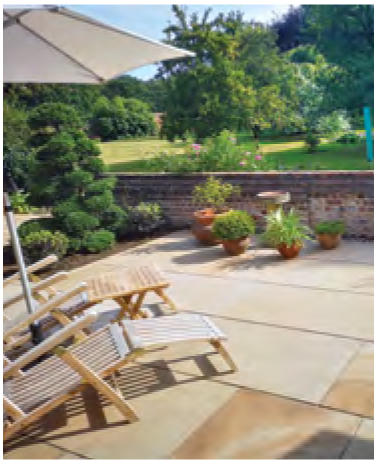
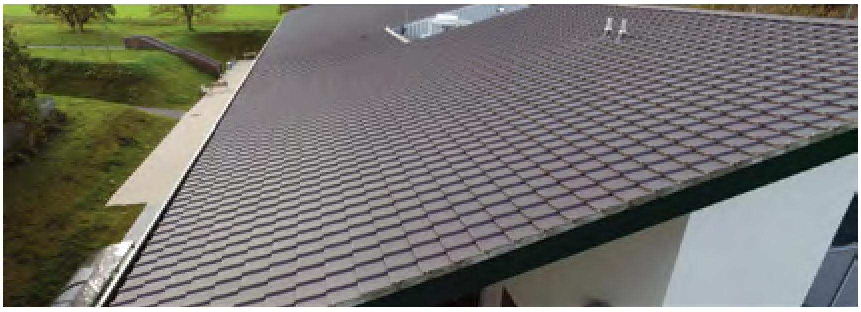
Transformation, resilience and **innovation**

Marshalls
Annual Report and Accounts 2022

We create better spaces by **putting people, communities and the environment first**





The Group is a leading manufacturer of products for the built environment. We are **committed to quality in everything we do**, including environmental and ethical best practice.

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Front cover (bottom right) – Wembley Park – Tarvos granite setts, Tegula paving, Birco 100 channel, Conservation X Kerb, Conservation X step treads and risers

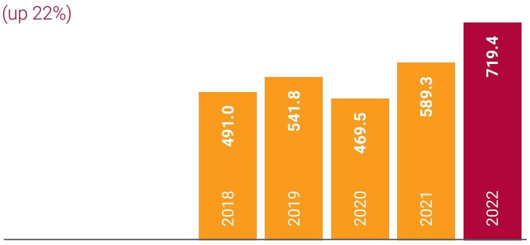
Highlights

Transformational acquisition, **record adjusted results and well positioned for when markets improve**

Revenue (£'m)

£719.4m

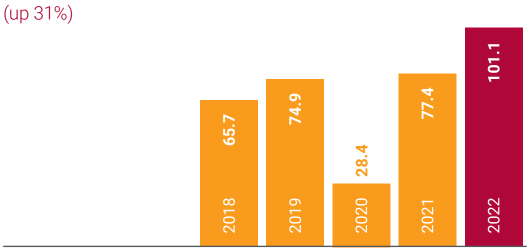
(up 22%)



Adjusted operating profit (£'m)

£101.1m

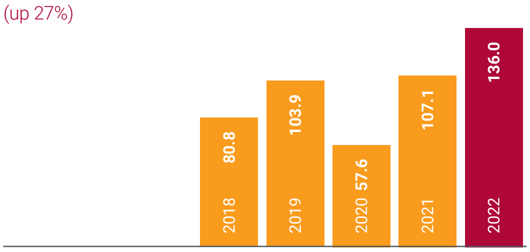
(up 31%)



Adjusted EBITDA (£'m)

£136.0m

(up 27%)



Adjusted profit before tax (£'m)

£90.4m

(after adding back adjusting items)
(up 23%)

Adjusted basic EPS (p)

31.3p

(before adjusting items)

Reported profit before tax

£37.2m

(on a reported basis)
(down 46%)

Reported EPS(p)

11.4p

Adjusted proforma return on capital employed (%), after adding back adjusting items

13.3%

6.4% on a reported basis
(2021: 20.6%)

Full year dividend recommended (p)

15.6p

(2x cover)

Strategic highlights

- Transformational acquisition of Marley Group plc ("Marley") completed on 29 April 2022
  - Accelerated the diversification of the Group's product offering providing increased resilience through the cycle
  - Traded robustly ahead of plan during the post acquisition period
  - Integration tracking in line with plan and management remain confident of delivering operational improvements
- Conservative capital structure maintained - increased priority to deleveraging in capital allocation policy
- Ongoing investment in leading edge technology to enhance capabilities and efficiency - £24 million dual block plant expected to be operational in the first half of 2023 with exciting new product development opportunities
- New digital trading platform "Dropship" developed which extends the range of products offered by merchants
- Reduced volumes and profitability in Landscape Products resulted in decisive action taken to reduce capacity and the annual cost base by £10 million
- Good progress made on ESG priorities - carbon sequestration to be trialled in a factory environment and cement reduction plan being executed

Financial highlights

- Revenue growth of 22% over 2021 which included eight months' contribution from the acquisition of Marley; growth of 1% on a like-for-like basis
- Adjusted operating profit of £101.1 million, an increase of 31% on 2021 reflecting the benefit of the Marley acquisition (statutory operating profit; £47.9 million, 2021: £76.2 million)
- Adjusted profit before tax of £90.4 million, an increase of 23% on 2021
- Profit before tax on a statutory basis was £37.2 million (2021: £69.3 million), including the impact of adjusting items of £53.2 million
- Adjusted basic earnings per share up 7% at 31.3 pence per share (statutory earnings per share: 11.4 pence; 2021: 27.5 pence)
- Net debt of £191 million (on a pre-IFRS 16 basis) and leverage of 1.35 times adjusted proforma EBITDA
- Proposed final dividend of 9.9 pence making a full year dividend of 15.6 pence, an increase of 9% compared to 2021

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www.marshalls.co.uk

Notes

1. Alternative performance measures are used consistently throughout this Annual Report. These relate to like-for-like revenue growth, EBITA, adjusted proforma EBITA, EBITDA, adjusted EBITDA, adjusted proforma pre-IFRS 16 EBITDA, adjusted proforma return on capital employed ("ROCE"), net debt, pre-IFRS 16 net debt, pre-IFRS 16 net debt to adjusted proforma EBITDA, adjusted operating cash flow and results after adding back adjusting items. For further details of their purpose, definition and reconciliation to the equivalent statutory measures, see Note 1.
2. The results for the year ended 31 December 2022 have been included after adding back adjusting items. These are set out in Note 4.
3. Following a change to the reporting segments and the inclusion of the amortisation of acquired intangibles in adjusting items, the comparative figures have been restated to ensure consistent classification with the analysis reported for the year ended 31 December 2022 (Note 2).

Our Purpose Roadmap

Doing the **right things**, for the **right reasons**, in the **right way**

Our purpose is to create better spaces and futures for everyone: socially, environmentally and economically

Read more about our purpose on **page 4**

Our mission is to deliver sustainable growth through a brand that drives customer specification of innovative product solutions for the built environment

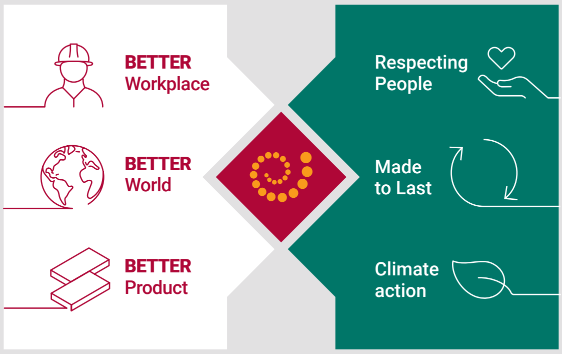
Read more about our mission on **page 7**

Our strategic goal is to become the UK's leading manufacturer of products for the built environment

