

Reece Limited
(ABN 49 004 313 133)
and controlled entities

Half-year information for the six months ended 31 December 2018
provided to the ASX under listing rule 4.2A.3

This half-year financial report is to be read in conjunction with
the financial report for the year ended 30 June 2018

Appendix 4D

Half-year report for the six months to 31 December 2018

Reece Limited
(ABN 49 004 313 133)

1. Reporting period

Report for the half-year ended 31 December 2018.

Previous corresponding period is the financial year ended 30 June 2018 and half-year ended 31 December 2017.

2. Results for announcement to the market

			\$A'000
Revenues from sale of goods	Up	104.0% to	2,718,210
EBITDA excluding business acquisition costs and finance income	Up	45.4% to	260,143
Profit before tax excluding business acquisition costs	Up	18.0% to	178,309
Profit after tax excluding business acquisition costs	Up	20.1% to	126,957
Net profit for the period attributable to members	Down	7.6% to	97,736

Dividends	Amount per security	Franked amount per security
Interim dividend	6.0 cents	6.0 cents
Previous corresponding period – interim dividend	6.0 cents	6.0 cents
Record date for determining entitlements to the dividend		20 March 2019

Review of Operations

Refer to the Review of Operations contained in the financial report for the half-year ended 31 December 2018.

Appendix 4D

Half-year report for the six months to 31 December 2018

Reece Limited
(ABN 49 004 313 133)

	2018 \$A'000	2017 \$A'000
3. Net tangible assets per security		
Net tangible asset backing per ordinary security	26 cents	187 cents

4. Dividends

Ordinary shares

Dividends paid during the half-year (fully franked)	79,917	70,716
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The final dividend relating to the year ended on 30 June 2018 was paid on 25 October 2018.

Subsequent events

Since the end of the half-year the directors have declared the following interim dividend:

6.0 cents (2017: 6.0 cents) per ordinary share fully franked	33,649	29,880
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The interim dividend relating to the half-year ended on 31 December 2018 has not been included as a provision in the financial statements because the dividend was declared after balance date.

Date dividend is payable 28 March 2019

Record date to determine entitlements to the dividend 20 March 2019

Amount per ordinary security

		Amount per security	Franked amount per security
Interim dividend:	Current year	6.0 cents	6.0 cents (at 30% tax rate)
	Previous year	6.0 cents	6.0 cents (at 30% tax rate)

5. The financial information provided in the Appendix 4D is based on the half-year condensed consolidated financial report (attached).

6. Independent review of the financial report

The financial report has been independently reviewed. The financial report is not subject to a qualified independent review statement.



28 February 2019
Melbourne

Gavin Street
Company Secretary

Reece Limited
(ABN 49 004 313 133)
and controlled entities

Financial report for the half-year ended 31 December 2018

This half-year financial report is to be read in conjunction with
the financial report for the year ended 30 June 2018

Reece Limited and controlled entities
Financial report for the half-year ended 31 December 2018

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Reece Limited and controlled entities

Directors' Report

The Directors present their report together with the condensed financial report of the consolidated entity consisting of Reece Limited and the entities it controlled (the Group), for the half-year ended 31 December 2018 and independent review report thereon. This financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

Directors' Names

The names of the Directors in office at any time during or since the end of the half-year are:

Name	Period of directorship
Mr L.A. Wilson	49 years
Mr B.W.C. Wilson	47 years (retired August 2018)
Mr P.J. Wilson	21 years
Mr R.G. Pitcher, AM	15 years (retired October 2018)
Mr T.M. Poole	2 years
Mr B.C. Wilson	2 years
Ms M.L. Quinn	1 year
Ms G. Williams	1 year
Mr A.W. Wilson	4 months (appointed September 2018)

Each Director has been in office since the start of the financial period to the date of this report unless otherwise stated.

Review of Operations

Sales revenue for the six months ended 31 December 2018 was \$2,718.2m, up 104% on the prior period (2017: \$1,332.3m). Operating earnings before interest, tax, depreciation, amortisation, and acquisition costs were \$260.1m, up 45% on the prior period (2017: \$179.0m). Net profit after tax was down 7.6% to \$97.7m (2017: \$105.7m), net profit after tax excluding business acquisition costs was up 20.1% to \$127.0m (2017: \$105.7m).

