Company registration number 13398238 (England and Wales)

PATAGONIA HOLDCO 3 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

PATAGONIA HOLDCO 3 LIMITED

COMPANY INFORMATION

Directors	T Owen I C A Northen C B Lovelace D Morris A T Wagstaff
Company number	13398238
Registered office	c/o Huws Gray Limited Industrial Estate Llangefni Anglesey Wales LL77 7JA
Auditor	Grant Thornton UK LLP Landmark St Peter's Square 1 Oxford Street Manchester M1 4PB
Solicitors	Simpson Thacher & Bartlett LLP City Point One Ropemaker Street London EC2Y 9HU

PATAGONIA HOLDCO 3 LIMITED

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The directors present the strategic report for the Group for the year ended 31 December 2022. Comparatives are for the period from incorporation on 14 May 2021 to 31 December 2021.

Review of the business of the company

Group

Patagonia Holdco 3 Limited is the ultimate UK holding company of the Group and prepares consolidated financial statements. The financial statements comply with UK adopted International Accounting Standards.

Echo Topco Limited, the immediate parent of the Group, is registered in Jersey and is controlled by The Blackstone Group Inc ("Blackstone") via Echo Midco Limited (Jersey).

Strategy and business model

Principal Activities

The Group operates primarily as general Builders Merchants with a number of specialist complementary distribution businesses in the Construction and Repair, Maintenance and Improvement (RMI) sectors.

The Group's objective is to be the Builders Merchant of choice in each of the locations that we operate, selling building materials to trade and retail customers from well invested business operations. Our focus is on supporting our colleagues to be the best they can be in order to provide exceptional levels of customer service and through investment in facilities for strong stock levels with wide locally held stock ranges. The growth plan includes a combination of acquisitions and organic expansion.

The Group's principal trading company, Huws Gray Limited was acquired by the Group in June 2021 to form the backbone of a growth strategy based on bolt on acquisitions and organic development of sites. In December 2021 a further fundamental acquisition from Grafton Group (UK) Plc was made by the Group of Builders Merchant and Distribution business across 201 sites (the "Fleming companies"). Together these businesses form the platform for future growth of the Group through investment in current sites and further bolt on acquisitions.

The focus for 2022 has been the integration of the acquired businesses and development of acquired sites. The Group has been progressing a synergy programme to take advantage of the opportunities to rationalise support functions, crystalise procurement opportunities in both product and overheads and to bring operating best practice of the businesses together.

The Group is in the process of rolling out new operational and financial systems to the acquired businesses. For the Builders Merchant businesses, the AX and Opal systems used by the Fleming companies are being replaced by the trading and control systems in place within Huws Gray Limited. The Huws Gray systems will also be used in the Civils & Lintels, PDM Buildbase Scotland and NDI brands. This has resulted in accelerated amortisation of the remaining software intangible asset over 2022 and 2023 as the systems are retired.

These post acquisition integration activities will continue in 2023 together with an anticipated return to bolt-on acquisitions in due course.

During 2022, a review of sites led to a net expansion in the Group's operations during the year with:

- the acquisition of the Brick and Stone site in Broxburn, Edinburgh;
- the opening of a new site for the Civils and Lintels business in Exeter;
- the opening of a new site for the NDI business in London;
- the divestment of the Buildbase Sudbury site under a requirement from the CMA relating to the Fleming acquisition; and
- the rationalisation of two sites into one following the October 2021 acquisition of Exall Jones.

Together with additional partnership wins in the year, the group now trades from 325 sites (excluding administrative offices) and from 1 January 2023 over 95% of the Group's trade is conducted by Huws Gray Limited.

2021 background and content of the comparatives to these accounts

A number of significant acquisitions took place in 2021 which only had a part year impact. This means that the consolidated results for the year ended 31 December 2022 represent the first full year of trading of the Group. The turnover and profitability included in the comparative statement of profit or loss represents the trading of:

- Holyhead Topco Limited and its Group ("Huws Gray") from 18 June 2021. This comprised 113 builders merchant sites at the point of acquisition;
- Sandysike Builders Merchants Limited, a single builders merchant site, from 30 July 2021;
- TBS Building Supplies Limited, two builders merchant sites, from 7 September 2021; and
- Exall Jones Limited, two builders merchant sites, from 29 October 2021.

On 31 December 2021, Patagonia Bidco Limited completed a sale and purchase agreement for the purchase of a collection of six trading companies from Grafton Group (UK) plc, totalling 201 trading sites (the "Fleming acquisition"). Further details are set out in the prior period financial statements.

Underlying comparative 2021 results of the Group

The Group recorded combined revenue of c. £1.55Bn on a proforma basis for the full calendar year 2021, including periods prior to each acquisition noted above. Reporting was completed under different Generally Accepted Accounting Principles (GAAP) and so a full year comparison is not presented within these accounts.

Further acquisition in 2022

On 1 March 2022, the Group acquired 100% of the share capital of Brick and Stone (Scotland) Limited, a single site brick and stone specialist in Broxburn, West of Edinburgh. The Group paid consideration of £1.8m, of which £180k was deferred, wholly in the form of cash.

Review of 2022

Following the acquisitions in the 2021 prior period, in 2022 management have focussed on the integration of the acquired businesses. A programme of integrations has been established which includes:

Integration programme area	Achievements in 2022 and plans for 2023
Review of group operating structure.	Completed with Building Supplies Distribution Limited, Harvey Steels Lintels Limited and Crescent Building Supplies (Ruislip) Limited, together with all of the non Grafton Group (UK) Plc acquisitions being hived across into Huws Gray Limited from 1 January 2022.
Organisation design work to integrate the businesses and provide common central functions.	Ongoing with expected completion by Summer 2023. IT, headcount and pricing synergies were achieved in 2022 with further opportunities being pursued in 2023.
A common senior management structure for Huws Gray and Buildbase builders merchant sites and the rebranding of Buildbase sites as Huws Gray Buildbase.	Completed in 2022.
The definition of the future trading systems and platform with the decision that the majority of the Group will move to the trading system ("Counteract") which is used by Huws Gray Limited.	Counteract deployed to 125 Buildbase merchanting and 6 partnering standalone branches in England and Wales in the year. Remainder of the Group system changes expected to be completed by Summer 2023.
Remodelling of branches to improve stock range and customer experience.	Ongoing with 46 branches completed in 2022.
The separation of all IT functions (including shared software and server farms) and central support services from Grafton Group UK Plc.	Completed in 2022.
The merger of the acquired Timber Businesses and hive across into Huws Gray Limited.	Completed from 1 January 2023, trading as The Timber Group Limited.

Key performance indicators

The Group uses the following key performance indicators to monitor performance:

- Revenue
- Gross Margin
- Adjusted EBITDA
- Employee numbers

Data for each of these is monitored on a proforma basis including pre-acquisition trading periods to provide comparable performance indicators. Adjusted EBITDA is computed as operating profit before depreciation and amortisation charges, exceptional items, share-based payments charges and adjusted to remove the unwinding of fair value uplifts applied to inventory to reflect historic cost rather than fair value as recorded at acquisition.

Reported results for the year (2021 part period from 14 May 2021)

Profit and loss account and trading performance

Revenue for the year was £1,624m (2021: £266m) and the loss before tax was £12m (2021: £38m). This reflects a full year of trading against a prior period which primarily represented just over six months trading for Holyhead Topco Limited and it's Group.

Sales grew by 5% on a proforma basis year on year, driven primarily by price inflation with volumes showing a slight decrease on 2021 levels.

Gross margin is monitored on a daily basis through exception reporting. Gross margin in the year was 29.0% (2021: 32.6%) and has fallen due principally to change in mix of business following the acquisition of the Fleming companies, which are less profitable than the Huws Gray business that was acquired on 18 June 2021. Gross margins are reduced by the release of a fair value provision on stock acquired of £12.7m (2021: £14.9m). Underlying trading margins have been under pressure from high levels of inflation in the market.

The reported adjusted EBITDA of the Group of £172.4m (2021: £51.3m) is computed as follows:

	2022	**2021**
	£m	**£m**
Operating profit/(loss)	61.0	(17.7)
Add back: Depreciation	39.2	5.9
Add back: Amortisation	43.9	8.8
Add back: Exceptional costs	13.9	38.7
Exclude: Unwinding of FV stock uplift on acquisition under IFRS 3	12.7	14.9
Add back: Share-based payment charge	1.7	0.7
Adjusted EBITDA	172.4	51.3

The directors have used certain Alternative Performance Measures (APMs) which are not IFRS-compliant metrics including adjusted EBITDA. These represent additional measures in assessing performance and for reporting both internally and to shareholders and other external users.

The APMs are consistent with those established within the prior period financial statements. It is the directors' intention to monitor and reassess the appropriateness of the APMs in future years.

This reflects the following:

- The full year trading performance of the Group, adjusted to remove the unwinding of £12.7m of the fair value uplift applied to inventory to reflect historic cost rather than fair value as recorded at acquisition;
- A contribution of £0.1m from the Brick and Stone (Scotland) Limited acquisition in March 2022; less
- Exceptional costs charged to profit and loss which primarily relate to the costs of integration of the acquired businesses (2021 related to deal costs of acquisitions and the payment of an all employee bonus on the sale of the business).

Amortisation includes the write down of £21.5m of the previously capitalised software costs within Fleming. The balance is expected to be written off in 2023 as the system is expected to cease being used.

Employee numbers increased from 5,244 to 5,733 in the year due to the acquired business and the filling of vacancies.

Working capital funding and hedging

Working capital funding for investment and expansion of the Group is provided by cash on the statement of financial position and a Revolving Credit Facility of £125m which at 31 December 2022 and the date of these accounts is undrawn. The Group debt facilities are repayable on 1 November 2028.

The Group cash decreased from £141m to £92m, primarily due to an increase in trade receivables, price inflation of inventory and repayment of shareholder loans. Management continue to focus on working capital improvement initiatives.

As part of the Group's financial risk policy, foreign exchange contracts were taken out prior to drawdown to swap both the principal and interest on the Euro denominated debt into sterling for a period of 5 years to November 2026. Contracts were taken out to swap £475m of the Group's sterling denominated debt into fixed rate interest from floating for a period of 3 years from 1 May 2022. The Group adopted hedge accounting with effect from this date.

Consolidated statement of financial position

The consolidated statement of financial position shows:

- Goodwill of £754m (2021: £753m) with the increase relating to the goodwill on acquisition of Brick & Stone (Scotland) Ltd.;
- Intangibles of £364m (2021: £408m) have decreased due to the amortisation of each of the intangibles from the 2021 acquisitions (comprising mainly brand and customer relationship assets) and by £21.5m relating to the accelerated amortisation of the previously capitalised IT system costs; and
- Long term external funding of the Group of £947m (2021: £925m) as detailed in note 20.

The remaining trading statement of financial position represent the combined statement of financial position of the trading companies acquired in the prior year.

Cashflow

The consolidated cashflow of the Group for the year shows a net decrease of £49.1m (2021: increase of £141.2m) in cash and cash equivalents during the year. This comprises a net cash inflow from operations of £116.3m (2021: outflow of £7.5m) and the following outflows:

- Interest paid on bank borrowings of £57.5m (2021: £1.9m). No interest was paid on principal debt balances in 2021 which were first drawn on 1st November 2021;
- Income taxes paid of £17.5m (£9.1m). This has resulted in a current tax debtor of £12.8m which is expected to be fully recoverable and arises principally due to available claims for accelerated capital allowances on 2022 expenditure;
- £52.9m of expenditure on property plant and equipment which includes catch up; and
- £11.2m of repayment of convertible loan notes acquired as part of the 2021 acquisitions financing settlements.

The Group created a cash inflow from operations before working capital movements of £146.0m (2021: outflow of £2.3m) in the year which principally comprised operating profit of £61.0m plus depreciation and amortisation charges of £83.0m. The cash outflow from movements in working capital in the period of £29.7m (2021: £5.3m) led to a total cash inflow from operations of £116.3m (2021: absorbed by operations £7.5m).

The decrease in working capital was primarily due to an increase in trade receivables, price inflation of inventory and repayment of shareholder loans.

The prior period cashflow sets out the initial funding of and investments in the Group with a net cash inflow of £141m arising principally from:

- the raising of £926m of long term debt funding (net of financing costs) and proceeds from the issue of share capital of £640m; used to fund
- £1.2Bn of expenditure on the acquisitions made in the period; and
- the repayment of £174m bank loans and RCF acquired with Holyhead Topco Limited and interest and taxes paid in the period of £25m.

Principal risks and uncertainties

The Group has established a risk register which is used to help to identify and manage the Group's principal and emerging risks. This is 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.

In addition to the financial risks listed below, the Group considers the following to be significant risks which could have a material impact on the Group's operations and the achievement of its strategic objectives:

- **Health & Safety**. The nature of the Group's operations exposes colleagues, customers and third parties to health & safety risks. The prevention of injury or loss of life to colleagues, customers and third parties is an absolute priority for the Group. Health & Safety risks in branch locations include the manual handling of products, slips, trips, falls and incidents involving fork lift trucks and delivery vehicles. Specific risks in other locations such as timber yards, roof truss assembly plants and transport are also identified. Health & Safety forms part of the agenda at all Group Board and operational board meetings and statistics covering accident frequency rates, lost time and management of risks and cost of accidents and incidents are monitored by the Board on a regular basis. Accidents are monitored and corrective action taken when appropriate to reduce or eliminate the risk of recurrence.

- **Cyber threat and data security.** Incidents of sophisticated cyber-crime represent a significant and increasing threat to all businesses. We are looking to meet this with increased investment in appropriate technology and enhanced controls processes and regular colleague awareness training.

- **People.** Our colleagues are key to our success. Our ability to recruit, develop and retain staff is critical to the high levels of customer service which we look to deliver, with strong product knowledge. We continually review our benefits package to ensure that it is appropriate to the work and skills which our colleagues bring. Projects are underway to enhance our training and apprenticeship programmes.

- **Macro economic risk.** Cost inflation continues to be seen across both product and overheads. This is largely passed through via proactive pricing action. A prolonged period of higher interest rates could also suppress demand with a lower volume of housing starts and PMI projects.

- **Supplier risk – product availability**. During the year, a number of supply line issues regarding availability of product were experienced which were addressed through strong supplier partnerships, ensuring that increased stock is held where possible and product is well distributed around our branches. These issues have decreased post year end.

- **Changing customer landscape**. The Covid pandemic brought changes to customer buying behaviours with an increase in on-line sales. Whilst our core business is to be the well-stocked local provider of building materials, focussed on timber and heavy side products which do not lend themselves well to a central distribution model, the Group is developing on-line sales and customer service capabilities.

- **Internal Controls and Fraud.** The Group 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 Group. The Group 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 a Group and Business unit level and an annual compliance verification process.

Financial risk

The Group uses various financial instruments which includes bank loans, cross-currency and interest rate swap contracts, cash and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The existence of these financial instruments exposes the Group to a number of financial risks which are described in more detail below.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk, pricing risk and currency fluctuations, and interest rate and currency risk on funding. The directors review and agree policies for managing each of these risks and they are summarised below.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by access to Revolving credit facilities and retained cash made available on a shared basis to the Group's trading subsidiaries.