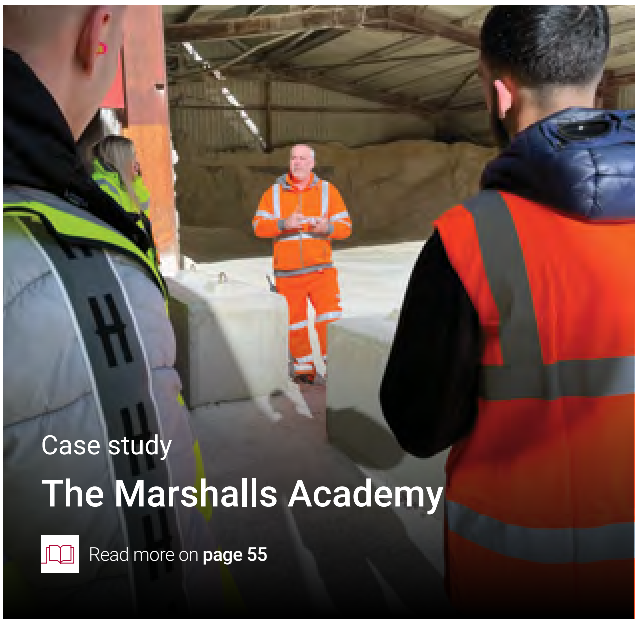
Read more about our strategic goal on **pages 36 to 39**

Strategic Report

What ESG means to Marshalls



Read more about our purpose on **page 4**



Case study

The Marshalls Academy

Read more on **page 55**

The Marshalls Way

Do the right things

- We have high standards
- We deliver market leading quality to our customers
- We strive to meet the needs and expectations of our customers
- We are continually developing the business and our people

For the right reasons

- We consider the long-term impact of every decision we make
- We are guided by strong principles
- We operate in the most ethical and sustainable way
- We take responsibility for every action

In the right way

- We set clear expectations
- We anticipate and embrace change
- We put people, communities and the environment first
- We work as a team to proactively propose solutions

Read more about The Marshalls Way on **page 95**

Case study

Carbon sequestration

Read more on **page 49**

Case study

Reducing our carbon footprint is providing innovation and growth opportunities

Read more on **pages 48 and 49**

At a Glance

A leading manufacturer of products for the built environment

Our objective is to deliver sustainable growth, whilst maintaining a strong balance sheet with a flexible capital structure and a clear capital allocation policy. The acquisition of Marley is a transformational step for the business and in 2022 this helped the Group deliver record adjusted profits and earnings per share.

Marshalls is the sector market leader in ESG matters, having reduced its carbon intensity by 50 per cent since 2008 and leading the way on human rights matters in its supply chain. Our innovation in concrete technology has unlocked cost and carbon reduction opportunities through innovative mix designs.

What we do

The Group is now more diversified and operates across three segments in the UK construction market, and offers a broad product range with specialist and innovative product applications.

The Group's three main end market areas are New Build Housing, Commercial and Infrastructure, and Private Housing RMI.

Landscape Products

Comprises the Group's Commercial and Domestic landscaping business, Landscape Protection and the International businesses.

- Paving
- Kerb
- Edgings
- Walling
- Protective street furniture

Read more about our landscape projects on **pages 18 and 19**

Landscape Products revenue

55%
(2021: 72%)

Building Products

Comprises the Group's Civils and Drainage, Bricks and Masonry, Mortars and Screeds, and Aggregates businesses.

- Drainage and water management solutions
- Concrete bricks
- Masonry
- Mortar
- Screeds
- Aggregates

Read more about our building projects on **pages 20 and 21**

Building Products revenue

27%
(2021: 28%)

Roofing Products

Comprises the Marley Roofing Products business, offering a comprehensive roofing system.

- Concrete tiles
- Clay tiles
- Timber battens
- Roof integrated solar panels

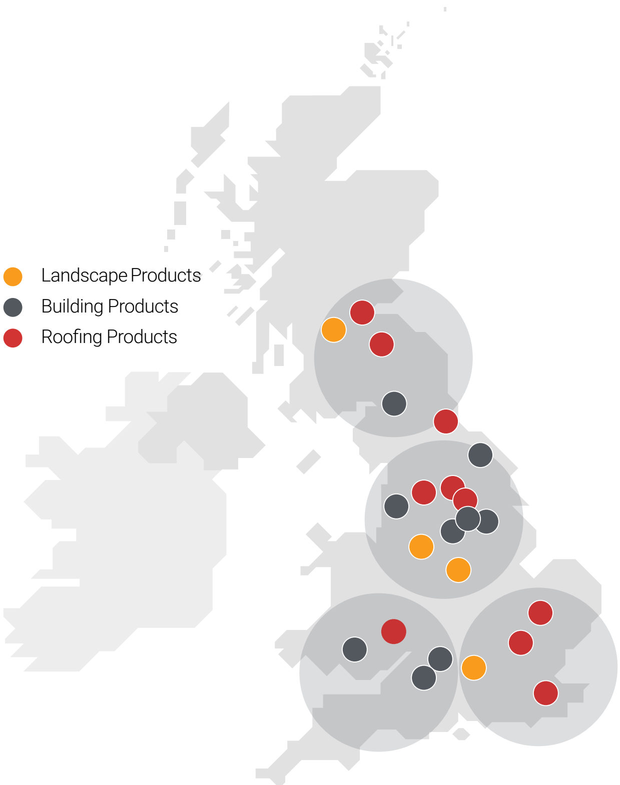
Read more about our roofing projects on **pages 22 and 23**

Roofing Products revenue

18%

Where we operate

We are well placed to unlock value from the expanded geographical footprint we have gained from our acquisition of Marley:



Two of Marley's manufacturing sites are capable of implementing tile/brick/block paving or a flag plant. The Group now has a range of options to extract value from the geographical network and an extended network review is underway.

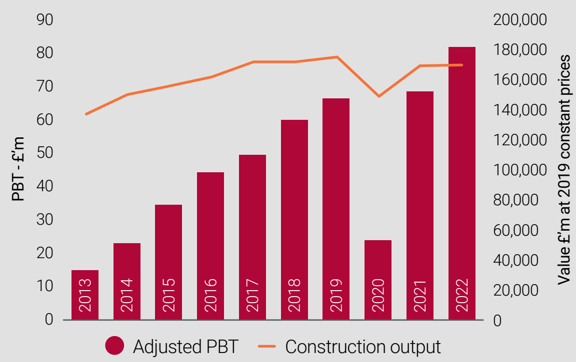
4
Distinct regions across North, Central, South East & South West

22
Concrete production facilities across the UK

1
Clay tile production facility

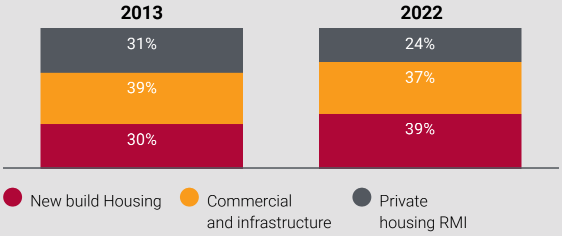
Track record of delivering shareholder value

Adjusted PBT and ONS construction output



Diversification of the Group

Revenue by end market:



Supportive long-term market fundamentals

- Structural deficit in new house building compared to Government targets
- Ageing housing stock underpins longer-term demand for Group's products
- Strong growth in infrastructure forecast over the medium term
- Lower carbon benefits of concrete products compared to clay
- Positive outlook for water management and drainage systems
- Roofing business focused on repair rather than the more discretionary improvement sector
- Strong outlook for the integrated solar panel business, supported by regulatory changes

Marley acquisition

In April 2022, we acquired Marley. A leader in the manufacture and supply of pitched roof systems and solutions, Marley is the perfect fit for Marshalls. The deal was transformational for the Group, further diversifying Marshalls coverage of the construction market sub-sectors.

Like Marshalls, Marley has a rich history and depth of expertise. The Company was founded in 1924. Marley has a similar commercial strategy to Marshalls, focusing on generating pull demand from the specifiers and influencers and is a UK leader in its field, manufacturing products such as concrete and clay roof tiles, roof fittings, timber battens, roof-integrated solar panels and roofing accessories.

Read more about the Marley acquisition on **pages 34 and 35**

Investment Case

Our diversification and **resilience journey**

Marshalls has executed a successful strategy to become a leading manufacturer of products for the built environment during the last eight years. The Group is now a more diversified, robust and resilient business operating across three segments in the UK construction market.