The MORSCO acquisition completed on 2 July 2018, providing Reece entry into the US plumbing, HVAC and waterworks markets. Sales revenue for the first six months was \$1,253m, in line with expectations. The MORSCO acquisition was funded through a \$600m equity issue completed in May 2018 and Term Loan B facility of US\$1.14b established in July 2018.

Reece increased the number of branches in New Zealand to 33 with the acquisition of Edward Gibbons Plumbing and two independent plumbing stores in July 2018. Integration of systems and processes for the New Zealand acquisitions are now complete, including Heatcraft New Zealand acquired in May 2018. Sales revenue for Australia and New Zealand was up 10% to \$1,465m (2017: \$1,332m). Like for like sales increased 5.4% on the prior year.

The cost of doing business excluding business acquisition costs was \$558m, up 99% on the prior period (2017: \$280m) reflecting the impact of the MORSCO and New Zealand acquisitions. The total branch network in Australia and New Zealand was 635 outlets, an increase of 20 outlets in the first half of FY2019. This included 6 new outlets and 14 through acquisitions. MORSCO opened two new outlets in the first half of FY2019, bringing the US network to 173 sites.

Reece Limited and controlled entities

Directors' Report

Review of Operations, continued.

Reece has continued to use its strong relationships and investment in technology to listen, understand and act on their customer's needs, leading to the development of new products in HVAC, plumbing and bathrooms and a revitalised brand promise. In August 2018, Reece launched a new website making it faster and easier for our customers to search and buy our products online. The Company has continued to invest in understanding the current and future trends of the trade industry through its internal innovation centre, NEXT.

The Board has declared an interim dividend of 6.0 cents per share (2017: 6.0 cents per share), fully franked. The interim dividend will be paid on 28 March 2019, with a record date of 20 March 2019.

Significant changes in the state of affairs

In July 2018 the reporting entity acquired Patriot Supply Holdings, Inc and its controlled entities (MORSCO). MORSCO is a leading distributor of plumbing, waterworks and HVAC products operating in 16 states in North America.

Auditor's Independence Declaration

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

Rounding of amounts to nearest thousand dollars

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Signed in accordance with a resolution of Directors.



L.A. Wilson
Executive Chairman



P.J. Wilson
Chief Executive Officer

Melbourne
28 February 2019



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Reece Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Reece Limited for the Half-year ended 31 December 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

A handwritten signature in blue ink, appearing to be 'BW Szentirmay', written over a horizontal line.

BW Szentirmay
Partner

Melbourne

28 February 2019

Reece Limited and controlled entities
Condensed Consolidated Income Statement
for the half year ended 31 December 2018

	Notes	Half-year	
		2018	2017
		\$A'000	\$A'000
Revenue from sale of goods	9	2,718,210	1,332,306
Other income		4,239	1,798
		2,722,449	1,334,104
Less: Expenses			
Cost of sales		1,945,361	899,867
Employee benefits expense		298,693	145,729
Depreciation		41,270	25,169
Business acquisition costs		29,221	-
Other expenses		218,252	109,549
		2,532,797	1,180,314
Operating profit		189,652	153,790
Finance income	8	2,481	-
Finance cost		(43,045)	(2,672)
		149,088	151,118
Profit before income tax expense		149,088	151,118
Income tax expense		51,352	45,400
		97,736	105,718
Net profit after tax		97,736	105,718
Basic EPS		17.4 cents	21.2 cents
Diluted EPS		17.4 cents	21.2 cents

The accompanying notes form part of these financial statements

Reece Limited and controlled entities

**Condensed Consolidated Statement of Comprehensive Income
for the half year ended 31 December 2018**

	Half-year	
	2018	2017
	\$A'000	\$A'000
Profit for the half-year	97,736	105,718
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations, net of tax	72,868	(956)
Change in fair value of effective cash flow hedges, net of tax	(7,854)	(1,208)
Total comprehensive income	162,750	103,554

