimates included in the financial statements.

Deferred tax is provided, using the liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are not recognised for the following temporary differences:

- Goodwill that is not deductible for tax purposes;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit or loss; and
- Temporary differences associated with investments in subsidiaries in which case deferred tax is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred tax asset to be utilised.

2 Turnover

Turnover and (loss)/profit before taxation relate to the principal activity of the Company and arise wholly within the UK. In the directors' judgement all sales in the current and prior year relate to one class of business, that of resale of goods which a significant part of the business.

3 Other operating income

	2021	2020
	£'000	£'000
Net gain on disposal of property, plant and equipment	**389**	2,699
Dividends received from subsidiaries	**2,342**	-
Gain on sale of investment to fellow group company	-	7,165

Notes (forming part of the financial statements)

3 Other operating income *(continued)*

	2021 £'000	2020 £'000
	2,731	9,864

4 Operating profit

Included in operating profit are the following:

	2021 £'000	2020 £'000
Auditors' remuneration for the audit of the annual financial statements	**320**	209
Non audit fees	**-**	16
Depreciation (note 13)	**14,755**	15,887
Depreciation on right-of-use assets (note 14)	**8,680**	8,874
Amortisation (note 11)	**3,623**	4,266
Bad debt provision charged to p&l	**2,987**	2,537
Inventory provision charged to p&l	**6,207**	5,076
JRS government relief	**-**	(11,015)
Business rates relief	**(2,888)**	(4,331)

5 Administrative expenses - exceptional items

Included in operating profit are the following:

	2021 £'000	2020 £'000
Impairment Grangemouth investment (note 16)	**1,089**	-
Impairment AR Henricks investments (note 16)	**1,253**	-
Loss on sale and leaseback properties	**3,200**	-
Redundancy	**-**	4,787
Fixed asset write-offs	**-**	1,931
Inventory write-offs	**-**	751
Pension scheme changes (note 25)	**-**	8,019
Lease impairments	**-**	1,704
Other property related costs	**-**	609
Dilapidations provisions	**-**	625
Other	**-**	812
	5,542	19,238

Notes (forming part of the financial statements)

6 Staff numbers and costs

The average monthly number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2021 Number	2020 Number
Administration and sales	**3,109**	3,242
	3,109	3,242

	2021 £'000	2020 £'000
Wages and salaries	**103,210**	81,690
Social security costs	**10,020**	8,268
Share based payments	**-**	209
Other pension costs (note 25)	**2,166**	2,190
	115,396	92,357

There were no prepaid pension contributions at the end of the current or previous year. At 31 December 2021, a pension liability of £511k *(2020: £473k)* has been included within accruals.

7 Remuneration of directors

	2021 £'000	2020 £'000
Directors' emoluments:		
As directors	**324**	398
Contributions to defined contribution scheme	**13**	13
	337	411

Certain Directors emoluments have been borne by another group company and not recharged.
Two directors had contributions made to the defined contribution scheme by the Company *(2020: two)*.
One director exercised share options during the year *(2020: two)*.

The number of directors that were granted shares under a long-term incentive scheme in respect of services supplied was two *(2020: two)*. The payments in respect of excess retirement benefits of directors, loss of office benefit or amounts paid to third parties in respect of directors' services was £nil *(2020: £nil)*. £Nil was paid in compensation for loss of office to any director *(2020: £nil)*.

Highest paid Director
The remuneration of the highest paid director in 2021 was £198,535 *(2020: £261,936)*. No company contributions to money purchase pension scheme for the highest paid director were paid (2020: £nil). The highest paid director did not participate in the defined benefit pension scheme. The highest paid director did not exercise share options (2020: nil).

Notes (forming part of the financial statements)

8 Interest payable and similar expenses

	2021 **£'000**	2020 £'000
On loans payable to other group companies	-	3,765
Finance charges on shares classed as liabilities	-	15
Interest on lease liabilities	**2,312**	2,697
Pension interest expense – defined benefit obligation (note 25)	**204**	220
	2,516	6,697

9 Interest receivable and similar income

	2021 **£'000**	2020 £'000
Interest income on finance subleases	**73**	89
	73	89

10 Tax on profit/(loss)

(i) Analysis of charge/(credit) for the year

	2021		2020	
	£'000	**£'000**	£'000	£'000
Current tax				
Current year charge	**7,689**		590	
Adjustment in respect of prior periods	**(82)**		(358)	
Total current taxation		**7,607**		232
Deferred tax				
Current year charge/(credit)	**1,924**		(578)	
Adjustment in respect of prior periods	**(422)**		(271)	
Total deferred tax		**1,502**		(849)
Tax charge/(credit) on profit/(loss)		**9,109**		(617)

Notes (forming part of the financial statements)

10 Tax on profit/(loss) *(continued)*

(ii) Factors affecting the tax charge/(credit) for the year

The total tax charged (2020: credited) for the year is higher than (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The charge/(credit) for the year is detailed below:

	2021	2020
	£'000	£'000
Profit/(loss) before taxation	**36,654**	(969)
Profit/(loss) before taxation multiplied by the standard rate of corporation tax in the UK of 19% *(2020: 19%)*	**6,964**	(184)
Effects of:		
Expenses not deductible for tax purposes	**492**	873
Depreciation on non-qualifying assets	**426**	(1,361)
Group dividend income	**(445)**	-
Impairment	**445**	-
Intercompany interest	**-**	438
Property profit in excess of chargeable gain	**-**	(513)
Adjustments to current tax charge in respect of prior periods	**(82)**	(358)
Impact of change in UK tax rate	**1,731**	759
Adjustments to deferred tax in respect of prior periods	**(422)**	(271)
Total tax charge/(credit) for the year	**9,109**	(617)

Factors which may affect future tax charges:

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax asset/liability at 31 December 2021 has been calculated based on this rate.