2013

2014

Capital investment – well-invested factories
Capital expenditure of £180 million since 2014 to generate growth

2015

Continuing development of operations and manufacturing efficiency and flexibility
Continues to generate efficiency opportunities and flexible manufacturing

2016

ESG leadership journey – carbon reduction commitments and reduced carbon footprint
Sustainability embedded in the strategy for almost two decades

Digital transformation
Launch of customer-focused digital strategy to improve customer experience

2017

Investment in logistics
Marshalls' own fleet of Euro 6 trucks ensures the most efficient vehicles and customer service

Acquisition of CPM
Acquired in October 2017, providing a comprehensive range of technical and innovative water management solutions

2018

Sustainable supply chain
Centralised procurement to optimise buying power and co-ordinate innovation

2019

Acquisition of Edenhall
Acquired in December 2018, manufacturing a range of sustainable concrete brick products

2020

Product range evolution
The continued focus on innovation and new product development ensures the focus on manufacturing and material technology capabilities

Carbon reduction plan approved by Science Based Targets initiative
We were the first UK company in our sector to have approved targets

2021

Dual block plant investment
The £24 million investment at St. Ives was approved in 2021 and is one of the most significant capital projects in Marshalls' history

2022

Acquisition of Marley
Acquired in April 2022, a market leader in the manufacture and supply of pitched roof systems

Establishment of three operating segments

Read more on **pages 18 to 23**

Strong track record
- Record revenue and adjusted profitability in 2022
- Strong cumulative annual growth rates across all metrics
- Consistent dividend growth

Supportive UK construction market
- Strong long-term outlook for Infrastructure and Housing
- Shortage of housing stock and latent requirement for roofing upgrades
- Increasing requirement for water management and drainage solutions

Diversified Group
- Transformational acquisition of Marley increases diversification and resilience
- Increased diversification evidenced in the Group's three new operating segments
- Broad range of end markets, including New Build Housing, Commercial and Infrastructure and Private Housing RMI

Efficient manufacturing network
- Increased network (post-Marley) with manufacturing plants, quarries and distribution sites across the UK
- Unique national network ensures proximity to customers and an efficient logistics footprint
- Well-invested sites with expansion and rationalisation opportunities

Logistics excellence and sustainable supply chain
- Own fleet with a broad range of capability
- Centralised procurement ensures optimal buying power and focus on sustainability
- Majority of raw materials sourced in the UK

ESG market leadership
- Sustainability and carbon reduction commitments embedded in strategy
- 33 per cent reduction in carbon in the last four years
- 100 per cent of concrete and natural stone products now fully recyclable

Strong balance sheet and cash generation
- Strong cash generation – OCF: EBITDA of 91 per cent in 2022
- Net debt of £236 million at 31 December – with conservative gearing of 35 per cent
- Significant headroom in bank facilities – with net debt: EBITDA less than 1.5 times

Clear capital allocation policy
- Priority given to organic capital investment (£25 million capital expenditure planned for 2023)
- Focus on innovation, R&D and NPD and on reducing the carbon intensity of manufactured products
- Dividend policy of two times dividend cover (based on adjusted earnings) over the business cycle
- New deleveraging objective added this year

Focused growth strategy
- Goal to become the UK's leading manufacturer of products for the built environment
- Underpinned by eight strategic growth pillars
- Enabled by people and talent development

Focused growth strategy

Brand preference for product
- Aim to create product specifications
- Utilise strong brand and develop relationships
- Early involvement in any project

Customer centricity
- Aim to have the best customer experience
- Provide excellent customer service
- Support the Group's brand leadership

Growth in the emerging business
- Expand into new growth areas
- Achieve sustainable growth
- Increase profit margins and market share

Logistics excellence
- Deliver logistics excellence
- Provide outstanding customer satisfaction
- Latest technology combined with low emissions

Operational excellence
- Well-invested manufacturing facilities
- Utilising the best tools, processes and systems
- Focus on flexibility and agility to respond to market

Sustainable supply
- Sourcing sustainable materials, products and solutions
- Sustainable and ethical supply chain
- Reducing embedded carbon

New product development ("NPD")
- Delivering market leading product innovation
- Developing best-in-class facilities
- Innovative solutions to deliver growth

Digital transformation
- Investing in digital and forward-thinking technology
- Digital standard for the industry
- Extending B2B digital trading

Read more on **pages 36 to 39**

Managing risk

Risk management process remains robust with Marley now integrated

Risk process
- Formal process to identify, assess and analyse current and emerging risks
- Robust Risk Register process which now includes Marley
- Mitigating controls constantly monitored
- Controls subject to internal audit
- Detailed action plans developed for identified risks

Attitude to risk
- We adopt a conservative approach to risk management
- We are prepared to accept a certain level of risk to remain competitive
- We seek to mitigate exposure to all forms of strategic, financial and operational risk
- We aim to ensure that all controls are operating effectively
- We aim to ensure that any residual risk is within our identified acceptable risk appetite

Read more on **pages 66 to 75**

Key risks
- Macro-economic and political
- Cyber security
- Supply chain
- Climate change
- Human rights
- Extreme weather
- New technologies
- Legal and regulatory
- Competition
- Project delivery
- Health and safety
- People

> The acquisition of Marley is a major step in delivering our strategic goal to become the UK's leading manufacturer of products for the built environment.

Marshalls has made significant progress in a challenging year and following the acquisition of Marley, alongside actions taken by the management team, the Group is stronger and more resilient

Summary

- Revenue up 22% compared with 2021, 1% on a like-for-like basis
- Record adjusted profit before tax of £90.4 million, despite tough market conditions (statutory profit before tax: £37.2 million)
- Actions taken to reduce capacity expected in Marshalls Landscape Products to reduce cost base by £10 million per annum
- Final dividend proposed of 15.6 pence per share
- Clear strategy with sustainability embedded – innovation in concrete technology and carbon reduction opportunities
- Diversified product sector reach across the built environment
- Continued focus on health, safety and employee wellbeing

Overview

The Group has made significant progress during 2022, despite a number of challenges. The transformational acquisition of Marley Group plc ("Marley") was completed on 29 April 2022. Following this acquisition, the Group is now a more diversified business which will benefit from the greater scale and resilience that Marley and other recent acquisitions bring to the Group.

The Group's overall performance includes encouraging results from both the Marshalls Building Products and Marley Roofing Products operating divisions. Marshalls Landscape Products, which has a greater exposure to the discretionary element of Private Housing RMI, faced more challenging market conditions from the second quarter of the year.

Driven by external factors, operational challenges continue, including increased market volatility and significant cost inflation, particularly in relation to energy supplies. The raw material shortages, experienced in 2021, have eased but there remain labour market constraints and skill shortages. Your Board has acted quickly in response to the reduced demand in Marshalls Landscape Products and has implemented actions to right-size capacity and the cost base, including the mothballing of manufacturing capacity at our Sandy site. These actions were concluded in December 2022 and are expected to reduce operating costs by approximately £10 million. Whilst this is the right thing to do at this time, a key strength of Marshalls is the flexibility it retains in its manufacturing capability. The Sandy site is still being used as a logistics hub and the plant can be recommissioned in the future if required.

There have been many achievements to be proud of during the year. These have been delivered because we have a strong culture and a focus on collaboration that epitomises The Marshalls Way. Our culture is all about teamwork and we have continued to support colleagues, customers and all other stakeholders. I am very proud of the Group's response to the more difficult trading conditions during the second half of 2022 and we have continued to do "the right things, for the right reasons, in the right way."

Results

Group revenue for the year ended 31 December 2022 was £719.4 million (2021: £589.3 million), which represents year-on-year growth of 22 per cent including the benefit of the acquisition of Marley. This is a record annual revenue for the Group. On a like-for-like basis, Group revenue growth was one per cent.

The Group's adjusted operating profit was £101.1 million (2021: £77.4 million) and statutory operating profit was £47.9 million (2021: £76.2 million). Adjusted EBITDA was £136.0 million (2021: £107.1 million). Adjusted earnings per share was 31.3 pence (2021: 29.2 pence), and earnings per share on a statutory basis was 11.4 pence (2021: 27.5 pence). Further details about the adjusting items are explained on pages 162 and 163. Due to the acquisition of Marley, year-end net debt, on a pre-IFRS 16 basis increased to £190.8 million (2021: £0.1 million net cash) and £236.6 million (2021: £41.4 million) on a reported basis. Marshalls continues to have a strong cash generation and we maintain good headroom against our bank facility and covenants.

Dividends
The Group maintains a progressive dividend policy, following the acquisition of Marley, of continuing to pay a dividend based on two times cover on adjusted earnings per share. This policy provides increased returns for shareholders, whilst at the same time recognising an appropriate degree of caution and stewardship.

The Board is now proposing a final dividend of 9.9 pence per share which, together with the interim dividend of 5.7 pence, makes a combined dividend of 15.6 pence per share (2021: 14.3 pence), an increase of nine per cent. This compares with adjusted earnings per share of 31.3 pence for the year ended 31 December 2022.