The accompanying notes form part of these financial statements

Reece Limited and controlled entities

Condensed Consolidated Statement of Financial Position
as at 31 December 2018

	Notes	31 Dec 2018 \$A'000	30 Jun 2018 \$A'000
Current assets			
Cash and cash equivalents		99,275	539,891
Trade and other receivables		804,609	405,733
Inventories		958,202	540,564
Derivative financial instruments	11	3,062	4,479
Total current assets		1,865,148	1,490,667
Non-current assets			
Property, plant and equipment		662,071	568,714
Intangible assets		1,760,518	225,741
Deferred tax assets		58,601	39,125
Derivative financial instruments	11	44,155	-
Total non-current assets		2,525,345	833,580
Total assets		4,390,493	2,324,247
Current liabilities			
Trade and other payables		608,111	369,557
Interest bearing liabilities	7	103,636	-
Current tax payable		9,835	7,624
Provisions		82,509	60,013
Derivative financial instruments	11	2,773	-
Total current liabilities		806,864	437,194
Non-current liabilities			
Other payables		17,953	2,212
Interest bearing liabilities	7	1,590,961	-
Provisions		3,666	4,003
Derivative financial instruments	11	6,878	-
Total non-current liabilities		1,619,458	6,215
Total liabilities		2,426,322	443,409
Net assets		1,964,171	1,880,838
Equity			
Contributed equity		604,849	604,349
Reserves		72,886	7,872
Retained earnings		1,286,436	1,268,617
Total equity		1,964,171	1,880,838

The accompanying notes form part of these financial statements

Reece Limited and controlled entities

**Condensed Consolidated Statement of Changes in Equity
for the half year ended 31 December 2017**

	Contributed equity	Reserves	Retained earnings	Total equity
	\$A'000	\$A'000	\$A'000	\$A'000
Balance as at 1 July 2017	9,960	3,748	1,144,593	1,158,301
Profit for the half-year	-	-	105,718	105,718
Exchange differences on translation of foreign operations, net of tax	-	(956)	-	(956)
Change in fair value of effective cash flow hedges, net of tax	-	(1,208)	-	(1,208)
Total comprehensive income / (loss) for the half-year	-	(2,164)	105,718	103,554
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(70,716)	(70,716)
Total transactions with owners in their capacity as owners	-	-	(70,716)	(70,716)
Balance as at 31 December 2017	9,960	1,584	1,179,595	1,191,139

The accompanying notes form part of these financial statements

Reece Limited and controlled entities

**Condensed Consolidated Statement of Changes in Equity
for the half year ended 31 December 2018**

	Contributed equity	Reserves	Retained earnings	Total equity
	\$A'000	\$A'000	\$A'000	\$A'000
Balance as at 1 July 2018	604,349	7,872	1,268,617	1,880,838
Profit for the half-year	-	-	97,736	97,736
Exchange differences on translation of foreign operations, net of tax	-	72,868	-	72,868
Change in fair value of effective cash flow hedges, net of tax	-	(7,854)	-	(7,854)
Total comprehensive income for the half-year	-	65,014	97,736	162,750
Transactions with owners in their capacity as Dividends paid	-	-	(79,917)	(79,917)
Total transactions with owners in their capacity as owners	-	-	(79,917)	(79,917)
Other movements	500	-	-	500
Balance as at 31 December 2018	604,849	72,886	1,286,436	1,964,171

The accompanying notes form part of these financial statements

Reece Limited and controlled entities

**Condensed Consolidated Statement of Cash Flows
for the half year ended 31 December 2018**

	Half-year	
	2018	2017
	\$A'000	\$A'000
Cash flow from operating activities		
Receipts from customers	2,769,076	1,483,241
Payments to suppliers and employees	(2,620,354)	(1,331,376)
Interest received	766	755
Finance costs	(41,321)	(2,659)
Income tax paid	(58,724)	(58,866)
	49,443	91,095
Cash flow from investing activities		
Payments for property, plant and equipment	(51,838)	(38,362)
Proceeds from sale of property, plant and equipment	7,846	1,771
Purchase of intangibles	(4,648)	(2,119)
Purchase of controlled entities	(1,991,600)	(33,219)
	(2,040,240)	(71,929)
Cash flow from financing activities		
Proceeds from borrowings	1,667,282	37,000
Repayments of borrowings	(37,885)	(37,000)
Dividends paid	(79,917)	(70,716)
	1,549,480	(70,716)
Net decrease in cash and cash equivalents	(441,317)	(51,550)
Translation of cash balances held in foreign currencies	701	-
Cash and cash equivalents at the beginning of the half-year	539,891	101,805
Cash and cash equivalents at the end of the half-year	99,275	50,255