Credit risk

The Group's principal financial assets are cash and trade receivables. The credit risk associated with cash is limited. The principal credit risk arises therefore from its trade receivables. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Significant resources are allocated to monitor the Group's receivables ledger on a daily basis to help mitigate and manage financial loss.

Pricing risk and currency fluctuations

The Group 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. A range of measures by the Group 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. Further volatility in pricing comes from currency fluctuations where the Group is purchasing product in foreign currencies. The Group reviews and monitors the option to take out forward exchange contracts for the purchase of currencies as a hedge against the risk of lost margin where the selling price for the associated goods is fixed for an extended period of time.

Interest rate and currency risk on funding

The Group finances its operations through a mixture of retained profits, lease liabilities and third party borrowings. The Group's exposure to interest and currency rate fluctuations on its borrowings is managed with the use of financial hedge instruments. Foreign exchange contracts are in place to swap the interest on the Euro denominated debt into sterling. These contracts run for a period of 5 years to November 2026 at which point a swap is held to convert the principal back into Euros.

Following a review of the Group's strategy over interest rate management, in May 2022 contracts were taken out to hedge 50% of the Group's £950m term debt (being £475m of the Group's sterling denominated debt) into fixed rate interest from floating rate interest until 1 May 2025. This reduces the Group's exposure to interest fluctuations over the period of the contracts. Hedge accounting has been adopted in these financial statements from the date of completion of the hedges in May 2022.

Events after the reporting date

During 2023, the Group has continued the implementation of the organisational design review of the Group as described earlier. A further structural reorganisation has been completed on 1 January 2023 with the transfer of the trade and assets The Timber Group Limited transferring into Huws Gray Limited.

Non-financial information statement

Environmental Management

The Group recognises the increasingly significant role that effective environmental management must play in its business and acknowledges its corporate responsibilities in this field. Most branches within the Group are accredited to the ISO 14001 environmental management standard with the remaining branches working towards this. This accreditation is seen as vital in helping to focus on environmental risk management initiatives.

Products and Supply Chain

The Group 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.

Transparent Timber Sourcing

The Group holds an internationally recognised environmental certificate for the PEFC scheme (Programme for the Endorsement of Forest Certification), and it is policy that its natural timber products are FSC / PEFC accredited. An independent audit of the Group is carried out annually. The specific timber company within the Group, The Timber Group are part of the Timber Trades Federation 'Responsible Purchasing Policy', demonstrating that the Group is committed to sourcing timber and timber products from legal and well-managed forests.

Modern Slavery

The Group maintains a Modern Slavery Policy Statement, which is available on its website at https://www.huwsgray.co.uk/shop/human-trafficking-and-modern-slavery. This describes the Group'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.

Health and safety

The Group has established a new group wide health and safety department which oversees and monitors health and safety across each of the Group's sites. Systems, policies, and procedures have been established which are controlled via the Group's portal system.

Accidents and incidents are reported centrally, and processes have been put in place to identify control weaknesses and to improve controls and risk management throughout the Group.

Ensuring compliance with legislation is a key part of the role of the Group health and safety team and processes and controls have been established to ensure safety of all employees, customers, and other visitors to the Group's sites.

All colleagues are encouraged to take an active part in maintaining and developing health and safety standards and to raise any concerns they may have and make suggestions to further improve health and safety performance.

Employees

Our people are key to the success of the Group and the company directors have established structures to provide for effective engagement with the wider workforce. These are based around a flat structure and open culture.

Members of senior and area management regularly visit branches to meet colleagues. Specific processes are in place to take colleague feedback and ideas to senior management, coordinate career development planning and to provide timely visibility of relevant employee issues. The Group also provides a confidential feedback process if required. All of these processes allow the views of colleagues to be considered at board level. There is regular internal communication from senior management to colleagues covering business development and Group strategy.

Gender of directors and employees

	2022			2021		
	Male	Female	Total	Male	Female	Total
Directors	7	1	8	7	1	8
Senior Management	380	35	415	310	57	367
All Other Employees	4,472	838	5,310	4,326	816	5,142
	4,859	874	5,733	4,643	874	5,517

The above employee data is based on average headcount for the year.

The Group 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.

The Group's selection process for employment, promotion, training or any other benefit is based on aptitude and ability. The Group is committed to working with employees in order that they develop to their full potential.

Identity of private equity fund owner

Blackstone is one of the world's leading investment firms, that seeks to create positive economic impact and long term value for investors, the companies in which it invests, and the communities in which it works. Blackstone had $975 billion in assets under management as at 31 December 2022 across a range of investment vehicles. Blackstone has experience investing in building materials and merchanting businesses, such as Building Materials Europe and Huws Gray. The Group is held within the Blackstone Capital Partners VIII fund.

Ultimate parent company board composition

The Group's Ultimate parent company is Echo Topco Limited (the Company's holding company). All strategic decisions made by the Group are approved by the board of Echo Topco Limited, which comprise the following Statutory directors.

Terry Owen *	Founder and Executive Chairman	Founded Huws Gray in 1990 and led the development of the business through organic growth and acquisitions. Responsible with the board for group strategy.
Juergen Pinker	Investor Director (Blackstone)	Senior Managing Director in the PE Group at Blackstone, where he joined in 2011. Has been involved in the execution of Blackstone's investments in Intertrust, ATC, Elian, Scout24, Armacell, Cerdia, Schenck Process, Stow Group (aka Averys), BME, Desotec, Huws Gray and Array Technologies Inc. Serves on the board of Cerdia, Schenck Process, Stow Group, BME, Desotec, Huws Gray.
Natacha Jamar	Investor Director (Blackstone)	Managing Director in the PE Group at Blackstone, where she joined in 2009. Has been involved in the execution of Blackstone's investments in ICS/Pulse, Versace, Armacell, Merlin, BME Group and Huws Gray. Serves on the board of BME and Huws Gray.

The following executive and non-executive directors form an advisory committee to the Board of Echo Topco Limited.

Ian Northen *	CEO	Joined Huws Gray in 2018 following merger with Ridgeons (previously CEO of Ridgeons). Chartered accountant. MA in Economics and Management Studies from Cambridge University.
Craig Lovelace *	CFO	Joined Huws Gray in 2023 as CFO. Previously worked as CFO and Finance Director for several UK - both FTSE listed and private equity backed - firms primarily in the retail sector. Chartered accountant. BSc in Land Management from the University of Reading.
Dewi Morris *	Strategic Director	Joined Huws Gray in 1992 and responsible for acquisitions, site development and rationalisation.
Andrew Wagstaff *	Central Operations Director	Joined Huws Gray in 1995 and currently serving as Central Operations Director. BA in Mathematics from Liverpool University.
Luca Bonanomi	Investor Director (Blackstone)	Managing Director in the PE Group at Blackstone where he joined in 2013. Has been involved in Blackstone's investments in Center Parcs, Intertrust, Elian, Armacell, JOA, Clarion, BME, Huws Gray and Grafton's Traditional Merchanting Operations. Serves on the board of BME and Huws Gray.
Jean-Jacques M Lafont	Non Executive Director	Currently non executive Chairman of BME, a leading European Builders Merchant Group. Previously Co-Founder and Executive Chairman of Alliance Automotive Group.
Stephen Thompstone	Non Executive Director	Currently Managing Director at Wyckham Blackwell Ltd, providing timber engineering solutions. Previously Chief Executive of Grafton Merchanting GB Limited.

* Directors of the Company (Patagonia Holdco 3 Limited).

Section 172(1) statement

The Company is the parent of the Patagonia Holdco 3 Limited group (the "Group"). The matters that the board are responsible for considering under Section 172 (1) of the Companies Act 2006 ('s172') have been considered to an appropriate extent by the Group Board in relation both to the Group and all entities within the Group.

The directors of the Group, 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. The directors recognise the need to treat individual members equally and fairly.

Long term decisions

The Group has a clear corporate strategy and proven track record of buy and build acquisitions. For each smaller bolt on acquisition, the strategy employed is to hive up the trade and assets of the acquired business into Huws Gray Limited making the acquired subsidiary dormant, and to integrate the trading operations while simplifying and aligning the corporate structures. For larger acquisitions, a specific review is completed before this process starts and factors such as organisational design to maintain strong customer service levels are considered.

Additionally, a strategic and operational review of each site is carried out. A defined programme of major capital investment, site remodelling and operational and technological integration is undertaken as necessary to drive efficiency, enhance the customer experience and align the operations of the newly acquired business with the successful Huws Gray operating model.

The Group management are based throughout the UK and close to the businesses which they monitor and control. The Group has two principal offices with its core head office in Anglesey, North Wales and a sizeable office control function in Pampisford, Cambridge. In addition, the Group has a significant presence in a number of other offices throughout the country. Decisions on structure and investment are made with a long term view, factoring in the Board's expectations of future increased growth and site performance expectations post site investment and resultant Return on Investment. Following the acquisition by the Company's subsidiary, Patagonia Bidco Limited of the further 201 sites under the Fleming acquisition which completed on 31 December 2021, a review of management structures and integration planning has been completed and delivery of change is underway to bring the businesses together with centralised support functions.

During 2022, the Group established a Management Board comprising Group directors and the managing directors of each of the Group's businesses. In addition, Executive boards were maintained within each of the Group's businesses which formalise the distinction between the daily operations of the business and the execution of the Group's strategy, and the board which is responsible for the long-term sustainable strategy and success of the business, generating value for shareholders whilst taking all stakeholders into account. All stakeholders are taken into account during board discussions and due regard is given to them in respect of decisions taken. In making decisions, the directors and executive boards are conscious to maintain the Group's reputation for high standards of business conduct.

The prior year acquisition of the 201 additional Fleming sites by the Company's subsidiary represented a step change in the development of the Group but whilst maintaining the same underlying strategy. This strategy continues to be to grow revenue and margin through a combination of organic growth and further bolt on acquisitions under the "Buy and Build" model in order to further grow the Group's position as one of the leading independents in the Builders Merchants sector in the UK, and to create value to meet the investment return expectations of the Board and Investors. A further focus is on improving margin through procurement synergies, value added services and strong and deep stockholding allowing high service levels.

A series of key decisions were made during the year which arose as a consequence of the acquisitions made in 2021 and the bringing together of the trading businesses. These are noted earlier in the review of 2022 and required decisions to be made in a number of areas, many of which continue into 2023 with the aim of standardising between the business, establishing consistency and best practice going forwards, and taking advantage of possible opportunities for synergies between the businesses. These decisions include:

- Supplier contracts and pricing
- Management of customers and terms being offered including pricing arrangements
- Employee roles and the blending of contractual terms

The Group's risk profile is set out under risks and uncertainties above. The Board remains focussed on the Group's core business and to delivering an exceptional service to its target customer base, as well as investing in operational and technological efficiencies in order to reduce operational gearing to mitigate risk and exposure to instabilities in a cyclical market.

Employee engagement statement

The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be considered when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in its performance.

Information about matters of concern to employees is given through information bulletins such as staff notice boards, social media groups, staff handbook, email and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance. Employees also have access to social fitness networks and an Employee Care phone line, and are also able to express opinions and ideas via an online portal suggestion box and regular team briefings and individual appraisals. During the year, the Group has established Workvivo as a communication tool, allowing more regular updates to employees.

The founders of the Huws Gray business and other directors maintain a keen interest in the day to day operation and undertake regular branch visits to meet staff and review trading results.

To support the Group’s objective of Employing People to Succeed, a dedicated training programme co-ordinates various regular courses and updates.

There is no employee wide share scheme at present, but the directors have established a share scheme aimed at further encouraging the involvement of employees in the Group's performance. This focusses on the leadership team and following issues in 2022 and further issues planned for 2023 is expected to be rolled out to cover over 10% of the Group’s employees with over 500 participants.

To the extent that decisions made by the Board during the year as referred to within the Section 172(1) disclosure in the Strategic Report affected employees, any necessary announcements and consultation programmes were undertaken, during which alternative proposals from employees were communicated to and considered by the Board, and affected employees were also given the opportunity to consider other vacancies within the Group.

Reasons for the proposed changes and eventual outcomes were clearly communicated and those affected employees were kept informed via verbal and written communication.

With any structural changes or following acquisitions, a full communication and training programme involving both colleagues and customers is used when system and pricing changes are introduced, in line with established integration procedures. Staff are provided with classroom training supported by experienced colleagues post go live.

Feedback from staff is used to refine some of the processes being introduced to better integrate the nuances and cultures of businesses being integrated and their customers.

Following acquisitions and as part of ongoing review, processes and policies are kept under regular review with the aim of mutual learning and developing best practice. The Group has invested in technology to enable the businesses to operate seamlessly across the country.

Statement on engagement with suppliers, customers and others in a business relationship with the company

Suppliers

Our businesses work to maintain an efficient dialogue with suppliers to build strong, long term relationships. Engagement with suppliers is both through regular feedback from branches and more formal reviews from category managers. The Group has established systems to co-ordinate supplier feedback from branches to the category managers and senior management. Key areas of focus include product availability and consistency of quality, innovation and 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. Business support and overhead suppliers are monitored from head office on behalf of the branches with specialist teams covering transport, property and non-stock purchases.

Customers

Providing strong levels of service and product availability to our customers is critical to our success and we look to create repeat business through engagement with our customers. 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 at 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.

Investors and other lenders

The directors value long term partnerships with the funders to and investors in the business. The founders and management retain a significant stake in the equity of the Group. 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. 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.

Community and the environment

The directors consider the impact on the local communities in which the business operates. Various initiatives are in place to support local activities which is led by area and branch managers. The Group recognises the increasingly significant role that effective environmental management must play in its business and acknowledges its corporate responsibilities in this field. Following the establishment of the Group, investors and the board have led a number of initiatives to set ambitious targets in relation to energy efficiency and impact on the environment, further details of which are set out in the directors report.

Wates Principles

For the year ended 31 December 2022, under the Companies (Miscellaneous Reporting) Regulations 2018, Patagonia Holdco 3 Limited ('the Company') has applied the Wates Corporate Governance Principles for Large Private Companies ('Wates Principles'), published by the Financial Reporting Council ('FRC') in December 2018 and are available on the FRC website.

The Wates Principles provide a framework for the Board to monitor corporate governance of the Company and assess where governance standards can be raised to a higher level across the business.

The Company remains committed to ensuring effective governance is in place to deliver its core principles, being the foundation on which it manages and controls its business and provides the platform for sustainable profitability. Throughout 2023 the Board will continue to review and challenge how the Company can further develop the governance framework.

The table below details how the Wates Principles have been applied throughout the year.