Marshalls' strategy
The acquisition of Marley is a major step in delivering our strategic goal to become the UK's leading manufacturer of products for the built environment. We have a clear vision for the future which is supported by The Marshalls Way. We continue to focus on our key growth pillars whilst flexing our approach to reflect the macro-economic backdrop. These focus on innovation, efficiency and cost reduction. Our ultimate aim is to create better spaces and futures for everyone, socially, environmentally and economically, whilst also supporting our Company values, and our strategy for long-term success is based on active communication with all our stakeholders.

ESG strategy
The Group is committed to the promotion of strong environmental, social and governance objectives. Our ESG strategy has three pillars, which are "Respecting People", "Climate Action" and "Made to Last". These are embedded into our business model and our ESG agenda is explained in more detail on pages 42 to 53. Our ESG strategy continues to generate organic growth opportunities which, going forward, will be a source of competitive advantage. The Board will continue to focus on culture and people engagement. Our priorities include work on employee wellbeing and safety, succession and development planning, diversity, equity, respect and inclusion. Angela Bromfield leads the Board's engagement with the Employee Voice Group which includes employees elected from all parts of the Group. This initiative has proved very successful and has contributed to the establishment of a number of positive initiatives during the last year. Further details can be found on pages 54 to 59.

Environmental
Our investment in concrete technology has unlocked cost and generated carbon reduction opportunities through our investment in Tri-blend powder technology and the production of lower embodied carbon mix designs. We are trialling carbon sequestration at our concrete brick factories using CarbonCure Technologies' carbon mineralisation technology that reduces and removes carbon dioxide across the concrete manufacturing process. These initiatives are explained in more detail in case studies on pages 48 and 49.

Our commitment for the Marshalls businesses (excluding Marley) is to reduce Scope one and two greenhouse gas emissions by 59 per cent per tonne of production by 2030 from a 2018 base year. For Scope three emissions, we have also targeted that 73 per cent of our suppliers by emissions, covering purchased goods and services and upstream transport and distribution, will have science-based targets by 2024. Our emission reduction targets have been approved by the Science Based Targets initiative as consistent with levels required to meet our net-zero commitment with a 1.5°C trajectory. However, with the addition of Marley into the Group, 2030 may not be a realistic target for the enlarged business to achieve net-zero. Marley has a very different energy usage profile than Marshalls and, as a result, it will require a fundamental review of our roadmap for the Group. The Science Based Targets initiative also requires companies to recalculate their targets following a major change, such as an acquisition. The process to re-baseline and calculate our new targets will start in 2023. We remain fully committed to our carbon reduction journey and want to move forward as a Group.

Social
We continue to take the lead in supporting and upholding human rights, at home and overseas in our supply chain. We aim to ensure that all our products and services are ethically sourced and sustainable. Our approach incorporates rigorous analysis and supply chain mapping via Verisk Maplecroft and this information is supplemented with knowledge gained from our extensive networks and partners, both in the UK and overseas.

We joined the Ethical Trading Initiative in 2006 and continue to support the UN Global Compact Sustainable Development Goals. Marshalls has again been awarded the Fair Tax Mark accreditation. This recognises social responsibility and transparency in our tax affairs.

Governance
We are committed to the highest standards of corporate governance and we comply with all the provisions of the UK Corporate Governance Code as outlined in our Corporate Governance Statement on pages 78 to 91. Our ESG Steering Committee, which includes our Executive team and Board members, is driving our sustainability, governance and ESG priorities. To ensure a strong alignment between the interests of management and our shareholders, a large proportion of management's remuneration continues to be in shares which must be retained for up to five years. Further details of how the Board exercised governance, and was fully involved with the ongoing engagement with stakeholders throughout the year, are set out in the case study about the acquisition of Marley on pages 34 and 35.

Board changes
Tim Pile is retiring as a Non-Executive Director and Board member at the Company's 2023 AGM. I would like to thank Tim for sharing his wealth of knowledge and experience and for his long service on the Board. Diana Houghton was appointed as a Non-Executive Director with effect from 1 January 2023 and joins the Audit, Remuneration and Nomination Committees. Simon Bourne was appointed to the Board on 1 April 2022 as Chief Operating Officer.

Our people
I am privileged to serve as your Chair and continue to regard our people as being a major strength of the business. There have been many achievements in 2022 that we can be proud of and the contribution of all colleagues has been considerable. I would like to thank every member of our team for their commitment, hard work and continuing dedication to Marshalls.

Outlook
The Board remains confident that the Group is well placed to deliver profitable long-term growth when market conditions improve and continues to focus on its key strategic initiatives. In the shorter-term, whilst the macro-economic climate is expected to remain challenging and assuming a progressive improvement in our end markets during the year, the Board remains confident of delivering a result that is in-line with its expectations.

The Board are mindful that the macro-economic climate continues to be challenging and are planning for an overall reduction in volumes in 2023 in-line with the Construction Products Association's Winter forecast. The first half of the year is expected to be more challenging due to stronger comparators and difficult economic conditions with some improvement expected in the second half driven by a strong labour market, declining inflation and energy prices, and the stabilisation of mortgage rates.

Against this backdrop, trading in the seasonally low volume months of January and February, was subdued due to weak end market demand and poor weather conditions. Revenue growth was 18 per cent, including the benefit of Marley, but on a like-for-like basis revenue contracted by 10 per cent. The weakest performances were in the domestic side of Marshalls Landscape Products, which is trading against the strongest comparators from 2022.

Order intake has improved in recent weeks, and we will continue to monitor performance, respond flexibly to evolving market conditions and execute self-help initiatives as required. We also expect a strong performance from our integrated solar business, supported by changes in building regulations, and our concrete brick business is expected to build market share due to its low carbon product range.

Vanda Murray OBE
Chair
15 March 2023

> "The integration of Marley into the Group continues to progress in line with plan, and we remain confident of extracting value from operational improvements.

The Group delivered **record sales and adjusted profit** during 2022

Summary

- Record trading performance with revenue of £719.4 million (2021: £589.3 million)
- Adjusted profit before tax of £90.4 million, despite a challenging market backdrop (statutory profit before tax: £37.2 million)
- Net debt of £236.6 million (2021: £41.1 million)
- Robust balance sheet with pre-IFRS 16 net debt to adjusted, pre-IFRS 16 proforma EBITDA of 1.35 times
- Dual block plant investment at St. Ives nearing completion
- Marshalls continues to be the sector market leader in ESG – having reduced its carbon intensity by 50% since 2008

Introduction

Marshalls has executed a successful strategy over the last eight years to become a leading manufacturer of products for the built environment, through a combination of self-help investment and targeted acquisitions. The acquisition of Marley in April 2022 has been transformational for the Group given its scale and complementary product ranges, and has significantly increased diversification and embedded resilience. 2022 has seen a record performance for Marshalls in terms of both revenue and adjusted profit before tax, in spite of challenging market conditions which adversely impacted our Landscape Products business.

Well-publicised macro-economic and geopolitical factors have impacted both UK and worldwide markets. The conflict in Ukraine continues to impact world markets, particularly in relation to energy supplies, and significant cost inflation has put pressure on household budgets and negatively impacted consumer confidence. Cost increases continue to be largely recovered through price increases and our centralised procurement team is actively managing our supply chain to create flexibility and reduce risk.

The increased diversification from both Marley and the strong growth experienced by our other recent acquisitions in building materials and water management has meant that the Group now operates in three main market areas. These are New Build Housing, Commercial and Infrastructure, and Private Housing RMI, and the Group now reports under three separate reporting segments, being Marshalls Landscape Products, Marshalls Building Products and Marley Roofing Products.

2022 trading summary

Group revenue for the year ended 31 December 2022 was £719.4 million (2021: £589.3 million), which is 22 per cent higher than 2021 including the benefit of Marley's revenues following acquisition. On a like-for-like basis, Group revenue increased by one per cent.

Marshalls Landscape Products experienced difficult trading conditions and reported revenue of £394.1 million (2021: £424.8 million) which represents a reduction of seven per cent. The Group has seen a softening of demand for Private Housing RMI in both our UK and International markets, and domestic volumes were down by around one-third compared to the prior year. We have maintained flexibility in our manufacturing network and this has allowed us to respond to the reduced demand by reducing our manufacturing output to manage inventory levels, and reduce capacity and costs in our manufacturing network. Aligning capacity with the expected lower levels of demand is expected to reduce operating costs by around £10 million per annum. Segment operating profit reduced by £17.1 million to £45.3 million compared with 2021 and this resulted in operating margins reducing to 11.5 per cent (2021: 14.7 per cent).