Notes (forming part of the financial statements)

11 Intangible assets

	Software costs
	£'000
Cost	
At 1 January 2020 & 31 December 2020	42,020
At 1 January 2021 & 31 December 2021	42,020
Accumulated amortisation and impairment	
At 1 January 2020	(8,578)
Charged in year – amortisation	(4,266)
At 31 December 2020	(12,844)
Charged in year – amortisation	(3,623)
At 31 December 2021	(16,467)
Net book value	
At 31 December 2021	**25,553**
At 31 December 2020	29,176

The intangible asset of £25.6 million at 31 December 2021 reflects the net book value of the Company's investment on upgrading the IT systems and infrastructure that supports a number of UK businesses as part of a multi-year programme of investment. Amortisation is disclosed within administrative costs.

Included in intangible fixed assets on the balance sheet as at 31st December 2021 is an amount of £23.2m in relation to the AX ERP system. Subsequent to the year end a decision was made by the Directors, having assessed the appropriateness of this system when compared to the existing systems of the wider Group post acquisition, to discontinue the roll out of the AX trading platform to any further branches and that the company begin an integration plan to move onto one of the Groups' existing systems. This decision and impact has been treated as a non-adjusting post-balance sheet event in accordance with IAS10 *Events after the Balance Sheet Date.*

The asset will be written down over its remaining useful economic life based on number of expected periods it will continue for and number of branches in operation. This is expected to be no more than two years. The closing NBV will be amortised over 2 years compared to existing useful life resulting in a higher amortisation charge next year by £8.5m

12 Goodwill

	Goodwill arising on transfer of trade £'000	Purchased goodwill £'000	Total goodwill £'000
Cost 31 December 2020	24,987	7,457	32,444
Cost 31 December 2021	24,987	7,457	32,444

Impairment Testing

Goodwill is subject to impairment testing on an annual basis at 31 December and additionally during the year if an indicator of impairment is considered to exist. The recoverable amount is determined based on value-in-use calculations. The carrying value was compared to its estimated value-in-use. There were no impairments during the year (2020: £Nil).

Value-in-use Calculations

The value-in-use is calculated on the basis of estimated future cash flows discounted to present value. Estimated future cash flows were determined by reference to the budget for 2022 and management forecasts for each of the following years from 2022 to 2025 inclusive which incorporates the impact of Covid-19. The terminal value was calculated using a long-term growth rate in respect of the years after 2025. The estimates of future cash flows were based on consideration of past experience together with an assessment of the future prospects for each of the businesses with the UK Merchanting businesses. The assumptions used are also referenced against external industry data.

The key assumptions used in the value-in-use calculations are the revenue growth rate, gross margin, the discount rate and the long-term growth rate. The pre-tax discount rates used were based on the Patagonia Holdco 3 Limited estimated weighted average cost of capital, adjusted to reflect risks associated with the UK Merchanting businesses.

In determining the terminal value of the value-in-use, it was assumed that cash flows after the first five years will increase at a long-term growth rate of two per cent (2020: 2 per cent). The rate assumed was based on an assessment of the likely long-term growth prospects of the UK Merchanting businesses.

A summary of the assumptions relating to the recoverable amounts of the UK Merchanting businesses are shown below

Recoverable amount basis	Value-in-use
Revenue growth rate average	5.09%
Discount rate (pre-tax)	8.5% to 10.5%
Long term growth rate	2.0%

Sensitivity Analysis

The value-in-use calculations are sensitive to changes in the key assumptions of the revenue growth rate, gross margin, the discount rate and the long-term growth rate. While management believes that the value-in-use assumptions are prudent, sensitivity analysis was performed based on reasonable changes in each of the four key assumptions. No reasonably possible change in any of the key assumptions would cause the carrying amount to exceed the recoverable amount for the UK Merchanting businesses.

Notes (forming part of the financial statements)

13 Property, plant and equipment

	Freehold land and Buildings £'000	Leasehold land and buildings Plant and equipment £'000	Plant, hire equipment, fixtures & fittings & motor vehicles £'000	Total £'000
Cost				
Balance at 1 January 2020	146,399	18,677	177,273	342,349
Additions	-	-	4,779	4,779
Transfer in from fellow Group Companies	2,150	276	504	2,930
Transfer out to fellow Group companies	-	-	(143)	(143)
Transfer to properties held for sale (note 16)	(2,671)	(483)	-	(3,154)
Transfer from investment properties (note15)	101	-	-	101
Disposals	(1,271)	(627)	(11,193)	(13,091)
Balance at 31 December 2020	144,708	17,843	171,220	333,771
Additions	-	115	10,502	10,617
Reclass	3,323	(2,046)	(1,277)	-
Transfer out to fellow Group companies	(9,929)	(39)	(80)	(10,048)
Transfer to properties held for sale (note 15)	(394)	-	-	(394)
Disposals	-	(171)	(5,879)	(6,050)
Balance at 31 December 2021	137,708	15,702	174,486	327,896
Accumulated depreciation and impairment				
Balance at 1 January 2020	27,053	7,611	116,312	150,976
Depreciation charge for the year	1,835	472	13,580	15,887
Transfer in from fellow Group Companies	-	189	346	535
Transfer out to fellow Group Companies	-	-	(121)	(121)
Transfer to properties held for sale (note 16)	(526)	(170)	-	(696)
Disposals	(312)	(488)	(9,587)	(10,387)
Balance at 31 December 2020	28,050	7,614	120,530	156,194
Depreciation charge for the year	1,692	445	12,618	14,755
Reclass	2,729	(1,907)	(822)	-
Impairments	-	5	98	103
Transfer out to fellow Group companies	(2,160)	(39)	(35)	(2,234)
Transfer to properties held for sale (note 15)	(71)	-	-	(71)
Disposals	-	(147)	(5,572)	(5,719)
Balance at 31 December 2021	30,240	5,971	126,817	163,028
Net book value				
At 31 December 2020	116,658	10,229	50,690	177,577
At 31 December 2021	**107,468**	**9,731**	**47,669**	**164,868**