Principle	Response
Purpose and leadership	
An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	The board comprises representatives of management, shareholders and independent non executives as set out on page 9. A standing agenda ensures that discussion covers the needs of all stakeholders. The board has identified the key elements of the Group's culture and has developed a clear set of values. Behaviours and values are propagated through the organisation by systems, processes and regular briefings by the management team. A culture of hands on management, attention to detail and promotion from within where possible propagates the maintenance of good practice and reduces the risks of misconduct or unethical practices. The strategy of the business is set out on page 1.
Board composition	
Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.	The Group has an Executive Chairman who is one of the founders of the business as well two very experienced independent non-executive directors, both with significant industry knowledge. The Chief Executive leads the Exec team and management and reports to the Chairman and the Board as a whole. Each Board meeting is attended by necessary specialists from investors and management in relation to the specific agenda items being discussed. Appointments to the Board are reserved for the Investor directors and take into account an objective of achieving an appropriate blend of background, skills, experience and knowledge. Following the substantial increase in size of the business, recruitment of appropriately experienced senior management has been completed at both board level and to support the board. This includes the appointment of Craig Lovelace as CFO and a number of senior appointments reporting to board members. Independent personal development is in place for Executive board meetings.
Board and director responsibilities	
The Board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.	There are clear lines of accountability and responsibility set out in the organisation. Further details of the management and decision making structure are set out on page 9. Details of authority levels are documented to ensure that decisions and governance standards are maintained at appropriate levels. A clear schedule of matters reserved for the Board ensures that the Board is able to control the implementation of the strategy of the Group. A detailed monthly board reporting pack is augmented by exchanges of data and analysis between management and investors which allows detailed review of business performance. The Board has established an audit committee and remuneration committee which both meet at least twice per year. Reports on the Group's financial position are prepared by the Group central finance function and are externally audited on an annual basis.

Principle	Response
Opportunity and risk A Board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, establishing oversight for the identification and mitigation of risks.	The long term success of the business is delivered through the strategy which is described on page 1. Strategic opportunities are routinely considered which include: - Potential acquisitions of additional Builders Merchant sites; - Opportunities to add further specialists skills to the Group which are complementary to the core builders merchant business; - Potential acquisitions of land for brownfield development or further space to existing sites. Risk management is the responsibility of each Executive Team member. Current and forward-looking risks are tracked and monitored on a regular basis through the regular review of risk matrices which are maintained a Group and where appropriate, departmental levels. The Group’s appetite for risk is in proportion to the experience and skills of the Board and the long term value of the business. External professional advisors are used to assist in risk management where appropriate (eg tax planning, insurance) and the group’s risk appetite in such areas is assessed as low.
Remuneration A Board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.	The remuneration of the directors and specific executive team roles is proposed by the executive management team and approved by the remuneration committee which comprises a majority of investor directors. For the remainder of the Executive Team, the remuneration, including fixed and performance related elements are approved by the Company Directors. The Board has a preference for an increased balance of longer term remuneration to reward the delivery of the strategy of the Group which is delivered through a substantial proportion of equity which is reserved for the executives and the wider management team. The remuneration is designed to attract, retain and motivate Executives of the highest quality, encouraging them to deliver exceptional long term business performance, aligned to the Group strategy. Any decisions in relation to Executive remuneration are made with a clear understanding of the developments to pay and conditions in the wider workforce.

Principle	Response
Stakeholder relationships and engagement Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	The Group's key stakeholders are colleagues, suppliers, customers and shareholders. The board receives regular updates from stakeholders across the different business areas including, Supply Chain, Human Resources, Operations and Finance. Senior leaders welcome dialogue with external stakeholders and looks to work from a long-term perspective. The Board and senior management team are well represented by individuals who have worked at all levels throughout the business, starting off their careers as junior colleagues on trading sites. This coupled with specialist and professional managers allows a balance of representation for colleagues on the Board. Regular bulletins are provided to all colleagues on recent developments within the business and the Group has a culture of senior management spending time with site based colleagues. Long term relationships have been developed with suppliers which take into account the balance of quality of product and supply as well as efficiency of service and value for money. A strong focus of the Group is on customer service, which is at the heart of the Group's long term success. Systems and processes are all focussed on maximising the amount of time available to be spent with customers on site. Further details of the Group's engagement with colleagues, suppliers and customers are set out on pages 11 and 12. The Group has strong relationships with shareholders with each group of shareholders (investors, founders and colleagues) having direct representation on the board of the Group. This ensures that the views of the shareholders are represented in board decisions and the Group's strategy. The Group provides monies available to branches to support the communities in which the Group operates which are controlled through the Area directors. Details of the Environmental management and approach are set out on page 7.

25/4/2023

Approved by the board of directors and authorised for issue on .... and are signed on its behalf by:

.... Ian Northen

I C A Northen

CEO

PATAGONIA HOLDCO 3 LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their report and audited financial statements for the year ended 31 December 2022.

The Corporate Governance Statement set out on page 21 forms part of this report.

General information

Patagonia Holdco 3 Limited was incorporated in England and Wales on 14 May 2021 with a Company Registration Number of 13398238.

Address of the registered office is c/o Huws Gray Ltd Head Office, Industrial Estate, Llangefni, Anglesey, Wales, LL77 7JA.

The principal activity of the Company is that of a holding company for a Group whose activities include:

- Selling building materials to trade and retail customers in the United Kingdom;
- Import, treatment, manufacture and distribution of timber products;
- Specialist B2B distribution of bathroom products.

Patagonia Holdco 3 Limited is a wholly owned subsidiary of Echo Topco Limited, a Company registered in Jersey. The Blackstone Group Inc is the Group's ultimate controlling party.

Branches outside the UK

The Group do not have any branches that operate outside the UK.

Future developments

The Group's strategy for growing is through a combination of bolt on acquisitions as well as organically. Following on from each acquisition the Group normally invests in each of the sites and rationalises space usage to maximise the product offering available to the customer. For further details, see page 1 of the strategic report.

Dividends

No ordinary dividends were paid (2021: Nil). The directors do not recommend payment of a further dividend.

Research and development

There were no research and development activities undertaken or costs charged to profit and loss during the year (2021: Nil).

Political donations and political expenditure

No political donations or expenditure were made/incurred during the year (2021: Nil).

Directors

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

T Owen	
I C A Northen	
C B Lovelace	(Appointed 31 March 2023)
D Morris	
A T Wagstaff	
J Pinker	(Resigned 9 May 2022)
N Jamar	(Resigned 9 May 2022)
C P Bithell	(Resigned 31 March 2023)

Directors' third party indemnity provisions

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Group also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

PATAGONIA HOLDCO 3 LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Employees

The Group places great emphasis on its employees and has continued its practice of keeping them informed on matters affecting their employment and the financial and economic factors affecting the performance of the Group.

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Group may continue.

It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

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.

Following its acquisitions, the Group has continued the initiatives which were in place. These including highlighting and promoting diversity, running internal communications drives and campaigns celebrating Pride and supporting Global Diversity Awareness Month and International Men’s Day all of which give the opportunity to celebrate all the colleagues that make the Group the business that it is.

As part of its ongoing strategy to improve diversity, the Group has 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.

The directors recognise that 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 Group 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 Group provides appropriate training in order to satisfy business needs and to develop the talents and skills of employees benefiting the individual, the Group, 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 Group 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 Group 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 Group.

The Group has an established Learning Management System across all businesses, providing online learning modules and online classroom facilities to all colleagues.

Financial instruments

The financial risk management of the Group and Company are described in the Strategic Report.

Contracts of significance

There are no contracts of significance that require disclosure.

Greenhouse gas emissions and energy use

		2022		2021 *
Energy consumption		kWh		kWh
Aggregate of energy consumption in the year		188,766,738		28,887,586
Emissions of CO2 equivalent	Metric tonnes	Metric tonnes	Metric tonnes	Metric tonnes
Scope 1 - direct emissions				
- Gas combustion	6,831		1,167	
- Fuel consumed for owned transport	29,503		4,821	
		36,334		5,988
Scope 2 - indirect emissions				
- Electricity purchased		5,974		715
Scope 3 - other indirect emissions				
- Fuel consumed for transport not owned by the company		25		8
Total gross emissions		42,333		6,711
Intensity ratio				
kilo CO2e per employee		7,818		3,857

* The above comparatives relate solely to Holyhead Topco Limited (acquired on 18 June 2021) and therefore excludes the Group's acquisition of Fleming on 31 December 2021.

Quantification and reporting methodology

The Group has followed the 2019 HM Government Environmental Reporting Guidelines. The Group has also used the GHG Reporting Protocol – Corporate Standard and have used the 2020 UK Government's Conversion Factors for Company Reporting.

Intensity measurement

The chosen intensity measurement ratio is total gross emissions in kilogram CO2e per employee, the recommended ratio for the sector.

Measures taken to improve energy efficiency

During the reported financial year, the Group has completed a range of actions in order to improve its energy efficiency. These included:

- The Group appointing a specialist consultant to broker electric and gas renewals across the Group, including ongoing trending and analysis to help identify sites where usage is higher than expected, which in turn will drive specific actions and surveys as required. Schneider Energy have been appointed to manage electric/gas supply contracts, administer data collation and subsequent SECR reporting.
- A program is in place for newly acquired businesses to replace and update old electrics and heating systems with more efficient ones, including replacing lighting with LED, gas boilers and heaters.
- ReTech were appointed in the year to carry out surveys of the Group's property estate and make recommendations for action.
- The fleet is being replaced on a rolling program with more efficient vehicles being used wherever possible and the Group continues to review fleet technologies to ensure fleet efficiency, looking at alternative fuels (electric, HVO) and ongoing driver behaviour monitoring.
- Inclusion of safe and fuel efficient driving as part of the driver CPC program.
- Looking at options for using a specialist building management company to assess potential areas for energy performance improvements and subsequent savings.

PATAGONIA HOLDCO 3 LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Pollution and waste

The Group 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 their waste providers, with the Group using a raft of suppliers across the business. The current target is to increase landfill waste diversion to 95% by 2025.

In 2021, pre-acquisition, the acquired business 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 across the Group.

Auditors and disclosure of information to auditors

The directors confirm that:

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

The auditors, Grant Thornton UK LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the General meeting.

Matters covered in the Strategic Report

Certain information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the Strategic Report in accordance with section 414C(II) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Items normally reserved for the Directors' Report, which have been disclosed in the Strategic Report, includes the following:

- Employee engagement statement (Page 11)
- Events after the reporting date (Page 7)
- Risk management policies and specific risks associated with financial instruments (Page 6)
- Statement on engagement with suppliers, customers, and others in a business relationship with the company (Page 12)

PATAGONIA HOLDCO 3 LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with UK-adopted international accounting standards.

The Company financial statements have prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board

Approved by the board of directors and authorised for issue on 25/4/2023 and are signed on its behalf by:

Ian Northen

I C A Northen

CEO

Date: 25/4/2023

Corporate governance

The Directors are cognisant of the need to maintain high standards of business conduct and each company in the Group adheres to high standards of Business Conduct and Ethics, 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 Group's Wates Principles are set out on pages 13-15.

The Group has a number of different businesses which operate 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 report directly to the Group CEO and finance teams report through to the Group CFO. The Managing Directors and Financial Directors/Finance business partners of the Group's individual business units maintain regular contact with the Group CEO, CFO and Finance Director, with the CFO reporting to the Board of Directors of the Company.

The Company availed of support as required from Group functions for areas such as Finance (including taxation), Human Resources, Commercial, Health and safety, Environment, and external advisors are engaged as required.

During 2022, the integration of the acquired businesses commenced and it is expected that each Group company and division will continue to follow the guiding principles it worked under previously and as the two businesses become more integrated new policies and procedures are being implemented and follow accordingly.

Each Group company reports annually under the Gender Pay Gap Regulations and on a bi-annual basis under the UK Payment Practices reporting requirements. The Group has issued issued a Modern Slavery Policy Statement in respect of the year ended 31 December 2021, which is available on its website at https://www.huwsgray.co.uk/shop/human-trafficking-and-modern-slavery. This describes the Group'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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PATAGONIA HOLDCO 3 LIMITED

Opinion

We have audited the financial statements of Patagonia Holdco 3 Limited (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 31 December 2022, which comprise the Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Consolidated statement of financial position, Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, the Consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 ‘Reduced Disclosure Framework’ (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and of the parent company’s affairs as of 31 December 2022 and of the group’s loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group’s and the parent company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

In our evaluation of the directors’ conclusions, we considered the inherent risks associated with the group’s and the parent company’s business model including effects arising from macro-economic uncertainties such as COVID-19 and the crisis in Ukraine, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group’s and the parent company’s financial resources or ability to continue operations over the going concern period.

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 group’s and the parent 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.

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

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

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

PATAGONIA HOLDCO 3 LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF PATAGONIA HOLDCO 3 LIMITED

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks applicable to the group and company and the industry in which it operates through our general commercial and sector experience and discussions with management. We determined that the following laws and regulations were most significant: the Companies Act 2006, UK-adopted international accounting standards, Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice) and relevant UK tax legislation. In addition, we concluded that there are certain laws and regulations that may have an effect on the determination of the amounts and disclosures within the financial statements such as Health and Safety laws and regulations. The risk of non-compliance with Health and Safety laws and regulations was addressed through inquiries with the Health and Safety department.

We made inquiries with management to understand whether there were any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected fraud. We corroborated the results of our enquiries to supporting documentation such as board minute reviews. From the procedures performed we did not identify any matters relating to non-compliance with laws and regulation or matters in relation to fraud.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;

We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:

- Assessing the design and implementation of controls management has in place to prevent and detect fraud;
- Challenging assumptions and judgements made by management in its significant accounting estimates, being the recognition of impairment in relation to goodwill and recoverability of rebates receivables;
- Identifying and testing manual journal entries, in particular manual entries posted to revenue and unusual journal combinations impacting revenue; and
- Assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

The assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's knowledge of the industry in which the client operates in and understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation; and

In assessing the potential risk of material misstatement, we obtained an understanding of the company's operations, including the nature of its revenue sources to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in material misstatement, and the company's control environment, including the adequacy of procedures for the authorisation of transactions.

Use of our report

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

Grant Thornton UK LLP

Stuart Muskett
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Chartered Accountants and Statutory Auditor
Manchester

Date: 25/4/2023

PATAGONIA HOLDCO 3 LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Year ended 31 December 2022 £'000	Period ended 31 December 2021 £'000
Continuing operations			
Revenue	3	1,624,176	266,455
Cost of sales		(1,153,122)	(179,597)
Gross profit		471,054	86,858
Distribution costs		(335,820)	(49,825)
Administrative expenses excluding exceptional administrative expenses		(60,371)	(15,961)
Operating profit before exceptional administrative expenses		74,863	21,072
Exceptional administrative expenses	4	(13,853)	(38,742)
Total distribution and administrative expenses		(410,044)	(104,528)
Operating profit/(loss)	5	61,010	(17,670)
Finance costs	9	(72,513)	(20,200)
Loss before taxation		(11,503)	(37,870)
Income tax income/(expense)	10	744	(2,014)
Loss for the year/period from continuing operations		(10,759)	(39,884)
Loss for the financial year is attributable to:			
- Owners of the parent company		(10,777)	(39,897)
- Non-controlling interests		18	13
		(10,759)	(39,884)

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Comparative figures are for the period from incorporation on 14 May 2021 to 31 December 2021.