Marshalls Building Products reported revenue growth of 17 per cent to £193.1 million (2021: £164.5 million). The performance of the Bricks and Masonry business was particularly strong, driven by a strong demand for bricks from housebuilders and the lower carbon benefits of concrete products compared to clay. Segment operating profit increased by £7.2 million to £26.8 million compared with 2021 and this resulted in operating margins increasing to 13.9 per cent (2021: 11.9 per cent).

Marley Roofing Products delivered revenue of £132.2 million in the post-acquisition period, which represents a growth of six per cent compared to the corresponding period in 2021. The business traded ahead of our original expectations with segment operating profit in the post-acquisition period being £34.4 million, which is an increase of one per cent compared with the prior period, with solar roofing in particular showing good growth. The integration of the Marley business has progressed in line with plan and is now well embedded and we have a clear focus on value extraction opportunities, including from operational best practice.

2022 results

The Group's adjusted operating profit was £101.1 million (2021: £77.4 million) and the resulting Group adjusted operating profit margin was 14.1 per cent for the year ended 31 December 2022 (2021: 13.1 per cent).

The reported operating profit for the year ended 31 December 2022 is £47.9 million including adjusted items totalling £53.2 million. The adjusting items comprise £14.9 million for transaction costs relating to the acquisition of Marley and £11.2 million in relation to certain non-cash adjustments arising as a consequence of the purchase price allocation ("PPA") exercise required to recognise the assets of Marley on acquisition at fair value and the amortisation of acquired intangibles. Additional contingent consideration of £3.9 million has been charged as an adjusting item following a re-assessment of the amounts that will become payable to vendors arising in relation to Marley's acquisition of Viridian Solar Limited in 2021. In addition, the restructuring exercise taken in quarter four to reduce capacity and costs led to the impairment of property, plant and equipment and redundancy costs. In total these were £13.0 million, including £10.0 million of non-cash items, and have been included as an adjusting item. Adjusting items also include an impairment charge of £10.2 million in respect of assets in the Belgian subsidiary as a result of an impairment review carried out in response to a downturn in the business performance during 2022. These are explained in more detail in Note 4 on pages 162 and 163.

Adjusted profit before tax was £90.4 million (2021: £73.3 million). Reported profit before tax, after adjusting items of £53.2 million, was £37.2 million (2021: £69.3 million). Adjusted earnings per share was 31.3 pence (2021: 29.2 pence) and reported earnings per share was 11.4 pence (2021: 27.5 pence).

On 3 May 2022, the Group drew down the new four-year term loan of £210 million to support the acquisition of Marley. Capital discipline remains a key priority and the Group's strong cash generation has continued with the aim being to repay the term loan over the medium term. Reported net debt at 31 December 2022 was £236.6 million (2021: £41.1 million). On a pre-IFRS 16 basis, net debt was £190.8 million (2021: £0.1 million net cash). The Group's balance sheet continues to be robust, with pre-IFRS 16 net debt to adjusted pre-IFRS 16 proforma EBITDA being 1.35 times at 31 December 2022.

Operational initiatives and strategy

During the year ended 31 December 2022, the Group continued to invest in innovation and capital projects. Capital expenditure was £30.1 million, which included further investment in the new dual block plant at St. Ives. The project to construct the dual block plant at the

> "The development pipeline continues to be strong and the Group is committed to providing high performance product solutions that will reduce our carbon footprint.

Group's site at St.Ives, Cambridgeshire, is now in the commissioning phase and producing its first blocks. We expect it to be operational in the first half of 2023. The facility is the first of its kind in the UK and will significantly increase capacity, improve efficiency, enable multiple secondary finishing and facilitate the launch of new products. The project facilitates the launch of a new range of face-mix products that have aesthetic characteristics that are like natural stone and will also enable the Landscape Products business to innovate further in its product range. We continue to generate a good pipeline of capital investment projects that will drive future organic growth and we are now planning for capital investment of £25 million in 2023.

There continues to be a focus on innovation and new product development across all parts of the Group. The development pipeline continues to be strong and the Group is committed to providing sustainable, high performance product solutions that will reduce our carbon footprint. Investment is being driven by our sustainability agenda and we are making good progress in carbon sequestration together with Scope 1 and 2 intensity improvements. We have further reduced carbon emissions in 2022.

An example of sustainable product development is the introduction of Tri-blend powder technology into our site at Ramsbottom during the second half of 2022. The introduction of limestone powder into mix designs, as an additional cement substitute, has enabled a reduction in the cement content of 60 per cent and a reduction of embodied CO_2 of approximately 50 per cent. The intention is to roll out this technology across our concrete block paving network, starting in 2023.

Our overall strategy continues to focus on the maintenance of a strong balance sheet, a flexible capital structure and a clear capital allocation policy. The Group's ESG strategy continues to generate opportunities which, going forward, will be a source of significant competitive advantage.

Health and safety

We have continued to prioritise health and safety and we have maintained robust health and safety procedures throughout our manufacturing, logistics and office-based operations. In 2022, we have focused on integrating the health and safety functions of Marshalls and Marley, and we now have a full set of aligned health and safety KPIs, one of which is used as a measure in our incentive schemes. We are committed to taking the safety and wellbeing of our employees and other stakeholders to the highest possible level and have introduced our new mental health and wellbeing programme. Our goal is to recognise employee ill health as early as possible and to provide the best support that we can using our dedicated, external confidential Employee Assistance Helpline.

Martyn Coffey
Chief Executive
15 March 2023

> The acquisition of Marley accelerates our progress towards becoming the UK's leading manufacturer of products for the built environment.

A significant step towards achieving our strategic goal

Q What impact have the acquisitions made in the last few years had on the organisation?

A Over the last five years, the Group has acquired the CPM and Edenhall businesses and, most recently in April of last year, we made the transformational acquisition of Marley Roofing. These acquisitions have increased the scale and breadth of our operations and the Group has become much more diversified, with a greater range of product solutions supplying different markets areas. Consequently, the Group is now significantly more resilient against external market risks and volatility. All three recent acquisitions are creating operational improvement opportunities and enhancing manufacturing flexibility.

Q How does the acquisition of Marley align with Marshalls' culture?

A Marshalls' culture is underpinned by The Marshalls Way and "doing the right things, for the right reasons, in the right way." In common with Marshalls, Marley is a highly recognised brand with over 100 years of heritage and experience, and we consider it to be the "Marshalls of roofing". Marley is the market leader in the manufacture and supply of pitched roof systems to the UK construction market and has a strong market position across all core products. The business has an experienced management team and a strong cultural fit with Marshalls. This has been evidenced by the smooth and successful implementation of the integration plan over the last year.

Q What is Marshalls' overall strategic goal and how does the acquisition and re-positioning of the operating segments help to achieve this?

A Marshalls' strategic goal is to become the UK's leading manufacturer of products for the built environment. The acquisition of Marley accelerates this strategy by broadening the Group's product range and strengthening its market position, and provides a strong platform for future growth. The business has a strong commercial sales strategy, complementary sales channels and strategically located sites across the UK. The acquisition of Marley, and the strong growth in Marshalls' emerging businesses in recent years, has created the opportunity to report under three separate reporting segments. This reflects the Group's new management reporting framework and will provide greater focus for all three: Marshalls Landscape Products, Marshalls Building Products and Marley Roofing Products.

Q How has the acquisition strengthened Marshalls' business model and made the Group more resilient?

A Marley has an extensive, complementary range of products across the full roofing system and the acquisition consequently enhances the Group's exposure to this less discretionary and more cyclically resilient sector of the UK RMI market. This is underpinned by attractive structural drivers such as the UK's ageing housing stock with a latent need for roofing systems requiring upgrade or repair. The acquisition is transformational for the Group in terms of scale and the creation of three separate reporting segments, each selling into different end markets, significantly increases diversification and reduces the Group's exposure to cyclical risk.

Q Shall we expect any change to the sustainability strategy following the acquisition of Marley and the re-positioning of the operating segments?