Freehold land and buildings contain £51.8m *(2020: £57.9m)* attributable to land which is not depreciated.

Depreciation is disclosed within administrative costs.

Notes (forming part of the financial statements)

14 Right of use assets

	Property & land leases £'000	Vehicles £'000	Total £'000
Recognised at 1 January 2021	59,068	4,181	63,249
Additions	4,677	3,173	7,850
RoUA adjustments	(1,091)	86	(1,005)
RoUA disposal adjustments	(5,610)	-	(5,610)
Depreciation charge	(6,311)	(2,369)	(8,680)
Impairment			
Closing net book amount	50,733	5,071	55,804
Recognised at 1 January 2020	63,587	5,068	68,655
Additions	331	1,471	1,802
Transfers in	940	248	1,188
RoUA adjustments	3,687	(1,573)	2,114
RoUA disposal adjustments	(1,435)	1,503	68
Depreciation charge	(6,338)	(2,536)	(8,874)
Impairment	(1,704)	-	(1,704)
Closing net book amount	59,068	4,181	63,249

The opening right of use assets figure includes £13,192k that relates to leases longer than 50 years, the closing right of use asset includes an amount of £8,789k that relates to leases longer than 50 years.

The average lease term is 61 months

The amounts recognised in the income statement include:

	2021 £'000	2020 £'000
Depreciation expense on right-of-use assets	8,680	8,874
Interest expense on lease liabilities	2,312	2,697
Income from subleasing right-of-use assets - operating leases	(18)	(18)
Income from subleasing right-of-use assets - finance leases	(126)	(545)

The total cash outflow for leases amounted to £11,163k.

There were three freehold properties sold and leased back transactions in the current year.

Notes (forming part of the financial statements)

15 Properties held for sale

	Cost £'000	Accumulated depreciation £'000	Net book value £'000
Balance at 1 January 2020	2,308	(767)	1,541
Transfers from investment properties	497	-	497
Transfers to other Group companies	(1,427)	254	(1,173)
Transfers from property, plant and equipment (note 13)	3,154	(696)	2,458
Disposals	(3,619)	954	(2,665)
Balance at 31 December 2020	**913**	**(255)**	**658**
Balance at 1 January 2021	913	(255)	658
Transfers from property, plant and equipment (note 13)	394	(71)	323
Disposals	(1,307)	326	(981)
Balance at 31 December 2021	-	-	-

16 Investments

	£'000
Cost	
Balance at 1 January 2020	104,925
Trade investment in Jackson Building Centres Limited	(104,877)
Transfer from other Group companies	2,342
Disposals	(48)
Balance at 31 December 2020	**2,342**
Provision for impairment	
Balance at 1 January 2021	2,342
Impairments	(2,342)
Net book value at 31 December 2021	-

Notes (forming part of the financial statements)

16 Investments *(continued)*

On 28th April 2021 AR Hendricks Limited ("ARH"), a subsidiary of the Company, assigned it liabilities to the Company in exchange for the assignment of certain of its debtors and then subsequently underwent a capital reduction. At this point ARH declared a dividend in specie to the Company. As a result of the above ARH had a share capital of £1 and the Company booked an impairment to write-down its investment to £1 resulting in an exceptional P&L charge of £1.25m, offset within investment income of £1.25m.

In addition, on 28th April 2021, Grangemouth Property Limited ("GPL"), having assigned certain of its debtors to the Company, in return for the company assuming an equivalent amount of GPL's liabilities, declared a dividend equal to the value of its distributable reserves and the Company booked an impairment to write-down its investment to £1 resulting in an exceptional P&L charge of £1.09m, offset within investment income of £1.09m.

Investments in Grangemouth Ltd and AR Hendricks Limited were acquired from Grafton Group in December 2020. This investment represents 100% of the class A shares of the company which equates to 100% of the issued share capital.

All the above subsidiaries registered address is Huws Gray Limited Head Office, Llangefni Industrial Estate, Llangefni, Anglesey, Wales, LL77 7JA, UK.

17 Stocks

	2021 **£'000**	2021 £'000
Finished goods and goods for resale	**120,107**	82,040

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £711 million *(2020: £575 million)*. There were no write-down of stocks to net realisable value in the year *(2020: £751k)*.