PATAGONIA HOLDCO 3 LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 December 2022 £'000	Period ended 31 December 2021 £'000
Loss for the year/period		(10,759)	(39,884)
Items that may be reclassified to profit or loss			
Cash flow hedges:			
- Hedging gain arising in the year	28	21,821	-
- Deferred tax on cash flow hedges	28	(5,455)	-
Total items that may be reclassified to profit or loss		16,366	-
Total comprehensive income/(loss) for the year/period from continuing operations		5,607	(39,884)
Total comprehensive income/(loss) for the year from continuing operations is attributable to:			
- Owners of the parent company		5,589	(39,897)
- Non-controlling interests		18	13
		5,607	(39,884)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Goodwill	**11**	753,780	752,930
Intangible assets	**12**	363,814	407,760
Property, plant and equipment	**13**	442,613	416,118
Right of use assets	**14**	97,831	103,837
Investments accounted using the equity method	**15**	1	1
Deferred tax asset	**24**	127	194
Derivative financial instruments	**21**	30,063	-
Total non-current assets		1,688,229	1,680,840
Current assets			
Inventories	**17**	243,474	247,020
Trade and other receivables	**18**	295,530	267,890
Cash and cash equivalents		92,141	141,209
Derivative financial instruments	**21**	8,014	-
Total current assets		639,159	656,119
Current liabilities			
Trade and other payables	**22**	267,141	287,180
Borrowings	**20**	-	11,176
Lease liabilities	**23**	11,586	13,491
Derivative financial instruments	**21**	4,579	4,223
Total current liabilities		283,306	316,070
Net current assets		355,853	340,049
Non-current liabilities			
Borrowings	**20**	947,016	925,159
Lease liabilities	**23**	88,664	94,697
Deferred tax liabilities	**24**	168,866	168,337
Long term provisions	**25**	8,018	6,973
Derivative financial instruments	**21**	-	1,482
Total non-current liabilities		1,212,564	1,196,648
Net assets		831,518	824,241

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2022

	Notes	2022 £'000	2021 £'000
Equity			
Called up share capital	**27**	8,539	8,539
Share premium account	**27**	845,335	845,335
Cash flow hedge reserve	**28**	16,366	-
Capital contribution reserve	**29**	9,548	9,548
Retained losses		(48,301)	(39,194)
Non-controlling interest		31	13
Total equity		831,518	824,241

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The financial statements were approved by the board of directors and authorised for issue on 25/4/2023 and are signed on its behalf by:

Craig Lovelace
....
C B Lovelace
CFO

PATAGONIA HOLDCO 3 LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Investments	**42**	918,874	918,874
Total non-current assets		918,874	918,874
Current assets			
Cash and cash equivalents		-	11,176
Total current assets		-	11,176
Current liabilities			
Trade and other payables	**44**	65,000	65,000
Borrowings	**43**	-	11,176
Total current liabilities		65,000	76,176
Net assets		853,874	853,874
Equity			
Called up share capital	**27**	8,539	8,539
Share premium account	**27**	845,335	845,335
Total equity		853,874	853,874

As permitted by s408 Companies Act 2006, the company has elected not to present its own income statement and related notes. The company's loss for the year was £183 (2021 - £62 loss).

The financial statements were approved by the board of directors and authorised for issue on 25/4/2023 and are signed on its behalf by:

Craig Lovelace

....

C B Lovelace

CFO

Company Registration No. 13398238

PATAGONIA HOLDCO 3 LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Called up share capital £'000	Share premium account £'000	Cash flow hedge reserve £'000	Capital contribution reserve £'000	Retained losses £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
Balance at 14 May 2021		-	-	-	-	-	-	-	-
Period ended 31 December 2021:									
Loss and total comprehensive income for the period		-	-	-	-	(39,897)	(39,897)	13	(39,884)
Issue of share capital	**27**	8,539	845,335	-	-	-	853,874	-	853,874
Credit to equity for equity settled share-based payments	**30**	-	-	-	-	703	703	-	703
Redemption of shares	**27**	-	-	-	9,548	-	9,548	-	9,548
Balance at 31 December 2021		8,539	845,335	-	9,548	(39,194)	824,228	13	824,241
Profit/(Loss) for the year		-	-	-	-	(10,777)	(10,777)	18	(10,759)
Other comprehensive income:									
Net gain on cash flow hedges	**28**	-	-	21,821	-	-	21,821	-	21,821
Tax relating to other comprehensive income	**28**	-	-	(5,455)	-	-	(5,455)	-	(5,455)
Total comprehensive income for the year		-	-	16,366	-	(10,777)	5,589	18	5,607
Transactions with owners in their capacity as owners;									
Credit to equity for equity settled share-based payments	**30**	-	-	-	-	1,670	1,670	-	1,670
Balance at 31 December 2022		8,539	845,335	16,366	9,548	(48,301)	831,487	31	831,518

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Called up share capital £'000	Share premium account £'000	Total £'000
Balance at 14 May 2021		-	-	-
Period ended 31 December 2021:				
Transactions with owners in their capacity as owners:				
Issue of share capital		8,539	845,335	853,874
Balance at 31 December 2021		8,539	845,335	853,874
Balance at 31 December 2022		8,539	845,335	853,874

PATAGONIA HOLDCO 3 LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

		2022		2021	
	Notes	**£'000**	**£'000**	**£'000**	**£'000**
Cash flows from operating activities					
Cash generated from/(absorbed by) operations	**36**		116,317		(7,524)
Interest paid on bank borrowings			(57,460)		(1,888)
Interest paid on shareholder loan notes			-		(6,913)
Income taxes paid			(17,500)		(9,127)
Net cash inflow/(outflow) from operating activities			41,357		(25,452)
Investing activities					
Purchase of subsidiaries, net of cash acquired		(1,508)		(1,215,353)	
Deferred consideration paid on 2021 acquistions		(2,176)		-	
Purchase of property, plant and equipment		(52,854)		(9,360)	
Proceeds on disposal of property, plant and equipment		1,183		1,459	
Net cash outflow from investing activities			(55,355)		(1,223,254)
Financing activities					
Proceeds from new bank loan arrangements		-		950,000	
Proceeds from shareholder loan arrangements		-		530,000	
Amounts paid under derivatives		(6,962)		-	
Proceeds from issue of share capital		-		640,250	
Payments of fees on new loan agreements		-		(24,370)	
Repayment of shareholder loan agreements		-		(530,000)	
Repayment of loan notes		(11,176)		-	
Repayment of bank loans and RCF		-		(174,000)	
Principal elements of lease payments		(16,932)		(1,965)	
Net cash (used in)/generated from financing activities			(35,070)		1,389,915
Net (decrease)/increase in cash and cash equivalents			(49,068)		141,209
Cash and cash equivalents at beginning of year			141,209		-
Cash and cash equivalents at end of year			92,141		141,209

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies

Company information

Patagonia Holdco 3 Limited (the "Company") is a private company limited by shares, incorporated and domiciled in the UK. The Group's principal activity is as general Building Merchants with a number of specialist complementary businesses in the Construction and RMI sectors. The registered office is c/o Huws Gray Ltd Head Office, Industrial Estate, Llangefni, Anglesey, Wales, LL77 7JA.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling (£), which is Patagonia Holdco 3 Limited's functional and presentation currency.

1.1 Summary of significant accounting policies statement of compliance

The Group consolidated financial statements are the second set of consolidated financial statements of the Group and represent the first full year of trading. They have been prepared in accordance with UK-adopted international accounting standards. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101; these are presented on pages 78 to 79.

Comparative figures are for the period from incorporation on 14 May 2021 to 31 December 2021.

1.2 Basis of preparation

Historical cost convention

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments that are measured at fair values at the end of each reporting period as detailed in the accounting policies below.

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

1.3 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units unless otherwise stated.

1.4 Going concern

As explained in the Strategic Report, the Group was established in June 2021 and significantly expanded in December 2021 through the Fleming acquisition. Long term debt facilities were established and drawn. At 31 December 2021 and 31 December 2022, the Group has £950m of term Loan B facilities which were used (£650m in GBP and €354m in EURO), together with equity investment from shareholders to fund the acquisitions in 2021 and are subject to cross guarantees from the Group.

The Group has access to a long term committed Revolving Credit Facility ("RCF") of £125m which was undrawn at 31 December 2022 and is currently undrawn at the date of approval of these financial statements. This facility is available to support working capital needs, capital investments and acquisitions.

The Group's term loans are considered by the directors to be covenant light. They are repayable in 2028 and there are no covenants unless the RCF is drawn by £50m or more, net of cash balances, at the end of a reporting quarter.

During the year and post year-end, the Group has delivered strong operating profits and cash generation from operating activities to support future growth. Whilst acknowledging the current challenging trading conditions created by the war in Ukraine, the lower levels of consumer confidence in the UK and in particular, product supply and high levels of price and wage inflation, the Group has been able to trade well post year end in 2023. Pressure on cost inflation continues to be seen across both product and overheads, largely passed on through via pro-active pricing action.

1 Accounting policies (Continued)

Having consulted with stakeholders extensively during the last few months, including banks, staff, customers and suppliers, the directors consider the group to be in a strong and well-prepared position and are confident in the long-term outlook. Shorter term, the Group recognises the risk of recession in the UK and has plans to respond accordingly.

Various scenarios for trading over the period to June 2024 have been modelled, with varying degrees of sensitivity analysis taken into consideration, and the reasonably plausible downside scenarios indicate more than satisfactory liquidity and banking covenant headroom. As a result, the directors consider it is appropriate to prepare the accounts on a going concern basis.

1.5 Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained and they cease to be consolidated from the date on which the Group loses control.

Control is achieved where the Group:

- Has power over the investee
- Is exposed or has rights to a variable return from the involvement with the investee
- Has the ability to use its power to affect its returns

As such, the results of subsidiaries acquired during the period are included in the consolidated income statement from the effective date of acquisition.

1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and income and expenses arising from such transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.7 Revenue recognition

Revenue is recognised when the Group has satisfied its performance obligations to the customer and the customer has obtained control of the goods or services being transferred. Performance obligations to the customer in respect of sales of goods are satisfied on delivery or collection by customer and there is no unfulfilled obligation that could affect the acceptance of the products. Payments are typically due from credit customers no later than the last day of the month following the month of delivery.

Revenues are recorded based on the price specified in the sales invoice net of actual and estimated rebates, discounts granted and value added tax. Rebates and discounts are calculated in accordance with the agreements in place so that the amount recognised as revenue in the year is based on the amount which is highly probable not to reverse.

Service revenue comprises tool hire revenue and is recognised over the period of the hire on a straight-line basis.

1.8 Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss, within finance costs. All other foreign exchange gains and losses are presented in profit or loss on a net basis within other gains/(losses).

1 Accounting policies **(Continued)**

1.9 Exceptional items

Exceptional items are those items of income and expenditure that, by reference to the Group, are material in size and unusual in nature or incidence and that in the judgement of the Directors should be disclosed separately on the face of the financial statements to ensure both that the reader has a proper understanding of the Group's financial performance and that there is comparability of financial performance between periods.

Items of income or expense that are considered by the Directors for designation as exceptional include but are not limited to, significant restructurings and the costs of acquiring and integrating businesses.

1.10 Supplier rebate arrangements

Supplier income is received in the form of rebates which comprise fixed price discounts, volume rebates and customer sales support.

Fixed price discounts and volume supplier rebates received and receivable in respect of goods which have been sold to the Group's customers are deducted from costs of sales in profit or loss. Most rebates earned are based on the total value of purchases achieved in the period, whilst there are a minority of rebate agreements based on total quantity of goods purchased in period. Where goods on which rebate has been earned remain in inventory at the year-end, an appropriate rebate deduction is made from the gross statement of financial position carrying value of that inventory. The rebate deduction is only released to profit or loss when the goods are ultimately sold.

The Group receives customer sales support payments in the form of rebates when a specific product is sold to a specific customer. Rebates payment is only received after the sale has been completed.

At the year-end the consolidated statement of financial position includes a balance representing unpaid amounts receivable from suppliers which is detailed in 19.

1.11 Goodwill

Goodwill arising on acquisition represents the excess on the cost of acquisition over the share of the aggregate fair value of identifiable net assets (including intangible assets) of a business or a subsidiary at the date of acquisition. All material intangible fixed assets obtained on acquisition have been recognized separately in the financial statements. Goodwill is initially recognised as an asset and allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination and is then reviewed at least annually for impairment. Any impairment is recognised immediately in profit or loss and is not reversed. Goodwill is accordingly stated in the statement of financial position at cost less any provisions for impairment in value.

1.12 Impairment testing of goodwill, intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (group of cash-generating units). As a result, some assets are tested individually for impairment and some are tested at group cash-generating unit level. Goodwill is allocated to those groups of cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Group at which management monitors goodwill.

The group of cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's (or group of cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures is directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each group of cash-generating units and reflect current market assessments of the time value of money and asset-specific risk factors.

1 Accounting policies **(Continued)**

Impairment losses for goodwill first reduce the carrying amount of any goodwill allocated to the group of cash-generating units. Any remaining impairment loss is charged pro rata to the other assets in the group of cash-generating units.

With the exception of goodwill, all assets are subsequently reassessed for indications an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or group of cash-generating units' recoverable amount exceeds its carrying amount.

1.13 Intangible assets other than goodwill

Brand names and customer relationships
Brand names and customer relationships acquired in a business combination that qualify for separate recognition are recognised as intangible assets at their fair values.

Subsequent measurement
All finite-lived intangible assets, including capitalised internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The following useful lives are applied:

- Software: 1 - 5 years
- Brand names: 5 - 20 years
- Customer relationships: 1 - 20 years

Amortisation has been included within administrative expenses.

Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

1.14 Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any impairment in value. The depreciation policy for each asset category is as follows:

Freehold buildings	2% on cost
Leasehold improvements	Over the length of the lease
Fixtures and fittings	5 - 15% on reducing balance
Plant and equipment	15 - 20% on reducing balance
Motor vehicles	25% on reducing balance
Freehold land	Nil

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds net of expenses and the carrying value of the asset, and is recognised in profit or loss.

1 Accounting policies **(Continued)**

1.15 Leases

Identifying a lease

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

Recognition exceptions

The Group has elected to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

i. leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset
ii. leases where the underlying asset has a low value when new – this election can be made on a lease-by-lease basis

Low value asset leases are immaterial in these financial statements.

For leases where the Group has taken short-term lease recognition exemption and there are any changes to the lease term or the lease is modified, the Group accounts for the lease as a new lease.

Initial measurement

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

1 Accounting policies **(Continued)**

Subsequent measurement
After lease commencement, the Group measures right-of-use assets using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment. The lease liability is subsequently remeasured to reflect changes in:

- the lease term (using a revised discount rate)
- the assessment of a purchase option (using a revised discount rate)
- the amounts expected to be payable under residual value guarantees (using an unchanged discount rate)
- future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate)

The remeasurements are matched by adjustments to the right-of-use asset. Lease modifications may also prompt remeasurement of the lease liability unless they are determined to be separate leases.