The accompanying notes form part of these financial statements

Reece Limited and controlled entities

Notes to the Condensed Consolidated Financial Statements for the half year ended 31 December 2018

Note 1: Statement of significant accounting policies

This condensed consolidated half-year financial report does not include all the notes of the type usually included in the annual financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by Reece Limited during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

This condensed half-year financial report covers Reece Limited and controlled entities (the Group) as a consolidated entity. Reece Limited is a company limited by shares, incorporated and domiciled in Australia. The address of Reece Limited's registered office and principal place of business is 118 Burwood Highway, Burwood, Victoria, 3125. Reece Limited is a for-profit entity for the purpose of preparing the financial statements.

The half-year financial report was authorised for issue by the directors as at the date of the directors' report.

(a) Basis of preparation of the condensed consolidated half-year financial report

This condensed consolidated half-year financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* as appropriate for for-profit entities and the *Corporations Act 2001*. The report is to be read in conjunction with the financial report for the year ended 30 June 2018.

(b) Summary of the significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2018 including the extension of the hedge accounting policy to include additional financial instruments.

The consolidated entity has previously adopted hedge accounting effective 1 July 2016. The Group designates certain hedging instruments, which include forward exchange, interest rate swaps and cross currency swaps as cash flow hedges to hedge interest rate and foreign currency risks.

The Group documents whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk. That is whether the hedging relationships meet all of the following hedge effective requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group uses to hedge the quantity of hedged item.

The effective portion of changes in the fair value of hedging instrument that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. When option contracts are used to hedge forecast transactions, Reece may elect to designate only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognised in the cash flow hedge reserve in equity. The changes in the aligned time value of the option contracts that relate to the hedged item are recognised in cost of hedging reserve. Where there is a difference in the derivative time value to the aligned time value, the delta is recognised in profit and loss.

Reece Limited and controlled entities

**Notes to the Condensed Consolidated Financial Statements
for the half year ended 31 December 2018**

Note 1: Statement of significant accounting policies, cont.

(b) Summary of the significant accounting policies, cont.

Discontinuation of hedge is not voluntary and is only permitted if:

- The risk management objective has changed;
- There is no longer an economic relationship between the hedged item and the hedging instrument;
or
- The credit risk is dominating the hedge relationship.

(c) Rounding amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Note 2: Newly effective standards

The Group adopted AASB 15 *Revenue from Contracts with Customers* effective 1 July 2018. The Group's primary source of revenue is the supply of goods to its customers. A sale is recognised when control of the product has transferred, being when the product is delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the product has been delivered or shipped to the location specified by the customer and the customer accepts the product or when the customer takes receipt of the product directly from a Reece site.

For customers who purchase on credit a receivable is recognised when the products are delivered, as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

AASB 15 requires the disclosure of sales revenue disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group believes that the disaggregation of total sales revenue by geographical regions as presented in Note 9 Segment Reporting satisfies this requirement.

The adoption of AASB 15 has not had a significant impact on the Group's accounting policies or practices as the recognition of revenue is consistent with the transfer of goods to the customer and the consideration the entity expects at a point in time based on fulfilment of performance obligations.

Note 3: Accounting standards issued but not yet operative

The Group will adopt AASB 16 *Leases* for the annual reporting period beginning 1 July 2019 using the modified retrospective approach. The cumulative effect of adopting the new standard will result in an adjustment to the opening balance of retained earnings at 1 July 2019 and the establishment of a lease right to use asset and a liability for future lease payments, with no restatement of comparative information. The Group is in the process of assessing the impact of AASB 16.

Note 4: Subsequent events

There have been no material events subsequent to the end of the half-year that require recognition or disclosure in the half-year financial report, except for the proposed interim dividend payable as detailed in Note 5(b).