A There will be no change in the sustainability strategy following the acquisition of Marley. Both businesses have been operating responsibly for over 100 years and are culturally aligned. In 2021, we made a commitment to reach net zero by 2030, and whilst achieving net zero remains our commitment. With the addition of Marley, 2030 may not be a realistic target for the enlarged business to achieve net zero. We remain fully committed to our carbon reduction journey and the process to re-baseline and calculate our new targets will start in 2023.

Each business segment has a programme of carbon reduction projects that will also generate significant commercial opportunity. These include Marley's solar roofing panel business, further details of which are provided in the case study below. Our sustainability strategy continues to be underpinned by the United Nations Global Compact's principles in the key areas of human rights, labour, the environment and anti-corruption.

Q What is Marshalls' approach to diversity and inclusion and health and safety following the integration of the Marley business into the Group?

A Marshalls' approach to both of these areas remains unchanged following the integration of Marley into the Group, and, as part of the integration process, a programme of work is underway to ensure alignment of policies and working practice. The Group remains fully focused on genuine, deep seated diversity and inclusion within the business. It is clear that this is a key focus area for stakeholders, including customers and employees. Health and safety alignment is a key integration work stream, with the aim of ensuring that policies and procedures are embedded into the "day-to-day" culture and behaviour of all employees and stakeholders.

Q Will the acquisition and increased debt alter the Group's capital allocation policy?

A The Group's aim is to maintain a strong balance sheet and a flexible capital structure that recognises cyclical risk and volatility and maintains a comfortable level of bank headroom. The financing structure of the acquisition of Marley was designed to be conservative with over 60 per cent of the consideration funded by equity. The Group has a new four-year term loan of £210 million, and the Group continues to operate with significant headroom against the facility and bank covenants. Our priority now is to utilise the cash generated by the combined businesses to repay the bank loan over the medium term and reduce leverage, but we will continue to fund organic capital investment opportunities and new product development.

The Group's capital allocation policy is set out in detail on page 64, and has been adjusted to include the deleveraging objective. The policy continues to prioritise organic capital investment, innovative research and development and new product development. Dividends will continue to be paid on the basis of a dividend cover of two times adjusted earnings. However, in our updated capital allocation policy, the deleveraging objective has now been included ahead of making significant acquisitions.

Case study

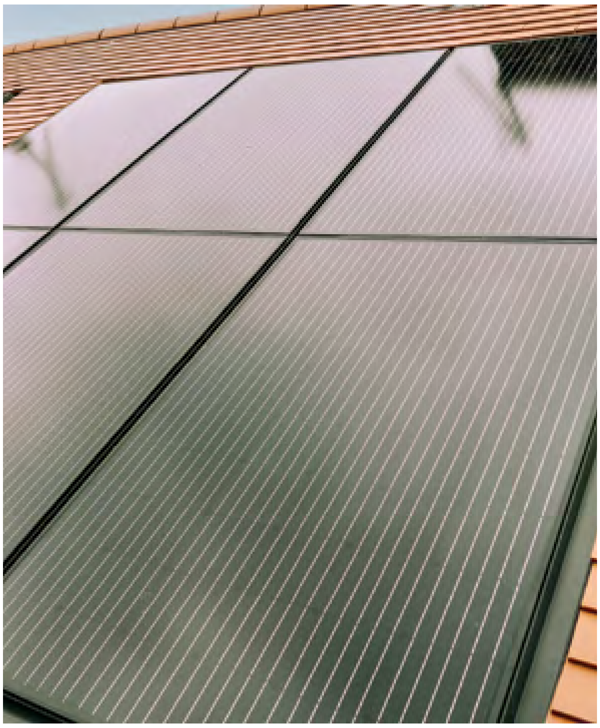
Marley roof system

Denbighshire Council has become one of the first local authorities in the UK to pilot a new type of solar pitched roof system, with the aim of cutting maintenance costs and helping tenants reduce their energy bills.

The pioneering refurbishment scheme has seen Marley's full pitched roof system, with integrated solar panels, installed on 110 homes and surveys are already taking place for a second, larger phase.

Roof refurbishment is an important part of Denbighshire Council's programme of external major repairs and energy efficiency improvements to its older properties. One of the biggest challenges is to bring the roofs up to modern standards in a cost-effective way, while retaining the original aesthetics. As well as requiring a like-for-like replacement for the old clay tiles, the council also needed a pitched roof solution that would minimise maintenance costs, reduce the likelihood of future repairs and incorporate solar technology to help tenants cut energy bills.

Read more about this on our website:
www.marshalls.co.uk/about-us



Our Markets

The CPA forecast that the **Construction Industry will return to growth in 2024** as the macro-economic environment improves

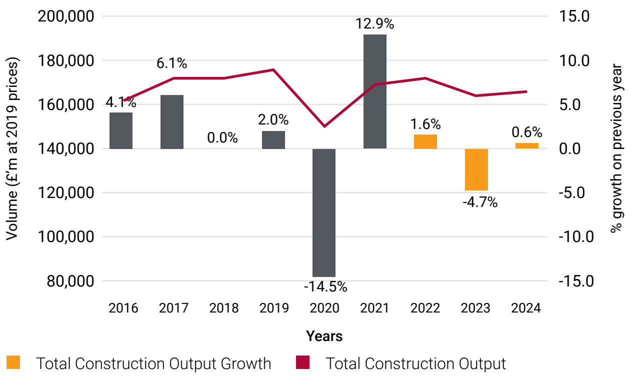
UK construction market forecast to contract in 2023 but longer-term structural growth drivers remain positive.

Overview

A core element of the Group's strategy has been to broaden its product range in order to complement its strong market position in landscaping products, with a particular focus on new build housing and water management. We accelerated the execution of our strategy through the acquisition of Marley in April 2022. The deal was transformational for the Group, building on the acquisitions of concrete pipe manufacturer, CPM, in 2017 and concrete brick manufacturer, Edenhall, in 2018 and further diversified the Group's coverage of the construction products market. We estimate that around 40 per cent of the enlarged Group's revenues are derived from each of the new build housing and commercial & infrastructure end markets. The remaining revenues of around 20 per cent are focused on private housing RMI and around two-thirds of this comes from driveway and patio products that are supplied to the UK market with the balance being less discretionary products and international revenues.

The conflict in Ukraine had a significant impact on global energy and commodity prices, placing additional pressure on economies and supply chains that were recovering from the COVID-19 pandemic. These factors resulted in significant cost inflation in the UK economy, progressive base rate increases by the Bank of England, leading to falling real wages, all of which put unprecedented pressure on household budgets. The UK Government's 'mini-budget' in September was received negatively by financial markets and resulted in a loss of confidence and a sharp increase in gilt rates, which fed through into material increases in the price of fixed rate mortgages. Taken together, this resulted in a reduction in consumer confidence, a weaker environment for major purchases and the expectation that the UK economy will contract before starting to recover in the second half of 2023. The economic challenges will inevitably feed into the output of the construction sector and therefore customer demand for the Group's products in 2023. This is reflected in the Construction Products Association's winter forecast which anticipates a contraction in activity of 4.7 per cent in 2023, with a weaker outlook for some of our key end markets. The CPA forecast that the construction industry will return to growth in 2024 as the macro-economic environment improves.

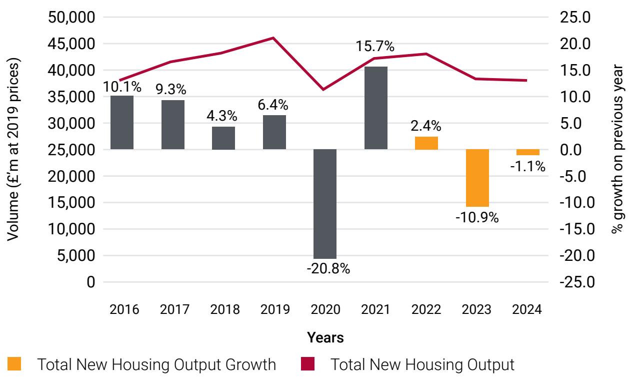
CPA total construction output forecast



New build housing

The new build housing sector was very resilient in 2022 and the CPA's winter forecast estimates volume growth of 2.4 per cent in 2022. This forecast was driven by the structural deficit in new house building compared to Government targets, a positive employment market and house price growth exceeding build cost inflation. Output in this sector is forecast to decline by 10.9 per cent in 2023 due to rising mortgage rates, falling real wages and low levels of consumer confidence.