Depreciation
The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The payments related to leases are presented under cash flows from financing activities and cash flows from operating activities in the cash flow statement.

Lessor accounting
When the Group acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the recognition exemption, then it classifies the sub-lease as an operating lease.

The Group recognises operating lease payments as income on a straight-line basis over the lease term which is included within "Revenue". The Group recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

1.16 Inventories

Inventories 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 is based on the first-in, first-out principle and includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Net realisable value is the estimated proceeds of sale less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

1.17 Trade and other receivables

Trade receivables are recognised initially at the transaction price, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

The Group’s trade and other receivables at the statement of financial position date are comprised principally of amounts receivable from the sale of goods, amounts due in respect of rebates and sundry prepayments.

1 Accounting policies **(Continued)**

1.18 Impairment of financial assets

Trade receivables are subject to the expected credit loss model in IFRS 9 – Financial Instruments. The Group applies the IFRS 9 – Financial Instruments simplified approach to measuring expected credit losses.

This 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.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to engage in a repayment plan with the Group and the commencement of legal proceedings.

1.19 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are included in liabilities.

1.20 Trade payables and other liabilities

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs and are measured at amortised cost. The Directors consider that the carrying amount of trade payables approximates to their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

1.21 Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation because of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the statement of financial position dates, and are discounted to present value.

Should a provision ultimately prove to be unnecessary then it is credited back to profit or loss. Where the provision was originally established as an adjusting item, any release is shown as an adjusting credit.

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Accounting policies (Continued)

1.22 Taxation

Income tax in the consolidated statement of profit or loss represents the sum of current tax and deferred tax.

Income tax is recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax

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 or loss 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 Group's liability for current tax is calculated using rates that have been enacted or substantively enacted at the statement of financial position date. The Group's income tax charge reflects various allowances and reliefs and planning opportunities available in the tax jurisdictions in which the Group operates. The determination of the Group's charge for income tax in the income statement 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 amount shown for current taxation reflects tax uncertainties and is based on the Directors' estimate of (i) the most likely amount; or (ii) the expected value of the probable outflow of economic resources that will be required. 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. Whilst it is possible, the Group does not currently anticipate that any such differences could have a material impact on the income tax provision and profit for the period in which such a determination is made nor does it expect any significant impact on its financial position in the near term. This is based on the Group's knowledge and experience, as well as the profile of the individual components which have been reflected in the current tax liability, the status of the tax audits, enquiries and negotiations in progress at each year-end, previous claims and any factors specific to the relevant tax environments.

Deferred tax

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 statement of financial position 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 statement of financial position 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.

1 Accounting policies **(Continued)**

1.23 Employee benefits

Post-employment benefit plans

The Group provides post-employment benefits through various defined contribution plans.

Defined contribution plans

The Group pays fixed contributions into independent entities in relation to several retirement plans and insurances for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that related employee services are received.

Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount the Group expects to pay as a result of the unused entitlement.

1.24 Share-based employee remuneration

The Group provides share-based payment arrangements to certain employees.

Equity settled arrangements are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period. Using the Black-Scholes model, the amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest.

Where equity settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for share-based payment. Settlements and cancellations are treated as an acceleration of vesting and the unvested amount is recognised immediately in profit or loss.

The Group has no cash-settled arrangements.

1.25 Interest-bearing loans and borrowings

All loans and borrowings are initially recorded at fair value, net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method. Amortised cost includes any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

For bank loans containing interest rate rachet clauses, the group adopts IFRS 9 B5.4.5.9 through an accounting policy choice and no immediate gain or loss is recognised where there is a change in the margin charged by the bank due to a ratchet adjustment.

1 Accounting policies **(Continued)**

1.26 Derivative financial instruments and hedging activities

Derivative financial instruments, principally interest rate and currency swaps, are used in certain circumstances to hedge the Group's exposure to foreign exchange and interest rate risks arising from its financing activities.

Derivative financial instruments are recognised initially at fair value and are subsequently remeasured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of interest rate and currency swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest and currency exchange rates and the current creditworthiness of the swapped counterparts.

The method of recognising the resulting gain or loss on remeasuring to fair value depends on whether the derivative is designated as a hedging instrument. Where derivatives are not designated or do not fulfil the criteria for hedge accounting, changes in fair values are reported in the profit or loss. Where derivatives qualify for hedge accounting, recognition of the resulting gains or losses depends on the nature of the item being hedged. The Group designates certain derivatives for various purposes in cash flow hedge relationships.

In these instances, the Group documents, at the designation date, the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking the hedge. The Group also documents whether changes in the cash flows of the hedging instrument are expected to offset changes in the cash flows of the hedged items. This process of designating the Group's interest and currency derivatives was completed in May 2022 and from this point the Group's derivatives have been recognised under hedge accounting.

Cashflow Hedge

The effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented in the cash flow hedge reserve in equity with the ineffective portion being reported as finance expense or income in profit or loss. For the current cash flow hedges, the associated cumulative gain or loss is removed from other comprehensive income and recognised in profit or loss in the same period or periods during which the hedged item affects profit or loss. The ineffective part of any gain or loss is recognised immediately in profit or loss.

The Group has elected to defer the time value, forward points and foreign currency basis spread (as appropriate) components of the hedging instrument. These are collectively the cost of hedging. The deferred amount is initially recognised in other comprehensive income and accumulated in a cost of hedging reserve. The reserve is removed from other comprehensive income and recognised in profit or loss in the same period or periods during which the hedged item affects profit or loss.

Hedge accounting is discontinued when a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss in the period.

1 Accounting policies (Continued)

Hedge effectiveness
The measurement of hedge ineffectiveness is based on the results of the Hypothetical-Derivative Method. The measurement of hedge ineffectiveness is performed at each reporting date. Under the Hypothetical-Derivative Method, the cumulative change in the fair value of the hedging instrument will be compared to the cumulative change in the fair value of a hypothetical derivative. That hypothetical derivative has terms that exactly match the critical terms of the hedged item (including a zero fair value at inception). Therefore, the hypothetical derivative is such that it perfectly offsets the hedged cash flows. The change in the fair value of the perfect hypothetical derivative is then regarded as a proxy for the present value of the cumulative change in the expected future cash flows on the hedged item.

The measurement of the fair value of the hypothetical derivative excludes the time value, forward points and foreign currency basis spreads. These are recognised as described earlier. In measuring hedge ineffectiveness under the Hypothetical-Derivative Method, the effect of credit risk is incorporated by including changes in credit risk adjustments (i.e. CVA/DVA) on the hedging instrument but not on the hypothetical derivative.

1.27 Ordinary shares

Ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

2 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The areas involving significant estimates or judgements are outlined below:

Significant estimate – Impairment of goodwill
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.

Each branch within the group is considered a Cash Generating Unit ('CGU'). In order to test for goodwill impairment, expected future cashflows from CGUs are grouped together in order to determine a value in use ('VIU'). In the prior year, this grouping comprised of Jenga and Fleming separately based on the two major acquisitions made in 2021. During the year, management have reviewed this grouping and concluded that the two acquisitions are now sufficiently integrated in terms of operations, branding, support office functions and management review and oversight to allocate goodwill to a single CGU grouping.

At 31 December 2022, the group have used a VIU calculation based on expected future cashflows plus a terminal value, discounted using a Weighted-Average Cost of Capital ('WACC'). The group's WACC of 10.5% has been calculated with reference to current market data adjusted for the group's financing structure. The cashflows used in the model are based on current market conditions with a challenging UK economic environment expected during 2023, followed by an anticipated uplift in performance in the following four years. The terminal value is calculated with reference to a long-term average growth rate of 2.0%.

Whilst no goodwill impairment has been recognised as at 31 December 2022, the VIU calculation is sensitive to the group's performance, in particular short-term revenue growth, gross profit margin, the group's WACC and the assumed long-term growth rate. Sensitivity analysis of these factors and their potential impact on goodwill is discussed further in Note 11.

2 Critical accounting estimates and judgements (Continued)

Significant estimate - Supplier rebates

Rebate arrangements with suppliers are a common feature of trading in the Builders Merchants 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 statement of financial position date.

Rebate debtors are recorded within other receivables at their recoverable values and include an estimate of rebates receivable for which the rebate period does not coincide with these accounts or where the amount is yet to be finalised with the supplier. The recoverability of the rebate debtor is reviewed against post year end information, supplier agreements and historic trends to determine the level of receivable recognised in the accounts but management acknowledge that the amounts recorded are subject to variability given fluctuations in demand over the rebate period and negotiations with suppliers which may result in a change in the level of the rebate that is recoverable. An error in the level of provision would be seen to impact the results for the following year.

The carrying value of inventories at the statement of financial position date is reduced to reflect rebates received and receivable relating to inventory that has not been sold at the statement of financial position date (see note 17 - inventories).

3 Revenue

	2022	**2021**
	£'000	**£'000**
Revenue analysed by class of business		
Builders' merchants	1,589,824	266,455
Service revenue - hire income	34,352	-
	1,624,176	266,455

	2022	**2021**
	£'000	**£'000**
Revenue analysed by geographical market		
United Kingdom	1,624,176	266,455

Builders' merchants revenue is recognised at a point in time and when the Group has satisfied its performance obligations to the customer and the customer has obtained control of the goods.

4 Exceptional administrative expenses

Exceptional expenses:	**2022 £'000**	**2021 £'000**
Group reorganisation	9,569	956
Employee bonuses	3,465	12,964
Acquisition costs	820	24,822
	13,853	38,742

The current year exceptional costs relate to the following:

Group reorganisation - being predominantly redundancy and retention costs, along with the hive up of trade from acquisitions to a single entity as well as the integration of the Fleming companies,
Employee bonuses - cost of living payment paid to all employees, and
Acquisition costs - costs of in-year acquisition.

The 2021 costs were higher due to the costs of acquisition of both the Holyhead Topco Group and the Fleming companies and the timing of prior period bonuses.

5 Operating profit/(loss)

	2022 £'000	**2021 £'000**
Operating profit/(loss) for the year is stated after charging/(crediting):		
Depreciation of property, plant and equipment	25,547	4,640
Loss/(profit) on disposal of property, plant and equipment	313	(33)
Depreciation of right of use assets	13,624	1,292
Amortisation of intangible assets	43,815	8,806
Share-based payments expense	1,670	703
Unwinding of inventory fair value adjustment	12,711	14,894

Of the depreciation charge above, £2,625k (2021: nil) relates to tool hire and is therefore reported in cost of sales, with the balance being reported as administrative expenses.

6 Auditor's remuneration

Fees payable to the company's auditor and associates:	**2022 £'000**	**2021 £'000**
For audit services		
Audit of the financial statements of the group and company	200	590
Audit of the financial statements of the company's subsidiaries	1,030	393
	1,230	983
For other services		
Taxation compliance services	-	106
Other taxation services	-	17
Total non-audit fees	-	123

The above disclosed amounts relate to remuneration of the auditor in respect of all fees relating to the financial statements for the year ended 31 December 2022.

7 Employees

The average monthly number of persons (including directors) employed by the group during the year was:

	2022 Number	2021 Number
Administration	605	165
Sales	5,128	1,635
Total	5,733	1,800

Following the acquisition of the Fleming companies, an additional 3,444 staff joined the group on 31 December 2021. These figures have not been reflected in the comparatives above.

Their aggregate remuneration (including directors) comprised:

	2022 £'000	2021 £'000
Wages and salaries	172,269	46,228
Social security costs	18,413	3,284
Share based payment expense	1,670	703
Pension costs - defined contribution plans	7,794	1,510
	200,146	51,725

8 Directors' remuneration

	2022 £'000	2021 £'000
Emoluments	686	3,591
Share based payment charge	793	423
	1,479	4,014

There are no individuals accruing retirement benefits under money purchase pension schemes in respect of qualifying services during the year (2021: Nil).

Highest paid director
The remuneration of the highest paid director for the year was £209,057 (2021: £1,450,569), including payments to a defined contribution plan of £31,500 (2021: Nil). In addition, a share based payment charge of £204,204 (2021: £156,950) relates to this individual.

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

9 Finance costs

	2022 £'000	2021 £'000
Interest on financial liabilities:		
Interest on loan from ultimate controlling party	-	9,548
Fair value movement on derivative financial instruments - prior to hedge designation	3,512	5,705
Foreign exchange gain on derivative financial instruments - hedged amount	(18,089)	-
Foreign exchange loss on Euro denominated debt	15,985	(2,026)
Interest on bank and other loans	71,105	6,973
Total interest expense	72,513	20,200

Included within interest on bank and other loans is £3,112k (2021: £302k) relating to interest expense on lease liabilities.

10 Income tax expense

	2022 £'000	2021 £'000
Current tax		
Current tax on losses for the period	4,118	5,243
Total current tax expense	4,118	5,243
Deferred tax		
Origination and reversal of temporary differences	(5,365)	(3,229)
Changes in tax rates	236	-
Adjustment in respect of prior periods	267	-
Total deferred tax credit	(4,862)	(3,229)
Income tax (income)/expense for the year	(744)	2,014
Income tax expense is attributable to:		
Loss from continuing operations	(744)	2,014

10 Income tax expense **(Continued)**

Reconciliation of income tax expense

	2022 £'000	2021 £'000
Loss from continuing operations before income tax expense	(11,503)	(37,870)
Tax at the corporation tax rate of 19%	(2,186)	(7,195)
Effect of:		
Expenses not deductible in determining taxable profit	1,109	10,671
Income/(expense) not taxable	327	(2,602)
Effect of change in UK corporation tax rate	-	857
Other permanent differences	-	6
Deferred tax adjustments in respect of prior years	267	-
Fixed asset differences	(835)	277
Remeasurement of deferred tax for changes in tax rates	(161)	-
Losses eliminated	735	-
Income tax (income)/expense for the year	(744)	2,014

In addition to the amount charged to profit or loss, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2022 £'000	2021 £'000
Relating to cash flow hedges	5,455	-
Total tax recognised in other comprehensive income	5,455	-

The Finance Act 2021 states that the corporation tax main rate will remain at 19% up to and including 31 March 2023. From 1 April 2023, the UK corporation tax rate will increase to 25%, and therefore deferred taxes at the statement of financial position date have been measured and reflected in these financial statements using the expected future tax rate of 25%.

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

11 Goodwill

	£'000
Cost	
At 14 May 2021	-
Acquired from business combinations	752,930
At 31 December 2021	752,930
Acquired from business combinations (note 31)	793
Adjustment to deferred consideration on prior year acquisitions	57
At 31 December 2022	753,780
Carrying amount	
At 31 December 2022	753,780
At 31 December 2021	752,930

11 Goodwill **(Continued)**

Cash-generating units and allocation of goodwill to the Group of CGUs
The directors consider that each branch in the group is an individual cash-generating unit (CGU). In 2021, goodwill was allocated and monitored for impairment testing purposes between two distinct groups of CGUs based on the two significant acquisitions the group made in 2021, Holyhead Topco Limited (Huws Gray) and Fleming.