Reece Limited and controlled entities

Notes to the Condensed Consolidated Financial Statements
for the half year ended 31 December 2018

Note 5: Dividends

	31 Dec 2018	31 Dec 2017
	\$A'000	\$A'000
(a) Dividends paid or declared		
Dividends paid at 14.25 cents per share (2017: 14.2 cents) fully franked at 30% paid on 25 October 2018 (2017: 26 October 2017)	79,917	70,716
(b) Dividends proposed after the reporting period and not recognised		
Proposed dividends not recognised at the end of the half-year at 6.0 cents per share (2017: 6.0 cents) fully franked at 30%	33,649	29,880

Note 6: Business Combination

Effective 2 July 2018 Reece Limited acquired 100% of Patriot Supply Holdings, Inc and its controlled entities (MORSCO) a leading US distributor of plumbing, waterworks, heating and cooling (HVAC) products. MORSCO operates 173 branches in North America. Having MORSCO within the Reece Group, provides the platform to diversify Reece's operations.

Costs of \$29.2m in respect of the MORSCO acquisition have been expensed during the period.

The following fair values of the identifiable assets and liabilities of MORSCO as at acquisition have been determined on a provisional basis:

	\$A'000
Cash consideration paid excluding business acquisition costs	1,967,245
Assets and Liabilities acquired:	
Trade and other receivables	426,296
Other assets	15,948
Inventory	333,352
Property plant and equipment	83,064
Trade and other creditors	(332,591)
Other liabilities	(1,057)
Provisions	(18,178)
Provisional goodwill	1,460,411

The acquisition accounting for the above transactions is considered provisional due to the on-going work to be carried out to complete the identification and valuation of certain assets acquired including relevant intangible assets that will be amortised at their estimated life from the date of acquisition.

In the six months to 31 December 2018 MORSCO contributed revenue of \$1,253m and net profit after tax of \$34.3m to the Group's results.

Reece Limited and controlled entities

**Notes to the Condensed Consolidated Financial Statements
for the half year ended 31 December 2018**

Note 6: Business Combination, cont.

Goodwill on acquisition is attributable mainly to:

- Expected ability to leverage operational expertise and relationships across Reece and MORSCO;
- Expected opportunity to drive future organic growth; and
- The skills, extensive industry expertise and technical talent of MORSCO's employees.

Note 7: Interest bearing liabilities

	\$A'000
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<u>Current</u>	
Revolving Facility	85,000
Term Loan	16,152
Other	2,484
	103,636
<u>Non-current</u>	
Term Loan (maturing July 2025)	1,590,961
	1,590,961
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The Term Loan is a Senior Secured Term Loan B USD facility with the carrying value of the borrowings translated at the spot rate at balance date. It is subject to both foreign currency and interest rate hedging instruments (refer note 11).

Note 8: Finance income

	\$A'000
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Realised foreign currency gain on forward exchange contract	5,753
Unrealised foreign currency gain on financial assets	2,396
Unrealised foreign currency gain / (loss) on derivative instruments	(5,668)
	2,481
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Reece Limited and controlled entities

Notes to the Condensed Consolidated Financial Statements
for the half year ended 31 December 2018

Note 9: Segment reporting

Segment information is presented in a manner which is consistent with the internal reporting to the Chief Executive Officer who is the entity's chief operating decision maker for the purpose of performance assessment and resource allocation. The Group's segments are based on the geographical operation of the business and comprise:

- Australia and New Zealand (ANZ)
- United States of America (USA)

	2018 Half Year					
	ANZ		USA		Total	
	2018	2017	2018	2017	2018	2017
	\$A'000	\$A'000	\$A'000	\$A'000	\$A'000	\$A'000
Revenue from sale of goods at a point in time	1,465,116	1,332,306	1,253,094	-	2,718,210	1,332,306
Normalised EBITDA*	185,962	178,959	74,181	-	260,143	178,959
Depreciation & Amortisation	(27,958)	(25,169)	(13,312)	-	(41,270)	(25,169)
Business acquisition costs	(27,274)	-	(1,947)	-	(29,221)	-
Finance income	2,481	-	-	-	2,481	-
Finance costs	(29,103)	(2,672)	(13,942)	-	(43,045)	(2,672)
Profit before income tax expense	104,108	151,118	44,980	-	149,088	151,118
Income tax expense	(40,690)	(45,400)	(10,662)	-	(51,352)	(45,400)
Net profit after tax	63,418	105,718	34,318	-	97,736	105,718
	31 Dec 18	30 Jun 18	31 Dec 18	30 Jun 18	31 Dec 18	30 Jun 18
Current assets	1,057,917	1,490,667	807,231	-	1,865,148	1,490,667
Non-current assets	891,922	833,580	1,633,423	-	2,525,345	833,580
	<u>1,949,839</u>	<u>2,324,247</u>	<u>2,440,654</u>	<u>-</u>	<u>4,390,493</u>	<u>2,324,247</u>
Liabilities	1,469,298	443,409	957,024	-	2,426,322	443,409

*Normalised EBITDA is earnings before interest, tax, depreciation, amortisation, business acquisition costs and finance income.