The inventory provision at 31 December 2021 was £9.4 million *(31 December 2020: £4.8 million)*. The stock shrinkage provision at 31 December 2021 was £1.8m *(31 December 2020: £2.6m)*.
There was no impairment of inventory during the year *(2020: £7.9 million)*.

18 Debtors

	2021 **£'000**	2020 £'000
Trade debtors	**125,503**	104,077
Amounts due from group companies	**1,888**	360,989
Prepayments and accrued income	**55,049**	38,724
Finance lease receivables	**-**	2,337
Due within one year	**182,440**	506,127
Deferred tax assets (see note 23)	**1,840**	9,158
Amounts due from group companies	**11,560**	-
Due over 1 year	**13,400**	9,158

Notes (forming part of the financial statements)

18 Debtors *(continued)*

	2021 £'000	2020 £'000
Total debtors	**195,840**	515,285

Amounts due from group companies are unsecured, interest free and repayable on demand, except for an unsecured interest-bearing loan to Bathroom Distribution Group UK Limited of £4.3 million at 5.5% interest and an unsecured interest-bearing loan to The Timber Group Limited of £7.2 million at 5.5% interest.

Trade receivables are stated after provision for impairment of £4,232k (2020: £4,197k)

19 Cash at bank and in hand

	2021 £'000	2020 £'000
Cash at bank and in hand	**71,062**	22,859

20 Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Lease liabilities	**8,584**	8,073
Trade creditors	**156,049**	135,889
Amounts due to group companies	**5,402**	427,394
Taxation and social security	**6,596**	5,404
Accruals	**45,517**	26,445
	222,148	603,205

Included in Accruals is an amount of £10.1m (2020: £6.4m) relating to expected rebates payable to customers.

21 Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Lease liabilities	**54,701**	60,955
Amounts due to group companies (note 22)	**105,119**	-
Preference shares (note 27)	**2,330**	2,330
	162,150	63,285

Notes (forming part of the financial statements)

21 Creditors: amounts falling due after more than one year *(continued)*

The maturity analysis of the lease liability is as follows:

	2021 £'000	2020 £'000
Year 1	**8,584**	8,073
Years 2-5	**22,640**	22,482
Onwards	**32,061**	38,473
	63,285	69,028

22 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2021 £'000	2020 £'000
Creditors: amounts falling due after more than one year		
Inter-group interest bearing loans	**105,119**	-
Creditors: amounts falling due within one year		
Inter-group interest bearing loans	-	61,750

The amounts due to group companies include:

an unsecured interest-bearing loan from Crescent Building Supplies (Ruislip) Limited of £4.2 million at a 5.5% fixed interest rate over 125 months ending 31 May 2031;

an unsecured interest-bearing loan from Patagonia Bidco Limited of £100.9 million at a 5.5% fixed interest rate over 125 months ending 31 May 2031.

23 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets/liabilities as at 31 December 2021 have been calculated based on a rate of 25% as this is the rate substantively enacted at the year end.

	Deferred tax asset 2021 £'000	Deferred tax liability 2021 £'000	Net deferred tax liabilities 2021 £'000	Deferred tax asset 2020 £'000	Deferred tax liability 2020 £'000	Net deferred tax liabilities 2020 £'000
Freehold properties	-	**14,528**	**14,528**	-	11,041	11,041
Other tangible fixed asset timing differences	**(1,785)**	-	**(1,785)**	(1,611)	-	(1,611)
Intangible assets timing differences	-	**3,130**	**3,130**	-	2,884	2,884
Provisions/accruals	**(55)**	-	**(55)**	(78)	-	(78)
Retirement benefit obligations	-	-	-	(6,526)	-	(6,526)
Share schemes	-	-	-	(943)	-	(943)

Notes (forming part of the financial statements)

23 Deferred tax assets and liabilities (continued)

	Deferred tax asset 2021 £'000	Deferred tax liability 2021 £'000	Net deferred tax liabilities 2021 £'000	Deferred tax asset 2020 £'000	Deferred tax liability 2020 £'000	Net deferred tax liabilities 2020 £'000
Total tax (assets)/liabilities	**(1,840)**	**17,658**	**15,818**	(9,158)	13,925	4,767

Movement in deferred tax during the year

	1 January 2021 £'000	Recognised in income £'000	Recognised in equity £'000	Acquisition/ disposals £'000	31 December 2021 £'000
Freehold properties	**11,041**	**3,487**	-	-	**14,528**
Other tangible fixed assets timing differences	**(1,611)**	**(174)**	-	-	**(1,785)**
Intangible assets timing difference	**2,884**	**246**	-	-	**3,130**
Provisions/accruals	**(78)**	**23**	-	-	**(55)**
Retirement benefit obligations	**(6,526)**	**(2,080)**	**8,606**	-	-
Share schemes	**(943)**	-	**943**	-	-
Net tax liabilities	**4,767**	**1,502**	**9,549**	-	**15,818**

Movement in deferred tax during the year

	1 January 20 £'000	Recognised in income £'000	Recognised in equity £'000	Acquisition/ disposals £'000	31 December 20 £'000
Freehold properties	9,878	1,163	-	-	11,041
Other tangible fixed assets timing differences	(1,143)	(468)	-	-	(1,611)
Intangible assets timing difference	2,651	233	-	-	2,884
Provisions/accruals	(71)	(7)	-	-	(78)
Retirement benefit obligations	(1,831)	(1,643)	(3,052)	-	(6,526)
Share schemes	(1,168)	(127)	352	-	(943)
Net tax liabilities	8,316	(849)	(2,700)	-	4,767

Deferred tax assets have been recognised in respect of fixed asset timing differences, accruals and retirement benefit obligations where it is probable that they will be utilised against taxable profits in the foreseeable future. The carrying value of these deferred tax assets was assessed based on estimates and judgements of the availability of future taxable profits.