During 2022, management's strategy has been to integrate these two businesses, with their organisational design and financial performance reporting aligned. As a result of this integration, the directors now believe it most appropriate to monitor and test goodwill based on a single aggregate CGU group, reflecting how management manage and monitor the group's performance.

Identifying fair value
At 31 December 2022, management have calculated the group's Value-In-Use ('VIU') using a discounted cashflow ('DCF') methodology, scheduling out expected post-tax cashflows for the foreseeable future plus a terminal value, discounted using the group's WACC. The directors believe that this DCF approach is more appropriate than the prior period fair value approach which reflected the short timing between acquisitions and the prior period end.

Appraisal approach
The key assumptions used by management when assessing VIU are as follows:

Discount rate - The cashflows have been discounted using a post-tax WACC of 10.5%. (equating to a pre-tax discount rate of 13.7%). This WACC has been benchmarked for management by an independent team of experts against observable market data.

5-year expected cashflows have been used based on managements' strategic plan, taking into account a weaker economic climate in the UK in 2023, followed by an expected upturn in economic activity in subsequent years.

Terminal value - The terminal value post this initial 5 year cashflow period has been calculated based on the long-term average growth rate for the products, industries and country in which the group operates of 2%.

Sensitivity analysis
The Group has conducted a sensitivity analysis of the goodwill impairment test to changes in key assumptions used to determine the VIU for the single group of CGUs to which goodwill is allocated.

At 31 December 2022, the Directors' assessment of goodwill concluded that the recoverable value exceeded the carrying amount of the group of CGUs by £52m, hence no impairment of goodwill has been recognised. Due to current market conditions at the year-end, had the Directors used less favourable assumptions in their cashflow modelling (from 1 January 2024 onwards) based on reasonably possible scenarios, the following goodwill impairment charges would have been recognised.

- A 0.5% reduction in the terminal growth rate of long-term cashflows from 2.0% to 1.5% would have led to an impairment charge of £19m. A reduction of 0.36% to 1.64% would reduce the headroom to nil.
- A 0.5% percent underperformance in long-term forecast gross profit margin would have led to an impairment charge of £21m. A reduction of 0.35% would reduce the headroom to nil.
- A 1.0% reduction in the average revenue growth rate would have led to an impairment charge of £98m. A reduction of 0.34% would reduce the headroom to nil.
- A 0.5% increase in the post-tax discount rate from 10.5% to 11.0% would have led to an impairment charge of £19m. An increase of 0.36% to 10.86% would reduce the headroom to nil.

Conclusion
At 31 December 2022, the Directors have concluded that the group's VIU exceeds the carrying value of the group's CGUs by £52m and hence no impairment of goodwill has been recognised in these financial statements.

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

12 Intangible assets

	Software	Brand	Customer relationships	Total
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 14 May 2021	-	-	-	-
Acquired from business combinations	25,553	162,536	228,477	416,566
At 31 December 2021	25,553	162,536	228,477	416,566
Disposals	(131)	-	-	(131)
At 31 December 2022	25,422	162,536	228,477	416,435
Amortisation and impairment				
At 14 May 2021	-	-	-	-
Charge for the period	-	3,124	5,682	8,806
At 31 December 2021	-	3,124	5,682	8,806
Charge for the year	21,376	8,420	14,019	43,815
At 31 December 2022	21,376	11,544	19,701	52,621
Carrying amount				
At 31 December 2022	4,046	150,992	208,776	363,814
At 31 December 2021	25,553	159,412	222,795	407,760

Accelerated amortisation of £17,931k has been recognised during the year relating to the decommissioning of legacy operating systems.

Management have reviewed these assets for any impairment triggers at the statement of financial position date. No impairment was necessary as a result of this review.

The following material intangible assets are included within the above:

	Carrying amount	Remaining useful life
	£'000	**Years**
Huws Gray brand	106,474	18.5
Huws Gray customer relationship	179,445	18.5
Building Supplies Distribution software	4,046	0.7
Buildbase brand	42,956	19.0
Building Supplies Distribution customer relationship	16,316	19.0

13 Property, plant and equipment

	Freehold buildings	Leasehold improvements	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost						
At 14 May 2021	-	-	-	-	-	-
Additions	3,128	115	1,661	1,826	2,632	9,362
Acquired from business combinations	313,851	16,751	19,399	27,535	35,287	412,823
Disposals	(1,124)	-	(117)	(138)	(1,490)	(2,869)
At 31 December 2021	315,855	16,866	20,943	29,223	36,429	419,316
Additions	14,445	320	15,931	12,337	9,821	52,854
Acquired from business combinations	530	-	15	-	7	552
Disposals	(66)	(278)	(4,486)	(1,797)	(4,037)	(10,664)
At 31 December 2022	330,764	16,908	32,403	39,763	42,220	462,058
Accumulated depreciation and impairment						
At 14 May 2021	-	-	-	-	-	-
Charge for the period	1,178	263	938	596	1,665	4,640
Eliminated on disposal	-	-	(121)	(45)	(1,276)	(1,442)
At 31 December 2021	1,178	263	817	551	389	3,198
Charge for the year	4,298	1,042	5,239	5,709	9,259	25,547
Eliminated on disposal	(5)	(227)	(3,837)	(1,570)	(3,661)	(9,300)
At 31 December 2022	5,471	1,078	2,219	4,690	5,987	19,445
Carrying amount						
At 31 December 2022	325,293	15,830	30,184	35,073	36,233	442,613
At 31 December 2021	314,677	16,603	20,126	28,672	36,040	416,118

Included within freehold buildings is an amount of £148,844k (2021: £145,004k) relating to land that does not depreciate.

Management have reviewed these assets for any impairment triggers at the statement of financial position date. No impairment was necessary as a result of this review.

Included within plant and equipment is an amount with a net book value of £11,657k (2021: £6,797k) subject to assets which are used for short term hire to customers.

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

14 Right of use assets

	Leasehold buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 14 May 2021	-	-	-	-
Additions	610	-	-	610
Acquired from business combinations	98,768	21	5,730	104,519
At 31 December 2021	99,378	21	5,730	105,129
Additions	1,343	-	1,682	3,025
Modifications	4,651	-	-	4,651
Disposals	-	-	(58)	(58)
At 31 December 2022	105,372	21	7,354	112,747
Accumulated depreciation and impairment				
At 14 May 2021	-	-	-	-
Charge for the period	1,292	-	-	1,292
At 31 December 2021	1,292	-	-	1,292
Charge for the year	11,281	7	2,336	13,624
At 31 December 2022	12,573	7	2,336	14,916
Carrying amount				
At 31 December 2022	92,799	14	5,018	97,831
At 31 December 2021	98,086	21	5,730	103,837

The closing right of use asset includes an amount of £19,890k (2021: £20,894k) that relates to leases longer than 50 years.

15 Investments accounted for using the equity method

	2022	2021
	£'000	£'000
Other investment	1	1
	1	1

Movements in non-current investments

	Total
	£'000
Cost or valuation	
At 1 January 2022 & 31 December 2022	1
Carrying amount	
At 31 December 2022	1
At 31 December 2021	1

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

16 Subsidiaries

Details of the company's subsidiaries at 31 December 2022 are as follows:

Name of undertaking	Principal activities	Class of shares held	% Held Direct	% Held Indirect
Patagonia Holdco 4 Limited	Non trading	Ordinary	100.00	-
Patagonia Bidco Limited	Non trading	Ordinary	-	100.00
Holyhead Topco Limited	Non trading	Ordinary	-	100.00
Holyhead Midco 1 Limited	Non trading	Ordinary	-	100.00
Holyhead Midco 2 Limited	Non trading	Ordinary	-	100.00
Holyhead Bidco Limited	Non trading	Ordinary	-	100.00
Huws Gray Limited	Builders' merchants	Ordinary	-	100.00
Qualplas Limited	Glaziers	Ordinary	-	80.00
Ridgeon Group Limited	Non trading	Ordinary	-	100.00
Ridgeon Holdings Limited	Non trading	Ordinary	-	100.00
Ridgeon Properties Limited	Non trading	Ordinary	-	100.00
Ridgeons Forest Products Limited	Non trading	Ordinary	-	100.00
Ridgeons Limited	Non trading	Ordinary	-	100.00
Shropshire Building Supplies Limited	Dormant	Ordinary	-	100.00
Simmons Of Stafford Limited	Dormant	Ordinary	-	100.00
K F Supplies Limited	Dormant	Ordinary	-	100.00
SW Newco Limited	Non trading	Ordinary	-	100.00
A.C. Roof Trusses Limited	Dormant	Ordinary	-	100.00
South Milford (Holdings) Limited	Dormant	Ordinary	-	100.00
Milford Limited	Dormant	Ordinary	-	100.00
Uriah Woodhead & Son (Holdings) Limited	Dormant	Ordinary	-	100.00
Uriah Woodhead & Son Limited	Dormant	Ordinary	-	100.00
Paxcorn Ltd	Dormant	Ordinary	-	100.00
Builders Supplies (West Coast) Limited	Dormant	Ordinary	-	100.00
Higgins Trade Supplies Limited	Dormant	Ordinary	-	100.00
Higgins Holdings Limited	Dormant	Ordinary	-	100.00
Higgins Building Supplies Ltd	Dormant	Ordinary	-	100.00
Higgins Lanscape & Garden Centre Limited	Dormant	Ordinary	-	100.00
Sandysike Builders Merchants Limited	Dormant	Ordinary	-	100.00
TBS Building Supplies Ltd	Dormant	Ordinary	-	100.00
Exall Jones Limited	Dormant	Ordinary	-	100.00
Building Supplies Distribution Limited	Non trading	Ordinary	-	100.00
Bathroom Distribution Group UK Limited	Builders' merchants	Ordinary	-	100.00
Frontline Bathrooms Ltd.	Builders' merchants	Ordinary	-	100.00
The Timber Group Limited	Builders' merchants	Ordinary	-	100.00
Harvey Steel Lintels Limited	Non trading	Ordinary	-	100.00
Crescent Building Supplies (Ruislip) Limited	Non trading	Ordinary	-	100.00
Grangemouth Property Limited	Dormant	Ordinary	-	100.00
A.R. Hendricks Limited	Dormant	Ordinary	-	100.00
Brick and Stone (Scotland) Ltd.	Dormant	Ordinary	-	100.00

Both Brick and Stone (Scotland) Ltd. and Grangemouth Property Limited are registered at 1 Drovers Road, East Mains Industrial Estate, Broxburn, West Lothian, Scotland, EH52 5ND whilst all other companies are registered at Huws Gray Limited, Industrial Estate, Llangefni, Wales LL77 7JA.

17 Inventories

	2022 £'000	2021 £'000
Finished goods	243,474	247,020

Inventories are stated after provisions for rebates £40,656k (2021: £14,119k) and slow moving products £10,556k (2021: £3,788k).

Inventories recognised as an expense during the year ended 31 December 2022 amounted to £1,150,497k (2021: £179,597k). These were included in cost of sales.

The comparatives for provisions and rebates do not include the Fleming businesses at 31 December 2021 as these balances were stated at fair value on acquisition.

Write-downs of inventories to net realisable value amounted to £4,759k (2021: £2,330k). These were recognised as an expense during the year and included in cost of sales in profit or loss.

18 Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables	201,130	189,467
Current tax recoverable	15,123	1,738
Other receivables	71,927	65,697
Prepayments	7,350	10,988
	295,530	267,890

Trade receivables are stated after provision for impairment of £6,556k (2021: £5,349k).

Credit risk

The loss allowance as at 31 December 2021 was determined as follows for trade receivables:

	Current	More than 30 days past due	More than 60 days past due	Total
Expected loss rate	0.2%	3.9%	22.4%	
Gross carrying amount - trade receivables	149,131	28,279	17,406	194,816
Loss allowance	**332**	**1,111**	**3,906**	**5,349**

The loss allowance as at 31 December 2022 was determined as follows for trade receivables:

	Current	More than 30 days past due	More than 60 days past due	Total
Expected loss rate	0.6%	4.1%	36.0%	
Gross carrying amount - trade receivables	175,633	19,046	13,007	207,686
Loss allowance	**1,097**	**778**	**4,681**	**6,556**

The loss allowance for trade receivables as at 31 December 2022 reconcile to the opening loss allowance as follows:

	2022 £'000
Opening loss allowance at 14 May 2021	-
Increase in loan loss allowance recognised in profit or loss during the year	643
Acquired from business combinations	4,706
Closing loss allowance at 31 December 2021	**5,349**
Increase in loan loss allowance recognised in profit or loss during the year	4,456
Write offs during the year	(3,249)
Closing loss allowance at 31 December 2022	**6,556**

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payment for a period of greater than 60 days past due.

Impairment losses on trade receivables are included within administrative expenses. Subsequent recoveries of amounts previously written off are credited against the same line item.

19 Supplier income

Supplier income balances within the consolidated statement of financial position are as follows:

	2022 £'000	2021 £'000
Other receivables	69,531	66,719
Trade payables	11,811	2,997
Inventories	(40,656)	(57,793)
Net position	40,686	11,923

20 Borrowings

Loans:	Interest rate	Maturity date	Initial drawn amount £'000*	Balance as at 31 December 2022 £'000	Balance as at 31 December 2021 £'000
Revolving credit facility	SONIA + 4.00%	31/10/2027	-	-	-
GBP facility	SONIA + 5.25%	31/10/2027	650,000	638,951	634,451
EUR facility	EURIBOR + 4.00%	31/12/2027	EUR 354,000	308,065	290,708
Shareholder loans				-	11,176
Total interest bearing loans				947,016	936,335
Current liabilities				-	11,176
Non-current liabilities				947,016	925,159
				947,016	936,335

* Amounts in GBP unless noted otherwise

The spot exchange rate at 31 December 2022 was £1 = €1.13 (2021: £1 = €1.19).

The margin included within the interest rates above is subject to a gearing test such that amount payable will fall if the gearing of the group is reduced.

Revolving credit facility
The Group has a committed Revolving credit facility which was has not been utilised during the course of 2022. As at 31 December 2022 the undrawn Revolving credit facility totalled £125,000k. Total fees of £2,188k were incurred in July 2021 which were directly associated with the creation of the facility and have been capitalised as a separate prepaid asset, and amortised on a straight line basis.

GBP facility (formerly B1 and B2 GBP facilities)
At 1 January 2022, the Group had drawn £550,000k from its B1 GBP facility and £100,000k from its B2 facility. There were £13,110k and £2,439k of fees incurred directly associated with these facilities respectively. In accordance with the credit agreement, these facilities were merged from the first interest date of 3rd February 2022.

EUR facility (formerly B2 EUR facility)
At 1 January 2022, the Group had drawn €354,000k of EUR facilities. Directly attributable fees of €8,535k were incurred on this facility.

All loans and borrowings are initially recorded at fair value, net of related transaction costs. After initial recognition, current and non-current interest-bearing loans and borrowings are measured at amortised cost.