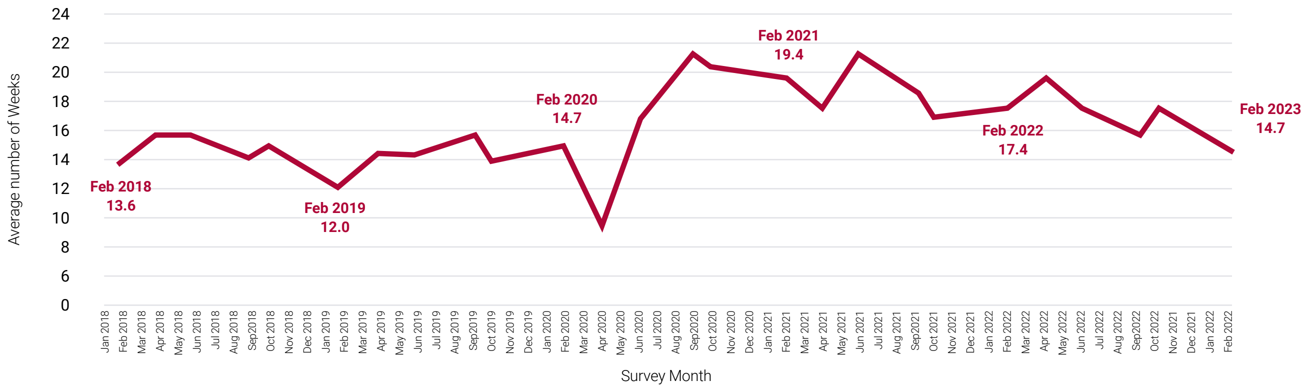
CPA total new build housing output forecast



Private housing RMI

Private housing RMI activity contributed significantly towards the recovery of construction following the first COVID-19 lockdown and grew by 24.6 per cent in 2021. The CPA is forecasting this sector to contract from the elevated levels reported in 2021 by four per cent and nine per cent in 2022 and 2023, respectively. This is due to a combination of the normalisation of expenditure priorities, a decline in consumer confidence and falling real incomes. Installer order books at the end of February 2023 moderated to 14.7 weeks (February and June 2022: both 17.4 weeks), which is in-line with pre-COVID levels and demonstrates continued demand for professional installations. However, there is reduced installation capacity compared to prior years and DIY activity levels contracted markedly compared to the elevated activity levels in 2021.

Marshalls Register installer order books



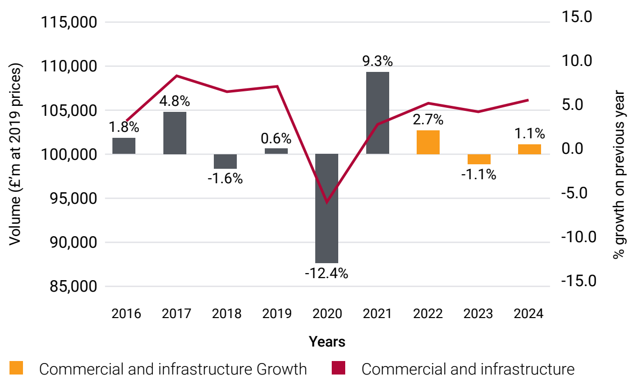
Commercial and infrastructure

Commercial & infrastructure end markets (incorporating other new work and non-private housing RMI) were also supportive in 2022 with a composite forecast of 2.7 per cent volume growth with infrastructure and industrial spend being the key drivers. Output in these end markets is forecast to contract in 2023 by 1.1 per cent with weakness in commercial and other RMI activity partially offset by continued growth in infrastructure output.

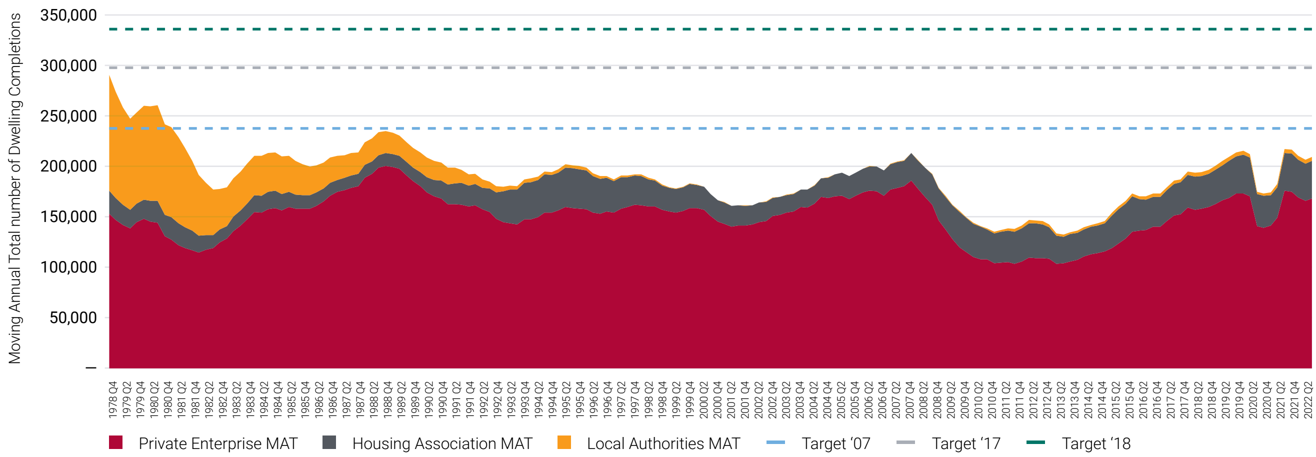
Longer-term structural growth drivers

The Board believe that the construction market continues to have attractive medium and long-term growth potential driven by the structural deficit in new housebuilding, an ageing housing stock that requires increased repair and maintenance and the need to continue improving UK infrastructure. The Group's strategy is underpinned by our strong market positions, established brands and focused investment plans to drive ongoing operational improvement. Notwithstanding the undoubted challenges that we will face in the short term, the Board remains confident that the Group is well placed to deliver profitable long-term growth when market conditions improve.

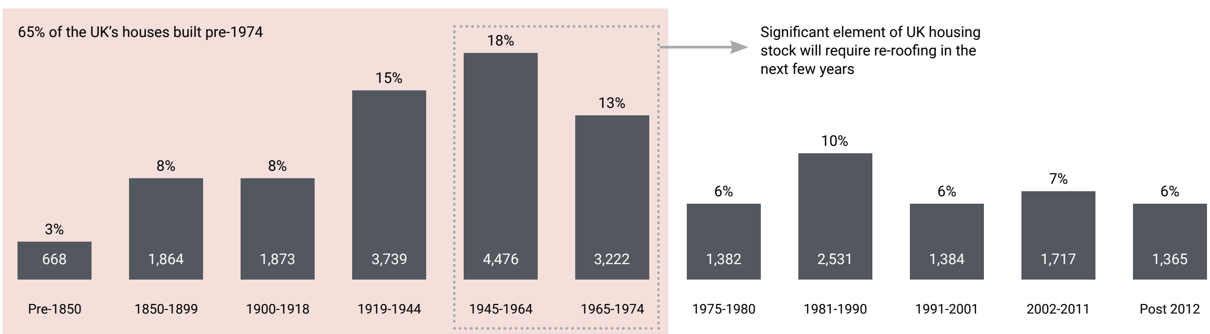
CPA composite commercial and infrastructure output forecast



House building volumes compared to government targets



UK's housing stock is ageing



Overview of Group financial performance

	Year ended 31 December 2022 £'m	Year ended 31 December 2021 (as restated) £'m	Change 22/21 %
Revenue	**719.4**	589.3	22
Net operating costs	**(618.3)**	(511.9)	
Adjusted operating profit	**101.1**	77.4	31
Adjusting items	**(53.2)**	(1.2)	
Statutory operating profit	**47.9**	76.2	(37)
Financial expenses	**(10.7)**	(6.9)	
Profit before taxation	**37.2**	69.3	(46)
Taxation	**(10.7)**	(14.4)	
Profit after taxation	**26.5**	54.9	(37)
Adjusted EPS - pence	**31.3**	29.2	7
Statutory EPS - pence	**11.4**	27.5	(59)
Full year dividend - pence	**15.6**	14.3	9
Net debt	**236.6**	41.1	
Net debt/(cash) - pre-IFRS 16	**190.8**	(0.1)	

Marshalls made significant strategic progress in 2022, which included the transformational acquisition of Marley Group plc ("Marley"). The contribution of Marley helped deliver a record financial performance at Group level, despite significant challenges in the Landscape Products business arising from a weak market backdrop particularly in private housing RMI.