Notes (forming part of the financial statements)

24 Other provisions

	Restructuring £'000	Dilapidations £'000	Onerous £'000	Total £'000
Balance at 1 January 2021	248	5,129	-	5,377
Charge in year	-	478	165	643
Released/utilised in year	(218)	(1,075)	-	(1,293)
Balance at 31 December 2021	**30**	**4,532**	**165**	**4,727**

Dilapidations provision

The dilapidations provision covers the cost of reinstating certain Company properties at the end of the lease term based on the terms of the lease which sets out the conditions and work required to be undertaken on the return of the property. The timing of the outflows will match the ending of the relevant leases which ranges from 2 to 20 years.

Onerous provision

The onerous provision relates to on-going business rates liabilities for surplus properties.

25 Pensions and similar obligations

A number of defined benefit and a defined contribution pension schemes are operated by the Company and the assets of the schemes are held in separate trustee administered funds.

The actuarial reports are not available for public inspection.

Defined contribution schemes

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The total cost charged to profit and loss account of £2,166k (2020: £2,190k) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. As at 31 December 2021, contributions of £206k (2020: £475k) were due in respect of the current reporting year had not been paid over to the schemes.

IAS 19 – Employee benefits

On 30th June 2021, in connection with the sale of the Company, the Company transitioned the responsibility for the Grafton (UK) Pension Scheme (the "Scheme") to another Company. This transfer resulted in the replacement of the Company by Selco Trade Centres Limited as both principal employer and the party with primary funding responsibility for the Scheme. The impact of this was to remove the pension liability from the accounts of the Company as at that date with a corresponding exceptional credit recognised as a capital contribution.

All pension assets and obligations shown below are as at 30th June 2021 immediately prior to the transfer to Selco Trade Centres Limited.

Notes (forming part of the financial statements)

25 Pensions and similar obligations *(continued)*

Financial assumptions

The financial assumptions used to calculate the retirement benefit liabilities under IAS 19 were as follows:

	At 30 June 2021 UK schemes	At 31 December 2020 UK schemes
Valuation method	**Projected Unit**	Projected Unit
Rate of increase in salaries	**0.00%***	0.00%*
Rate of increase of pensions in payment	**3.10%**	2.70%
Discount rate	**1.90%**	1.40%
Inflation rate increase	**2.70%**	2.00%**

** Pensionable salaries are not adjusted for inflation.*
***The inflation assumption shown for the UK is based on the Consumer Price Index (CPI)*

The future life expectancy at age 65 for males and females (currently aged 55 and 65), inherent in the mortality tables used for the 2021- and 2020-year end IAS 19 disclosures are as follows:

2021 Mortality (years)		**UK**	2020 Mortality (years)		UK
Future Pensioner aged 65:	Male	21.4	Future Pensioner aged 65:	Male	21.7
	Female	24.1		Female	24.0
Current Pensioner aged 65:	Male	20.9	Current Pensioner aged 65:	Male	21.1
	Female	23.3		Female	23.2

Scheme Assets
The assets in these schemes are analysed below:

Quoted assets

	2021 %	**2021 £'000**	2020 %	2020 £'000
UK equities	**2**	**2,358**	2	2,316
Overseas (non- UK) equities	**23**	**29,491**	23	30,281
Target return funds	**16**	**21,112**	-	-
Government bonds	**6**	**7,999**	8	10,796
Corporate bonds	**17**	**22,137**	15	19,534
Index linked bonds	**3**	**4,318**	-	-
Liquidity driven investment	**18**	**22,875**	18	23,680
Alternatives	**12**	**15,558**	-	-
Property	**3**	**4,346**	8	10,955

25 Pensions and similar obligations *(continued)*

Financial assumptions *(continued)*

	%	2021 £'000	%	2020 £'000
Diversified growth funds	-	-	26	34,017
Cash	-	127	-	148
Quoted assets	100	130,321	100	131,727

Unquoted assets

	%	2021 £'000	%	2020 £'000
Other	100	-	100	-
Unquoted assets	100	-	100	-

	2021 £'000	2020 £'000
Deficit in the schemes	-	(34,346)
Represented by:		
Retirement benefit assets	-	-
Retirement benefit obligations	-	(34,346)
	-	(34,346)

There were no retirement benefit obligations at 31st December 2021 *(2020: £(34,346))*. There were no pension scheme assets at 31 December 2021 *(2020: £nil)*

History of Scheme Assets, Liabilities and Deficit in the Schemes

	2021 £'000	2020 £'000
Historical information		
Assets at bid value	130,321	131,727
Actuarial value of liabilities	(156,589)	(166,073)
Transfer to Selco	26,268	-
Deficit in the schemes	-	(34,346)
Experience adjustment on scheme liabilities	-	-

The capital contribution reserve within statement of changes in equity includes an amount of £19.7m relating to the transfer of the pension, being the value of retirement benefit obligations transferred to Selco of £26.2m less a deferred tax asset element of £6.5m.