20 Borrowings (Continued)

Debt covenants

Under the Senior Facilities agreement, the Group's trading results are reported to lenders on a quarterly basis which include a computation of the group's gearing. Formal assessment of the gearing under the covenant reporting is only required if the Revolving credit facility is drawn by £50,000k or more, net of cash balances held.

Security held by lenders

The facilities are guaranteed by subsidiaries with over 80% of the LTM EBITDA of the Group. These are the two trading subsidiaries, Huws Gray Limited and Building Supplies Distribution Limited. Each guarantor jointly and severally guarantees the performance obligations. The transaction security includes:
a charge over the shares in the business;

- a debenture over material bank accounts;
- a floating charge over all or substantially all of its business and assets.

Guarantees and other financial commitments

Ancillary guarantees

The Revolving credit facility available to the Group totals £125,000k, the amount available to the Group to draw down is reduced by other ancillary guarantees in existence across the Group. There were £1,940k of ancillary guarantees in place at 31 December 2022:

Guarantees	**£'000**
Huws Gray Limited	750
Building Supplies Distribution Limited	600
Bathroom Distribution Group UK Limited	150
	1,500
Corporate cards	
Huws Gray Limited	220
Building Supplies Distribution Limited	220
	1,940

21 Derivative financial instruments

In 2021, the Group entered into cross-currency swaps to economically hedge its B2 Euro denominated debt. These derivatives were not designated as hedging instruments until May 2022, and as such have been recognised at fair value with movements in fair value recognised in profit or loss under finance costs.

In May 2022, the Group entered into SONIA interest rate ('IR') swap derivatives (receiving floating, paying fixed) as part of its risk management strategy to fix its interest rate exposure. These IR derivatives were designated as cashflow hedges to the Group's issued debt from inception. At the same time, the Group documented the 2021 cross currency swaps for cashflow hedge accounting purposes.

As a result, all derivatives have been designated as hedges and accounted for under hedge accounting from May 2022 onwards. The hedge accounting results are disclosed further in the financial instrument note under risk management (note 26).

	2022	2021
	£'000	£'000
Profit or loss charge	3,512	5,705
Current assets	8,014	-
Non-current assets	30,063	-
Total derivative assets	38,077	-
Current liabilities	4,579	4,223
Non-current liabilities	-	1,482
Total derivative liabilities	4,579	5,705
Other comprehensive income - deferred hedge accounting gain	21,821	-

22 Trade and other payables: amounts falling due within one year

	2022	2021
	£'000	£'000
Trade payables	194,016	197,503
Amounts owed to parent company	1,012	200
Accruals	48,881	75,676
Social security and other taxation	19,953	11,832
Other payables	3,279	1,969
	267,141	287,180

The carrying amount are considered to be the same as fair value due to the short term nature.

Amounts owed to parent company are unsecured, interest free and repayable on demand.

23 Leases

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2022 £'000	2021 £'000
Current liabilities	11,586	13,491
Non-current liabilities	88,664	94,697
	100,250	108,188

Maturity analysis	2022 £'000	2021 £'000
Within one year	11,586	13,491
In two to five years	54,640	58,965
In over five years	34,024	35,732

The group leases various properties in the form of office space and branches, as well as vehicles, fixtures & fittings, and plant & equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the consolidated statement of financial position as a right of use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded form the initial measurement of the lease liability and asset. The Group classifies its right of use assets in a consistent manner to its property, plant and equipment.

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leases assets as security. For leases over buildings, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure right of use assets and incur maintenance fees on such items in accordance with the lease contracts. The lease liabilities are secured by the related underlying assets.

There are no leases that the Group have committed to that have not yet commenced at 31 December 2022.

Lease payments not recognised as a liability

In accordance with practical expedients permitted by IFRS 16, the Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The amounts recognised in profit or loss include:

	2022 £'000	2021 £'000
Interest expense on lease liabilities	3,112	302
Expense relating to short-term leases	1,139	477

The total cash outflows for leases amounted to £16,163k (2021: £1,964k).

The average lease term is 79 months (2021: 54 months).

PATAGONIA HOLDCO 3 LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2022

24 Deferred taxation

Deferred tax assets

The balance comprises temporary differences attributable to:

	2022 £'000	2021 £'000
Tax losses	127	165
Other	-	29
Total deferred tax assets	127	194

Deferred tax asset movements

	Tax losses £'000	Other £'000	Total £'000
Asset at 14 May 2021	-	-	-
Credit to profit or loss	-	2,760	2,760
Business combination	164	(2,731)	(2,567)
Asset at 31 December 2021	164	29	193
Charge to profit or loss	(37)	(29)	(66)
Asset at 31 December 2022	127	-	127

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2022 £'000	2021 £'000
Intangible assets	88,406	94,967
Property, plant and equipment	78,306	73,370
Other differences	2,154	-
Total deferred tax liabilities	168,866	168,337

Deferred tax liability movements

	Intangible assets £'000	Property, plant and equipment £'000	Other differences £'000	Total £'000
Liability at 14 May 2021	-	-	-	-
Charge/(credit) to profit or loss	(1,673)	2,124	-	451
Business combination	96,640	71,246	-	167,886
Liability at 31 December 2021	94,967	73,370	-	168,337
Charge/(credit) to profit or loss	(6,561)	4,936	(3,301)	(4,926)
Charge/(credit) to other comprehensive income	-	-	5,455	5,455
Liability at 31 December 2022	88,406	78,306	2,154	168,866

25 Provisions for liabilities

	2022 £'000	2021 £'000
Dilapidations provision	7,002	6,752
Other provision	1,016	221
	8,018	6,973

Movements on provisions:	**Dilapidations provision £'000**	**Other provision £'000**	**Total £'000**
At 14 May 2021	-	-	-
Additional provisions in the year	142	56	198
Acquired from business combination	6,610	165	6,775
At 31 December 2021	6,752	221	6,973
Additional provisions in the year	250	795	1,045
At 31 December 2022	7,002	1,016	8,018

Dilapidations provision
The dilapidations provision covers the cost of reinstating certain group 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.

Other provisions
Other provisions includes employee and property costs in relation to restructuring projects.

26 Financial instruments - fair values and risk management

The Group's financial instruments disclosures are provided below and in these two notes;

- **Note 20 Borrowings** which discloses the Group's variable interest rate GBP and EUR denominated debt; and
- **Note 21 Derivative financial instruments** disclosing the nature and type of derivatives and their respective fair values.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2021	**Carrying amount**			**Fair value**			
	Fair value	**Amortised costs**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets							
Investments	-	1	1	-	-	-	-
Trade and other receivables	-	255,164	255,164	-	-	-	-
Cash and cash equivalents	-	141,210	141,210	-	-	-	-
	-	**396,375**	**396,375**	**-**	**-**	**-**	**-**
Financial liabilities							
Trade and other payables	-	269,302	269,302	-	-	-	-
Lease liabilities	-	108,188	108,188	-	-	-	-
Derivative liabilities	5,705	-	5,705	-	5,705	-	5,705
Borrowings	-	942,382	942,382	-	-	-	-
	5,705	**1,319,872**	**1,325,577**	**-**	**5,705**	**-**	**5,705**

2022	**Carrying amount**			**Fair value**			
	Fair value	**Amortised costs**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets							
Investments	-	1	1	-	-	-	-
Trade and other receivables	-	273,057	273,057	-	-	-	-
Derivative asset	38,077	-	38,077	-	38,077	-	38,077
Cash and cash equivalents	-	92,141	92,141	-	-	-	-
	38,077	**365,199**	**403,276**	**-**	**38,077**	**-**	**38,077**
Financial liabilities							
Trade and other payables	-	247,188	247,188	-	-	-	-
Lease liabilities	-	100,250	100,250	-	-	-	-
Derivative liabilities	4,579	-	4,579	-	4,579	-	4,579
Borrowings	-	947,016	947,016	-	-	-	-
	4,579	**1,294,454**	**1,299,033**	**-**	**4,579**	**-**	**4,579**

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

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26 Financial instruments - fair values and risk management **(Continued)**

Valuation techniques and significant unobservable inputs
The following tables show the valuation techniques used in measuring Level 2 fair values for financial instruments in the statement of financial position, as well as the significant unobservable inputs used.

	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial instruments measured at fair value			
Derivative assets and liabilities – Interest rate swaps and cross-currency swaps	The fair values of the derivative IR swap contracts and cross-currency swap contracts are estimated by discounting expected future cash flows using market interest rates, market inflation rates and option volatility. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.	Not applicable	Not applicable

Risk exposures and risk management
The Group's operations expose it to various financial risks that include credit risk, liquidity risk and market risk (currency risk and interest rate risk). The Group's risk management, which is regularly reviewed, are designed to reduce financial risk in a cost-efficient way. The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk (foreign exchange risk and interest rate risk).

Credit risk
Credit risk arises from credit granted to customers. Credit risk also arises on cash and cash equivalents, derivative financial instruments and cash and deposits with banks and financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

Exposure to credit risk is monitored on an ongoing basis. The Group's exposure to customer credit risk is diversified over a large customer base and the incidence of default by customers is tightly managed by the Credit control team. Credit insurance is in place, subject to annual renewal, to cover major customers. Credit evaluations are performed regularly. New customers are subject to initial credit checks that include trade and bank references and are generally subject to restricted credit limits prior to developing a credit history.

Due to the established nature of the businesses, a high proportion of customers have long-standing trading relationships with Group companies. These established customers are reviewed regularly for financial strength and the appropriateness of their credit limit.

26 Financial instruments - fair values and risk management (Continued)

Trade receivables are subject to the expected credit loss model in IFRS 9 – Financial Instruments. The Group applies the IFRS 9 – Financial Instruments simplified approach to measuring expected credit losses. This 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. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the failure of a debtor to engage in a repayment plan with the Group and the commencement of legal proceedings.

The credit risk on cash and cash equivalents, derivative financial instruments and cash and deposits with banks and financial institutions is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

In addition, the Group is exposed to credit risk in relation to financial guarantees given to banks. The Group's maximum exposure in this respect is the maximum amount the Group could have to pay if the guarantee is called on (see Note 19).

Liquidity risk
The Group has cash resources at its disposal through the holding of deposits and cash balances of £92million at the year-end which together with undrawn bank facilities of £125,000k and cash flow from operation provides flexibility in financing its operations.

The following are the undiscounted contractual maturities of non-derivative financial liabilities, including interest payments.

2021	Carrying amount	Contractual cashflows	Within 1 year	Between 1 and 5 years	Greater than 5 years
	£'000	£'000	£'000	£'000	£'000
Trade and other payables	285,597	285,597	281,608	3,989	-
Lease liabilities	108,188	157,433	14,697	43,948	98,788
Borrowings	940,249	1,149,368	48,423	1,100,945	-

2022	Carrying amount	Contractual cashflows	Within 1 year	Between 1 and 5 years	Greater than 5 years
	£'000	£'000	£'000	£'000	£'000
Trade and other payables	247,188	247,188	247,188	-	-
Lease liabilities	100,250	151,262	14,761	43,948	92,553
Borrowings	947,016	1,101,905	47,034	1,054,871	-

26 Financial instruments - fair values and risk management (Continued)

Market risk

Market risk is the risk that changes in market prices – e.g. foreign exchange rates and interest rates – will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group uses derivatives to manage market risks.

Interest rate risk

The majority of the Group’s ongoing operations are financed from a mixture of cash generated from operations and borrowings. Bank borrowings are initially secured at floating interest rates and interest rate risk is monitored on an ongoing basis.

The Group exposure to interest rate fluctuations on its bank borrowings is managed by the use of interest-rate swaps and cross-currency swaps which fix variable interest rates for a period of time. See Note 21 for derivative instruments entered by the Group during the year with external parties in managing the interest risk.

When the associated bank borrowings are fully repaid the Group may be required to terminate the interest rate swaps and cross-currency swaps earlier than they mature and may become liable to pay penalties. When this occurs the cost of this termination is taken to profit or loss on termination.

The Group applied hedge accounting from May 2022 onwards to manage it's interest rate risk.

The effects of the interest rate-related hedging instruments, being the interest rate swaps, including the relevant features, on the Group's financial position and performance are set out below.

	2022
Carrying amount (net assets)	£22,332k
Notional amount	£475m
Maturity Date	May 2025
Hedge Ratio	1:1
Total fair value movement of the derivatives for the year	£20,987k
Change in the intrinsic value of outstanding derivatives since inception of the hedge	£21,237k
Change in the value of hedged item used to determine hedge ineffectiveness	£(21,237)k
Weighted average interest rate receive	GBP-SONIA
Weighted average interest rate pay	2.2146%

26 Financial instruments - fair values and risk management (Continued)

Foreign exchange risk
Transactional foreign exchange risk arises from foreign currency transactions, assets and liabilities. Group operations manage foreign exchange trading risks against their functional currencies. The majority of trade conducted by the Group is in sterling, however the group holds a loan of £290,700k which is denominated in euros.

The Group exposure to foreign currency rate fluctuations on its bank borrowings is managed by the use of cross-currency swaps which fix exchange rates for a period of time.

The Group applied hedge accounting from May 2022 onwards to manage it's foreign exchange risk on it's euro denominated debt.

The effects of the foreign currency-related hedging instruments, being the cross currency interest rate swaps, including the relevant features, on the Group's financial position and performance are set out below.

	2022
Carrying amount (net assets)	£11,166k
Notional amount	€354m
Maturity Date	November 2026
Hedge Ratio	1:1
Total fair value movement of the derivatives for the year (this excludes the fair value movement of the derivatives prior to their designation as hedging instruments)	£14,336k
Change in the intrinsic value of outstanding derivatives since inception of the hedge	£16,180k
Change in the value of hedged item used to determine hedge ineffectiveness	£(16,180)k
Weighted average strike rate for outstanding derivatives	EUR 1.18 : GBP 1
Weighted average interest rate receive	3-month EURIBOR + 400 bps
Weighted average interest rate pay	GBP-SONIA + 5.1058%

26 Financial instruments - fair values and risk management **(Continued)**

Risk management strategy
The Group's risk management strategy in respect of foreign exchange risk and interest rate risk is as follows:
- fully hedge its foreign exchange exposure on its euro denominated debt of €354m by use of cash flow hedge accounting for cross-currency swaps; and
- hedge 50% of the Group's variable interest rate exposure on its total borrowings of circa £950m.

The Group's liquidity risk management strategy is discussed above.

Sensitivity analysis
Interest rate risk
A sensitivity analysis has been determined based on the exposure to interest rates for the Group's financial instruments. For floating rate liabilities and taking into account hedges which were in place from May 2022, a 1% increase or decrease in interest rates would have the following impact assuming that all other variables remained constant:
- Profit before taxation for the period to 31 December 2022 would have decreased / increased by £6.3m (2021: £0.9m)
- Net equity would have decreased / increased by £5.1m (2021: £0.8m)

FX risk
Whilst the Group held foreign exchange contracts to economically hedge its Euro €354m in denominated debt, these FX contracts were not documented as hedges until May 2022.