**Notes to the Condensed Consolidated Financial Statements
for the half year ended 31 December 2018**

Note 10: Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2018 the Group acquired assets with a cost of \$51.8m exclusive of the acquired entity's assets (six months ended 31 December 2017: \$38.4m).

Assets with a carrying amount of \$6.5m were disposed of during the six months ended 31 December 2018 (six months ended 31 December 2017: \$6.9m), resulting in a gain on disposal of \$3.0m (six months ended 31 December 2017: loss of \$6 thousand).

Note 11: Fair value measurements

This note provides information about how the Group determines the fair value of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2018	Carrying Amount A \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets					
Derivative financial instruments					
Cross currency swap contracts	45,083	-	45,083	-	45,083
Interest rate swap contracts	-	-	-	-	-
Forward foreign exchange contracts	2,134	-	2,134	-	2,134
	47,217		47,217		47,217
Financial Liabilities					
Derivative financial instruments					
Cross currency swap contracts	(1,043)	-	(1,043)	-	(1,043)
Interest rate swap contracts	(8,608)	-	(8,608)	-	(8,608)
Forward foreign exchange contracts	-	-	-	-	-
	(9,651)		(9,651)		(9,651)

Reece Limited and controlled entities

Notes to the Condensed Consolidated Financial Statements
for the half year ended 31 December 2018

Note 11: Fair value measurements, cont.

30 June 2018	Carrying Amount A \$'000	Level 1 A \$'000	Level 2 A \$'000	Level 3 A \$'000	Total A \$'000
Financial assets					
Derivative financial instruments					
Cross currency swap contracts	-	-	-	-	-
Interest rate swap contracts	-	-	-	-	-
Forward foreign exchange contracts	4,479	-	4,479	-	4,479
	4,479		4,479		4,479
Financial Liabilities					
Derivative financial instruments					
Cross currency swap contracts	-	-	-	-	-
Interest rate swap contracts	-	-	-	-	-
Forward foreign exchange contracts	-	-	-	-	-
	-	-	-	-	-

(1) As the carrying amounts of cash and cash equivalents, trade and other receivables, borrowings and trade and other payables approximate their fair values, they have not been included in the above table.

(2) For financial instruments that is carried at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the valuation hierarchy categorisation. There were no transfers between levels during the period.

(3) The fair value estimation of foreign currency exchange contracts, interest rate swaps and cross currency swaps are considered to be Level 2 valuations and measured using Discounted Cash Flows. The present value of future cash flows is based on forward exchange rates and forward interest rates (from observable market rates) and discounted based on the applicable yield curves derived from quoted interest rates and the credit risk of various counterparties, at the reporting date. Where a derivative incorporates an option, time value and intrinsic value is calculated based on market price volatilities and forward market rate curves and discounted based on applicable yield curves derived from quoted interest rates and the credit risk of various counterparties, at the reporting date.

Reece Limited and controlled entities

ABN 49 004 313 133

Directors' Declaration

The directors declare that:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 4 to 16, are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (b) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2018 and of its performance for the half-year ended on that date.

2. In the directors' opinion there are reasonable grounds, at the date of this declaration, to believe that the Group will be able to pay its debts as and when they become due and payable.

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



L. A. Wilson
Executive Chairman



P. J. Wilson
Chief Executive Officer

Melbourne
28 February 2019



Independent Auditor's Review Report

To the shareholders of Reece Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Reece Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Reece Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Condensed Consolidated Statement of Financial Position as at 31 December 2018
- Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the Half-year ended on that date
- Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Reece Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the Half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Reece Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG
KPMG

BW Szentirmay
Partner

Melbourne

28 February 2019