Notes (forming part of the financial statements)

25 Pensions and similar obligations *(continued)*

Financial assumptions *(continued)*

The actual return on plan assets is set out below:

	2021	2020
	£'000	£'000
Actual return on plan assets	**573**	7,699

Sensitivity of pension liability to judgemental assumptions

Assumption	**Change in Assumptions**	**Impact on Scheme Liabilities**
Discount rate	Increase by 0.25%	Reduce by 4.4%
Rate of salary increase	Increase by 0.25%	Increase by 0.8%
Rate of inflation*	Increase by 0.25%	Increase by 2.8%
Life expectancy	Increase by 1 year	Increase by 3.9%

**Assumed that an increase of 0.25% in the inflation assumption would also give rise to an increase in the salary increase assumption of 0.25%.*

The above sensitivity analysis is derived through changing the individual assumption while holding all other assumptions constant.

The following table provides a reconciliation of the scheme assets (at bid value) and the actuarial value of scheme liabilities:

	Assets		**Liabilities**		**Net assets/(deficit)**	
	2021	2020	**2021**	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
At 1 January	**131,727**	130,043	**(166,073)**	(140,811)	**(34,346)**	(10,768)
Interest income on plan assets	**912**	2,683	-	-	**912**	2,683
Contributions by employer	**525**	1,401	-	-	**525**	1,401
Contributions by members	-	101	-	(101)	-	-
Benefit payments	**(2,104)**	(6,656)	**2,104**	6,656	-	-
Current service cost	-	-	-	(375)	-	(375)
Past service cost – non-recurring	-	-	-	(5,000)	-	(5,000)
Curtailment loss	-	-	-	(2,463)	-	(2,463)
Interest cost on scheme liabilities	-	-	**(1,116)**	(2,903)	**(1,116)**	(2,903)
Administration costs	**(400)**	(861)	-	-	**(400)**	(861)
Remeasurements						
Actuarial gain/(loss) arising from:						
- experience variations	-	-	**2,640**	(2,187)	**2,640**	(2,187)

Notes (forming part of the financial statements)

25 Pensions and similar obligations *(continued)*

Sensitivity of pension liability to judgemental assumptions *(continued)*

	Assets		Liabilities		Net assets/(deficit)	
	2021	2020	**2021**	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
- demographic assumptions	**-**	-	**1,616**	(534)	**1,616**	(534)
- financial assumptions	**-**	-	**4,240**	(18,355)	**4,240**	(18,355)
Transfer to Selco	**(130,321)**	-	**156,589**	-	**26,268**	-
Return on plan assets excluding interest income	**(339)**	5,016	**-**	-	**(339)**	5,016
At 31 December	**-**	131,727	**-**	(166,073)	**-**	(34,346)
Related deferred tax asset (net)					**-**	6,526
Net pension liability					**-**	(27,820)

Expenses recognised in operating costs

	2021	2020
	£'000	£'000
Past service cost (i) - non-recurring	**-**	5,000
Current service cost	**-**	375
Total operating charge	**-**	5,375

(i) In 2021 there was no past service cost (2020 £5,000k).

The expenses are recognised in the following lines in the income statement:

	2021	2020
	£'000	£'000
Operating costs – current and past service costs	**-**	5,375
Exceptional costs	**400**	3,324
Net finance costs on pension scheme obligations	**204**	220
	604	8,919

Notes (forming part of the financial statements)

25 Pensions and similar obligations *(continued)*

The scheme was closed to future accrual at 31 December 2020. This increased the scheme liabilities by £2.5 million as 89 members who were previously active but not receiving increases to pensionable salary will now receive deferred revaluations. As part of the closure process, one-off costs of £0.6 million were incurred and a further £5 million increase in liability has been recognised in exceptional items.

Recognised directly in Other Comprehensive Income

	2021 £'000	2020 £'000
Re-measurement gain/(loss) on pensions	**8,157**	(16,060)
Deferred tax on pensions	**(2,039)**	3,051
	6,118	(13,009)

Actuarial valuations – Funding requirements
Employees pay contributions equal to a certain percentage of pensionable salary. The percentage payable varies by scheme. Triennial actuarial valuations are carried out to determine the Company's contribution rate required under the schemes.

The DB Schemes are subject to the Statutory Funding Objective under the Pensions Act 2004. Valuations of the DB Schemes are carried out at least once every three years to determine whether or not the Statutory Funding Objectives are met. The last valuation was performed at 31st December 2017. As part of the process, the Company must agree with the Trustees of the DB Schemes the contributions to be paid to address any shortfalls against the Statutory Funding Objectives and contributions to pay for future accrual of benefits.

The contributions expected to be paid to the Company's defined benefit schemes in 2021 total £nil *(2020: £1.1 million).*

Average duration and scheme composition

	UK	
	2021	2020
Average duration of defined benefit obligation (years)	**19.00**	18.00

Allocation of total defined benefit obligation by participant

	2021	2020
Active plan participants	**24%**	24%
Deferred plan participants	**40%**	42%
Retirees	**36%**	34%
	100%	100%

Notes (forming part of the financial statements)

26 Share based payments

The employee share schemes are equity settled share-based payments as defined in IFRS 2 *Share Based Payments*. This scheme is run by Grafton Group Plc and the shares relate to that company.