A 5% swing in the Euro/£Sterling exchange rate would have the following impact assuming that all other variables remain constant:

Jan-April 2022 (Pre-hedge accounting)
- Profit before tax for the period from January 2022 to April 2022 would remain materially unchanged, with an increase/decrease by a gross £15m (2021: £15m) relating to the revaluation of the principal of the Euro denominated debt being substantially offset by the change in market value of the forward exchange contracts held;
- Net equity would remain materially unchanged, made up of an increase/decrease of £15m in the debt principal owed, offset by a similar and opposing change in the value of the currency swaps held.

May 2022-December (FX Cashflow hedge accounting applied)

- Profit before tax for the period from May 2022 onwards would not be impacted on the basis that the FX hedges were fully effective;
- Net assets would again remain materially unchanged, with an increase/decrease by a gross £15m (2021: £15m) relating to the revaluation of the principal of the Euro denominated debt being offset by the change in market value of the forward exchange contracts held.

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

26 Financial instruments - fair values and risk management **(Continued)**

Cash flow hedges
The Group's cash flows hedge results are presented in the tables below:

Movement in Cash flow Hedge Reserve	**Cost of hedging**	**Euro cross-currency swaps**	**SONIA interest rate swaps**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Opening balance at 14 May 2021 and 1 January 2022	-	-	-	-
Change in fair value of hedging instrument recognised in OCI	-	16,180	21,238	37,418
Deferred costs of hedging initially recognised in OCI	(2,560)	-	-	(2,560)
Amounts reclassified from the cash flow hedge reserve to profit or loss (excluding hedge ineffectiveness and excluded components)	-	(14,423)	1,284	(13,139)
Hedge ineffectiveness and excluded component recognised in profit or loss	568	(461)	(5)	102
Change in the value of the hedged instrument recognised in OCI	(1,992)	1,296	22,517	21,821
Deferred tax charge on OCI gain	498	(324)	(5,629)	(5,455)
Closing balance at 31 December 2022	**(1,494)**	**972**	**16,888**	**16,366**

All hedge amounts that have been reclassified to profit or loss (including interest rate and foreign exchange hedges, plus hedge ineffectivness and excluded components) have been recognsied within 'Finance Costs' in profit or loss.

The impact of these hedging instruments on the timing and uncertainty of future cash flows is as follows:

Interest rate risk
The Group has hedged circa 50% of its variable rate borrowings. This has the impact of effectively capping the variable component of interest rates at an average of 2.2% for £475m of its debt for until May 2025.

Foreign exchange risk
The impact of the cross-currency swaps is to offset all material foreign exchange movements between EURO and GBP in respect of its €354m of borrowings.

27 Called up share capital and share premium

	2022	2021	2022	2021
Ordinary share capital	**Number**	**Number**	**£'000**	**£'000**
Issued and fully paid				
Ordinary shares of 1p each	853,873,870	853,873,870	8,539	8,539

Movements in ordinary shares

	Number of shares (thousands)	Par value £'000	Share premium £'000	Total £'000
At 1 January 2022 and 31 December 2022	853,874	8,539	845,335	853,874

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one vote, and on a poll each share is entitled to one vote.

28 Cash flow hedge reserve

	2022 £'000	2021 £'000
At the beginning of the year	-	-
Movements in derivative taken to OCI	37,418	-
Amounts reclassified to profit or loss	(15,597)	-
Gains and losses on cash flow hedges	21,821	-
Deferred tax on cash flow hedges	(5,455)	-
At the end of the year	16,366	-

For further details on hedge accounting, see Note 26.

29 Capital contribution reserve

	2022 £'000	2021 £'000
At the beginning of the year	9,548	-
Capital contribution in the year	-	9,548
At the end of the year	9,548	9,548

PATAGONIA HOLDCO 3 LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

30 Share-based payments arrangements (Equity settled share option plan)

Echo Topco Limited is the immediate parent undertaking of the Company and shares in Echo Topco Limited are issued as part of the implementation of the Group's Sweet Equity Share Scheme. In accordance with the terms of the plan, certain shareholders are granted sweet equity which carry no exercise price.

The B1 and B2 shares of Echo Topco Limited are used for the Sweet Equity Scheme and on an exit event the total value of the B1 and B2 shares in issue is set out in the Articles as 7.03% and 3.95% of the total equity value respectively. Other than their total value, the B1 and B2 shares are subject to the same conditions including leaver provisions. An Employee Benefit Trust is used to hold shares in Echo Topco Limited, which is not consolidated in these financial statements. This trust is used to hold shares for all except the senior directors who hold their shares directly. In the event of an employee leaving as a bad leaver (including resignation or dismissal), their shares can be repurchased for the lower of cost and fair value.

In other words, other than in limited good leaver situations, an employee needs to continue to provide services to the Group over the period until an exit event to become unconditionally entitled to their B1 or B2 Shares.

Details of the shares granted during the year are as follows:

Echo Topco Limited

	Number of shares			
	2022 B1 Shares	**2022 B2 Shares**	**2022 Total**	**2021 B1 Shares**
As at beginning of year	740,437	-	740,437	-
Granted on 18 June 2021	-	-	-	740,437
Granted on 26 June 2022	16,500	215,352	231,852	-
Granted on 22 December 2022	165,000	-	165,000	-
As at 31 December	921,937	215,352	1,137,289	740,437

Measurement of fair values

The fair value of the awards have been measured using a standard Black-Scholes option pricing model based on price hurdles of £1,300m to £1,500m at a point in time over the expected life as the economic rights mirror a standard call option and there are no market-based performance vesting conditions. The details and inputs used in the models are as follows:

	2022			2021
	26/06/22	**26/06/22**	**22/12/22**	**18/06/21**
Shares	**B1**	**B2**	**B1**	**B1**
Fair value of awards (£)	£0.14 to £0.15	£1.83 to £1.95	£0.82 to £0.82	£7.00 to £7.40
Volatility (%)	34.3% to 36.7%	34.3% to 36.7%	36.3% to 39.1%	44.0% to 46.0%
Expected life (years)	4.4 to 5.4	4.4 to 5.4	3.5 to 4.5	5.0 to 6.0
Dividend yield (%)	0%	0%	0%	0%
Risk-free interest rate (%)	1.20% to 1.23%	1.20% to 1.23%	3.56% to 3.58%	0.40% to 0.50%

Expected volatility has been based upon a basket of comparable listed peers operating in the same sector. The expected term has been measured over a historical period equal to the expected time horizon until exit of 5 to 6 years (from 18 June 2021).

At 31 December 2022, the Group recognised total share-based payment expenses of £1,670k (2021: £703k) relating to the Echo Topco Limited scheme. None of the awards had vested as of 31 December 2022 (2021: Nil).

31 Acquisitions of a business

On 1 March 2022, the Group acquired 100% of the share capital and voting rights of Brick and Stone (Scotland) Limited – a single site brick and stone specialist in Broxburn, West of Edinburgh.

Brick and Stone (Scotland) Limited net assets on acquisition were £1,151k, which required a fair value adjustment of £37k, resulting in revised net assets of £1,114k. The Group paid consideration of £1,907k, of which £180k was deferred, wholly in the form of cash, resulting in Goodwill of £793k accounted for as a business combination under IFRS 3.

The acquired company contributed turnover of £1,598k since acquisition. The impact on profit after tax cannot be separately measured due to the impact on supplier rebates and central costs.

Management's best estimate is that all cash flows are expected to be collected.

32 Capital commitments

The Group had £6,511k of contractually agreed capital commitments as of 31 December 2022 (2021: £5,313k).

33 Events after the reporting date

During 2023, the Group has continued the implementation of the organisational design review of the Group as described earlier. A further structural reorganisation has been completed on 1 January 2023 with the transfer of the trade and assets of The Timber Group Limited transferring into Huws Gray Limited.

34 Related party transactions

The principal related party transactions that require disclosure under IAS 24: Related Party Disclosures relate to ultimate controlling party, immediate parent. subsidiaries, key management personnel and other related parties.

Immediate parent
Included with trade and other payables is an amount of £1,012k (2021: £200k) that is payable to Echo Topco Limited, the Company' immediate parent undertaking.

Subsidiaries
Transactions between Group companies are eliminated in the preparation of the consolidated financial information in accordance with IFRS10, Consolidated Financial Statements. At the year end, Huws Gray Limited was owed £123k (2021: £98k) from its subsidiary, Qualplas Limited. Huws Gray Limited owns 80% of the share capital of Qualplas Limited. During the year, purchases from Qualplas Limited totalled £439k (2021: £148k) and sales to Qualplas Limited totalled (2021: £10k) .

Key management personnel
The cost of key management personnel is analysed in Note 8 of the notes to the consolidated financial statements. Management consider that key management personnel and statutory directors of the Company to be the same individuals.

The total employer national insurance contribution relating to key management personnel for the year was £130k (2021: £397k).

There are no non-executive directors at Patagonia Holdco 3 Group level. However, details of the Board of the ultimate parent company Echo Topco Limited is set out in the strategic report and includes two non executive and three investor directors.

Other related parties
The convertible loan notes of £11,176k as at 31 December 2021 was repaid in full on 5 January 2022. No such balances remained outstanding as at 31 December 2022.

35 Controlling party

The immediate parent is Echo Topco Limited, a company incorporated and registered in Jersey.

The smallest and largest group in which company which the results of the Company are expected to be consolidated is Patagonia Holdco 3 Limited, the top company registered in England and Wales. The consolidated financial statements are available from c/o Huws Gray Ltd Head Office, Industrial Estate, Llangefni, Anglesey, Wales.

The ultimate controlling party is Blackstone, a company incorporated and registered in the United States of America.

36 Cash generated from/(absorbed by) operations

	2022 £'000	2021 £'000
Loss for the year after tax	(10,759)	(39,884)
Adjustments for:		
Taxation (credited)/charged	(744)	2,014
Finance costs	72,513	20,200
Loss/(gain) on disposal of property, plant and equipment	313	(32)
Amortisation and impairment of intangible assets	43,815	8,806
Depreciation of property, plant and equipment and right of use assets	39,171	5,935
Equity settled share based payment expense	1,670	703
Movements in working capital:		
Decrease in inventories	3,822	317
(Increase)/decrease in trade and other receivables	(14,133)	15,986
Increase in intercompany payable to parent	812	200
Decrease in trade and other payables	(21,200)	(21,911)
Increase in provisions	1,037	142
Cash generated from/(absorbed by) operations	116,317	(7,524)

The decrease in inventories includes the unwinding of the inventory fair value adjustment of £12.7m with an underlying increase of £8.9m.

37 Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the year.

	31 December 2022 £'000	31 December 2021 £'000
Cash and cash equivalents	92,141	141,210
Convertible loan notes	-	(11,176)
Bank loan	(947,016)	(931,206)
Lease liabilities	(100,249)	(112,165)
Net debt	(955,124)	(913,337)

37 Net debt reconciliation **(Continued)**

	Liabilities from financing activities					Other assets	
	Loan notes	Convertible loan notes	Bank loan	Lease liabilities	Sub-total	Cash and cash equivalents	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net debt as at 14 May 2021	-	-	-	-	-	-	-
Acquired from business combinations	(224,800)	-	(174,000)	(113,827)	(512,627)	105,581	(407,046)
Non-cash conversion of loan notes	65,000	(65,000)	-	-	-	-	-
Non-cash conversion of equity instruments	159,800	53,824	-	-	213,624	-	213,624
Cash flows	-	-	(751,630)	1,964	(749,666)	35,629	(714,037)
Interest expense	-	-	(5,576)	(302)	(5,878)	-	(5,878)
Net debt as at 31 December 2021	-	(11,176)	(931,206)	(112,165)	(1,054,547)	141,210	(913,337)
Interest expense	-	-	(5,872)	(3,181)	(9,053)	-	(9,053)
Cash flows	-	11,176	-	16,163	27,339	(49,069)	(21,730)
Foreign exchange	-	-	(15,985)	-	(15,985)	-	(15,985)
Lease modifications, additions and disposals	-	-	-	(5,043)	(5,043)	-	(5,043)
Other non-cash *	-	-	6,047	3,977	10,024	-	10,024
Net debt as at 31 December 2022	-	-	(947,016)	(100,249)	(1,047,265)	92,141	(955,124)

* The other non-cash item of £10,024k represents removal of non-debt related items which were included in net debt as at 31 December 2021.

38 Company information

Patagonia Holdco 3 Limited is the ultimate parent of the Patagonia Holdco 3 Limited Group ("the Group"). The nature of the Group's operations and its principal activities are set out in the Strategic Report. The registered office is c/o Huws Gray Ltd Head Office, Industrial Estate, Llangefni, Anglesey, Wales, LL77 7JA.

These financial statements are presented in pounds sterling, the currency of the primary economic environment in which the Group operates.

39 Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 and as such these financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards 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.

As permitted by section 408 of the Companies Act 2006, the profit or loss of the Company has not been presented.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IFRS 2 Share Based Payments in respect of group settled share-based payments;
- The requirements of IFRS 7 “Financial Instruments: Disclosures”
- The requirements of paragraphs 91 to 99 of IFRS 13 “Fair Value Measurement”
- The requirement in paragraph 38 of IAS 1 “Presentation of Financial Statements” to present comparative information in respect of paragraph 79(a)(iv) of IAS 1
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 “Presentation of Financial Statements”
- The requirements of IAS 7 “Statement of Cash Flows”
- The requirements of paragraphs 30 and 31 of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Error”
- The requirements of paragraphs 17 and 18A of IAS 24 “Related Party Disclosures”
- The requirements in IAS 24 “Related Party Disclosures” to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 “Impairment of Assets”.

Where required, equivalent disclosures are given in the consolidated financial statements of Patagonia Holdco 3 Limited.

40 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group’s accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The areas involving significant estimates or judgements are outlined below:

Significant estimate - Impairment of investments
Investments are initially valued at cost and subsequent annual impairment reviews are carried out if an impairment trigger is identified. Calculation of any impairment requires judgements to be made as to the recoverability of the future economic benefit of the investments. Changes to assumptions regarding the forecast trading performance of the subsidiaries might give rise to a material impairment in the next financial year.

41 Directors' remuneration and employees

The Company incurs no costs for remunerating the directors. The emoluments of directors are paid by fellow group companies and are not recharged.

The Company has no employees.

42 Investments

	Non-current	
	2022	**2021**
	£'000	**£'000**
Investments in subsidiaries	918,874	918,874

Movements in non-current investments

	Shares in subsidiaries £'000
Cost or valuation	
At 1 January 2022 & 31 December 2022	918,874
Carrying amount	
At 31 December 2022	918,874
At 31 December 2021	918,874

43 Borrowings

	2022	**2021**
	£'000	**£'000**
Borrowings held at amortised cost:		
Shareholder loans	-	11,176

44 Trade and other payables

	2022	**2021**
	£'000	**£'000**
Amounts owed to fellow group undertakings	65,000	65,000

Amounts owed to fellow group undertakings are unsecured, interest free and repayable on demand.

45 Capital commitments

The company had no capital commitments as of 31 December 2022 and 31 December 2021.