Details of the schemes are set out below:

Long Term Incentive Plan (LTIP)

A Long-Term Incentive Plan (LTIP) was introduced in 2011. Details of the plan are set out in the financial statements of Grafton Group plc. The 2011 LTIP is an incentive plan that is designed to reward Executive Directors and senior executives in a manner that aligns their interests with those of shareholders. An Executive Director nominated to participate in the plan is granted an award over "free shares" which vest subject to the achievement of performance conditions measured over three financial years and the Executive Director remaining employed in the Group. The LTIP granted in September 2020 is not subject to any performance condition. Vesting will be subject to participants' continued employment within the Group at the vesting date.

Historically, ongoing participation in the LTIP scheme and vesting of those options has been subject to participants' continued employment within the former Group at the vesting date, save for certain good leavers permitted by the rules of the scheme. As a result of the sale of the Company, those colleagues participating in the scheme have been classified as good leavers and will receive their options on a time-apportioned basis subject to the performance criteria of each annual scheme. There will be no further charge in future years to the Company from the former Group for these Grafton Units.

The number of share awards is as follows:

	2021	2020
	Number	Number
Exercised	**(82,675)**	(814,280)
Outstanding at 31 December	**2,139,304**	1,632,706

At 31 December 2021 and 31 December 2020 none of the LTIP's were exercisable as the conditions for exercise were not fulfilled before the year-end.

UK SAYE Scheme
Options over 1,169,931 (2020: 1,843,547) Grafton Units were outstanding at 31 December 2021, pursuant to the existing 2020, 2019 and 2018 three year saving contracts under the Grafton Group (UK) plc 2011 Approved SAYE Plan at a price of £5.78, £6.33 and £6.58 respectively. These options are normally exercisable within a period of six months after the third anniversary of the savings contract, being December 2023 for the 2020 SAYE scheme, December 2022 for the 2019 SAYE scheme and December 2021 for the 2018 SAYE scheme.

As a result of the sale of the Company, and in accordance with the Rules of the Scheme, colleagues were given the following choices in respect of their SAYE

Option 1 – Exercise options to buy shares at the option price and receive a share certificate

Colleagues can use some or all of their savings to exercise their options and purchase Grafton shares at the option price, using the money they have saved up to the date of exercise but all shares must be exercised by 30th June 2022. If not exercised in this period, then the options will lapse and they will not be able to purchase the shares at the option price. Under this option, colleagues have also been given the option to continue to make the normal monthly payments up to May 2022 but still must exercise these options by 30th June 2022 otherwise they will lapse.

Option 2 – Closure and repayment of savings

If colleagues chose Option 2 their savings will be returned to them and they will not be able to buy shares at the option price.

Notes (forming part of the financial statements)

26 Share based payments *(continued)*

Share Schemes *(continued)*

The number and option price of share options under the 2017 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2021 Number	**2021 Option price £**	2020 Number	2020 Option price £
Exercised	**(210,181)**	**6.77**	(410,179)	6.77
Outstanding at 31 December	**-**		261,684	

The number and option price of share options under the 2018 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2021 Number	**2021 Option price £**	2020 Number	2020 Option price £
Exercised	**(242,068)**	**6.58**	(3,069)	6.58
Outstanding at 31 December	**96,264**		367,219	

The number and option price of share options under the 2019 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2021 Number	**2021 Option price £**	2020 Number	2020 Option price £
Exercised	**(1,139)**	**6.33**	(241)	6.33
Outstanding at 31 December	**252,869**		300,190	

The number and option price of share options under the 2020 Grafton Group (UK) plc Savings Related Share Option Scheme is as follows:

	2021 Number	**2021 Option price £**
Exercised	**-**	**5.78**
Outstanding at 31 December	**820,798**	

At 31 December 2021 none of the 2021 or the 2020 UK SAYE shares were exercisable. The weighted average remaining life is 1.2 years. (2020: 2.3 years). Due to the sale of the Company by Grafton Group

Notes (forming part of the financial statements)

26 Share based payments *(continued)*

Share Schemes *(continued)*

Plc to Patagonia Bidco Limited, there are no future obligations of the Company to incur costs associated with the share scheme effective 31 December 2021.

27 Called up share capital

Share capital

	Cumulative preference shares of £1 each		Ordinary shares	
(In thousands of shares)	**2021 No.**	2020 No.	**2021 No.**	2020 No.
In issue at 1 January	**2,330**	2,330	**11,625**	11,625
In issue at 31 December	**2,330**	2,330	**11,625**	11,625

	2021 £'000	2020 £'000
Ordinary Shares of £1 each	**11,625**	11,625
1,778,257 (2020: 1,778,257) "A" preference shares	**1,778**	1,778
104,425 (2020: 104,425) "B" preference shares	**104**	104
275,278 (2020: 275,278) "C" preference shares	**275**	275
95,507 (2020: 95,507) "D" preference shares	**96**	96
37,711 (2020: 37,111) "E" preference shares	**37**	37
40,223 (2020: 40,223) "F" preference shares	**40**	40
Total allotted, called up and fully paid share capital	**13,955**	13,955

The preference shares were issued at par and were fully paid up. The holders of the preference shares are entitled to a fixed cumulative preferential dividend at a floating rate which is calculated as 70% of LIBOR plus 0.65%. On winding up, these rank first and will be entitled to the capital and premium paid on subscription, together with any arrears of the fixed dividend.

The preference shares do not entitle the holder to attend or vote at any general meetings, unless the dividends are six months or more in arrears, in which case the holders will be entitled to vote. These terms mean that, the preference shares are recognised as a liability of the Company and the dividends as a component of the interest payable.

28 Contingent liabilities

The Company, along with other subsidiaries of Patagonia Bidco Limited, acts as a guarantor for the group borrowings which drawn at the balance sheet date amounted to £950 million. Undrawn committed facilities at the balance sheet date comprised a Revolving Credit Facility of £125million.

29 Ultimate parent company and parent company of larger group

The Company's immediate parent undertaking is Patagonia Bidco Limited a company registered in England and Wales, the financial statements of which are available from the registered office.

The Company's ultimate parent undertaking is Echo Topco Limited a company registered in Jersey. The top company registered in England and Wales which will prepare group consolidated financial statements

Notes (forming part of the financial statements)

29 Ultimate parent company and parent company of larger group *(continued)*

which will include the Company is Patagonia Holdco 3 Limited (The Group), the financial statements of which are available from the registered office.

The ultimate controlling party of The Group is The Blackstone Group Inc.

30 Events after the balance sheet date

Intangible Asset

Included in intangible fixed assets on the balance sheet as at 31st December 2021 is an amount of £23.2m in relation to the AX ERP system. Subsequent to the year end a decision was made by the Directors, having assessed the appropriateness of this system when compared to the existing systems of the wider Group post acquisition, to discontinue the roll out of the AX trading platform to any further branches and that the company begin an integration plan to move onto one of the Groups' existing systems. This decision and impact has been treated as a non-adjusting post-balance sheet event in accordance with IAS10 *Events after the Balance Sheet Date.*

The asset will be written down over its remaining useful economic life based on number of expected periods it will continue for and number of branches in operation. This is expected to be no more than two years.

Loan Guarantees

The Company, effective 28 February 2022, along with other subsidiaries of Patagonia Bidco Limited, acts as a guarantor for the Group borrowings which drawn at the balance sheet date amounted to £950 million. Undrawn committed facilities at the balance sheet date comprised a Revolving Credit Facility of £125million.

31 Accounting estimates and judgements

The Company's main accounting policies affecting its results and financial condition are set out on pages 32 to 41. Judgements and assumptions have been made by management by applying the Company's accounting policies in certain areas. Such estimates and judgements are based on historical experience and other factors, including explanation of future events which are believed to be reasonable. Actual results may differ from estimates calculated using these judgements and assumptions. Key sources of estimation uncertainty and critical accounting judgements are as follows:

Goodwill

The Company has capitalised goodwill of £32.4 million at 31 December 2021 *(2020: £32.4 million)* as detailed in note 12. Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicate potential impairment exists. The Company uses value in use calculations to determine the recoverable amount of cash generating units containing goodwill. Value in use is calculated as the present value of future cash flows. In calculating value in use, management judgement is required in forecasting cash flows of the cash generating units and in selecting an appropriate discount rate and nominal growth rate in perpetuity. No goodwill impairment charge was recognised by the Company in 2021 *(2020: £Nil).*

Taxation

Management is required to make judgements and estimates in relation to taxation provisions and exposures. In the ordinary course of business, the Company is party to transactions for which the ultimate tax determination may be uncertain. The amounts provided/recognised for tax are based on management's estimate having taken appropriate professional advice. If the final determination of these matters is different from the amounts that were initially recorded such differences will impact the income tax and deferred tax provisions and assets in the period in which the determination was made.

The amount shown for current taxation includes a liability for tax uncertainties and is based on the Directors' best probability weighted estimate of the probable outflow of economic resources that will be required. As with all estimates, the actual outcome may be different to the current estimate.

Notes (forming part of the financial statements)

31 Accounting estimates and judgements (continued)

Stock provisioning

The company maintains inventory which is subject to changing customer demands. As a result, it is necessary to consider the recoverability of the cost of the inventory and the associated provisioning required. Management consider the nature and condition of inventory, as well as apply assumptions around expected future demand for the inventory, when calculating the level of inventory provisioning. See note 17 for the net carrying value of inventory and associated provision.

Rebate income

Rebate arrangements with suppliers are a common feature of trading in the merchanting industry and the Group has agreements with individual suppliers related to purchases of goods for resale.

Rebates are accounted for as a deduction from the cost of goods for resale and are recognised in the financial statements based on the amount that has been earned in respect of each individual supplier up to the balance sheet date. Rebates receivable are determined using established methodologies and are only recognised in the income statement where there is an agreement in place with an individual supplier, any related performance conditions have been met and the goods have been sold to a third-party customer.

Rebates receivable from individual suppliers are typically calculated by applying an agreed percentage to the purchase price shown on the supplier invoice for products purchased for resale. A small proportion of rebates receivable are based on volumes purchased with certain supplier agreements providing for a stepped increase in rebates if purchases reach predetermined targets within a specified time period.

The majority of rebate arrangements cover a calendar year which coincides with the financial year of the Group and this reduces the requirement to estimate rebates receivable at the year-end. Where estimation is used in the calculation of rebates receivable it is done on a consistent and prudent basis, based upon management's knowledge and experience of the suppliers and historic collection trends.

IFRS 16 leases

Where the Company has an option to extend or terminate a lease, management uses its judgement to determine whether such an option would be reasonably certain to be exercised. Management considers all facts and circumstances, including past practice and costs that would be incurred if an option were to be exercised, to help them determine the lease term. Management have also applied judgements in assessing the discount rate, which are based on the incremental borrowing rate. Such judgements could impact lease terms and associated lease liabilities. The Company has availed of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and the guidance in IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.