Group revenue for the year ended 31 December 2022 was £719.4 million (2021: £589.3 million) which is 22 per cent higher than 2021 including the benefit of Marley's revenues following the acquisition. On a like-for-like basis, Group revenue increased by one per cent, with revenue growth in Marshalls Building Products and Marley being largely offset by a contraction in Marshalls Landscape Products.

Group adjusted operating profit was £101.1 million, which represents growth of 31 per cent, and this increase was driven by the benefit of Marley from 29 April 2022 together with a strong performance from Marshalls Building Products. This has been partially offset by Marshalls Landscape Products, where the impact of a softer private housing RMI market compared to the elevated levels reported in 2021 and the effect of higher prices suppressing demand, resulted in sharply lower volumes and profitability. Statutory operating profit was £47.9 million (2021: £76.2 million). The Group adjusted operating margin increased by one percentage point to 14.1 per cent (2021: 13.1 per cent) and reflects an improved performance by Marshalls Building Products and the benefit of Marley's structurally higher margins, partially offset by a compression of margins in Marshalls Landscape Products. Commentary on the performance of each reporting segment is set out on pages 18 to 23.

Adjusted operating profit is analysed as follows:

£'m	Year ended 31 December 2022 £'m	Year ended 31 December 2021 (as restated) £'m	Change 22/21 %
Marshalls Landscape Products	**45.3**	62.4	(27)
Marshalls Building Products	**26.8**	19.6	37
Marley Roofing Products	**34.4**	—	—
Central costs	**(5.4)**	(4.6)	(17)
Adjusted operating profit	**101.1**	77.4	31

The statutory operating profit is stated after adjusting items totalling £53.2 million, as summarised in the following table. Further details are set out at Note 4 on pages 162 and 163.

£'m	Year ended 31 December 2022 £'m	Year ended 31 December 2021 (as restated) £'m
Transaction related costs	**14.9**	—
Amortisation of acquired intangible assets	**7.3**	1.2
Fair value adjustment to inventory	**3.9**	—
Additional contingent consideration	**3.9**	—
Restructuring costs	**13.0**	1.2
Impairment of assets in Belgian subsidiary	**10.2**	—
Other	**—**	(1.2)
Adjusting items	**53.2**	1.2

Adjusted profit before tax was £90.4 million (2021: £73.3 million). Statutory profit before tax was £37.2 million (2021: £69.3 million), reflecting the impact of the adjusting items. Adjusted earnings per share was 31.3 pence (2021: 29.2 pence) which is a seven per cent increase year on year and represents a record for the Group. Reported earnings per share was 11.4 pence (2021: 27.5 pence), which is lower than the adjusted number due to the adjusting items and their tax effect.

The Group had net debt at 31 December 2022 of £236.6 million (2021: £41.1 million), including £45.8 million (2021: £41.3 million) of IFRS 16 lease liabilities. Net debt on a pre-IFRS 16 basis was £190.8 million compared to net cash of £0.1 million at December 2021. Net debt to EBITDA was 1.35 times at 31 December 2022 on an adjusted pre-IFRS 16 proforma basis (reported basis: 2.6 times). Good headroom is maintained against the new bank facility and its covenants, which will support investment priorities going forward, and were comfortably met as at 31 December 2022.

Christchurch Gardens, grey-white Trinculo, red-grey Mimas and silver Galatea granites, Scoutmoor Yorkstone and Rosalind granite bench

Case study

Specification sales

Our specification sales strategy continues to evolve to meet the needs of our specification customers. We see an increasing demand from these customers for low carbon products that will help them to reduce the carbon impact of construction projects. Our strong ESG credentials built over many years means that we are in a strong position to meet these needs. For example, we worked closely with FM Conway to engineer and propose a lower-carbon pavement structure for their client Westminster City Council's King Road low carbon trial. The resulting design used a combination shallower paving, leaner sub-base and novel materials to deliver a 46 per cent reduction in the embodied carbon of the materials used.

Read more about this on our website:
www.marshalls.co.uk/about-us

Landscape Products

Review of the year

Marshalls Landscape Products, which comprises the Group's Commercial and Domestic landscape business, Landscape Protection and the International businesses, delivered revenue of £394.0 million (2021: £424.8 million), which represents a contraction of seven per cent compared to 2021.

	2022 £'m	2021 £'m	22/21 %
Revenue	**394.1**	424.8	(7)
Segment operating profit	**45.3**	62.4	(27)
Segment operating margin %	**11.5%**	14.7%	(3.2ppts)

This reporting segment derives around 40 per cent of its revenues from Commercial and Infrastructure and approximately 30 per cent from each of New Build Housing and Private Housing RMI. The business was adversely impacted by weakness in Private Housing RMI, in both the UK and Belgium, driven by the discretionary nature of our domestic products, lower consumer confidence, a reprioritisation of household expenditure and falling real wages. Installer order books at the end of February 2023 moderated to 14.7 weeks (February and June 2022: both 17.4 weeks), which is in-line with pre-COVID levels and demonstrates continued demand for professional installations. However, there is reduced installation capacity compared to prior years and DIY activity levels contracted markedly compared to the elevated activity levels in 2021. This resulted in a reduction in domestic volumes of around one-third, with a weaker performance in the second half of the year partially driven by merchants adjusting stocking levels to align with reduced customer demand. The reduction in sales volumes was partially offset by price increases that were implemented to offset the impact of cost inflation, which in turn, also suppressed demand in all end markets.

Segment operating profit reduced by £17.1 million to £45.3 million. This was driven by the combined effect of lower volumes on gross profit and a significant reduction in the operational efficiency of manufacturing network due to reduced production volumes. The impact of both these factors increased in the second half of the year due to the weaker H2 sales performance and reduced manufacturing output to manage inventory levels. We took decisive action to reduce capacity and costs within our manufacturing network and trading function to ensure alignment with lower levels of customer demand and this reduced operating costs by around £10 million per annum from the start of 2023. The fall in volumes resulted in operating margins reducing by 3.2 ppts to 11.5 ppts for the year.

Notwithstanding the short-term market challenges, we have continued to invest organically and innovate. We made a major investment in a dual block plant at St Ives, facilitating the launch of a new range of face-mix products that have aesthetic characteristics that are like natural stone and allows the Landscape Products business to further innovate its product range.

2023 outlook

We expect this reporting segment to experience relatively tough market conditions in 2023 due to its exposure to Private Housing RMI and New Build Housing. However, we remain focused on developing the business and will capitalise on the new product development opportunities arising from our investment in the dual block plant at St Ives, invest further to improve customer service and ensure that operating costs are optimised. In the medium term, our target is to return operating margins to at least 15 per cent as customer demand recovers.

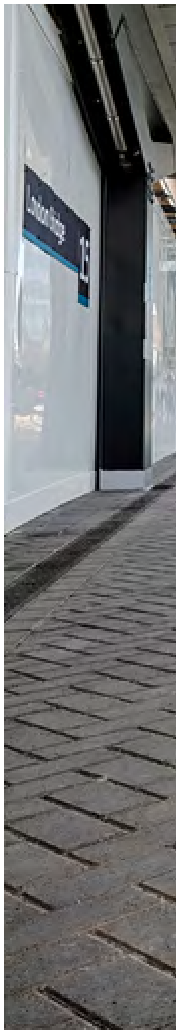
Key priorities

Dual block plant and new product development

The project to construct the dual block plant at the Group's site in St. Ives, Cambridgeshire, is now in the commissioning phase and producing its first blocks. We expect it to be operational in the first half of 2023. The facility will be unique in the UK and will support the launch of new ranges of innovative value-added products that have the aesthetic appeal of natural stone at a lower price point and with a significantly reduced carbon footprint. The first in the range of these products, Lunar, was launched to commercial specifiers in the second half of the year and is already making its way into landscape designs (https://www.marshalls.co.uk/commercial/range/lunar).

Customer experience

Our Shine customer centricity programme continues to focus on improving the ease of doing business with Marshalls. As part of this, we will continue to develop digital tools to improve the overall customer journey and an example of this is the automation of inbound emails to our customer services team. Our A.I. tool quickly allocates mail to the most relevant service agent to improve our response time to customers. At the same time, the tool provides insight into the nature and content of our inbound emails which enables service and process improvements.

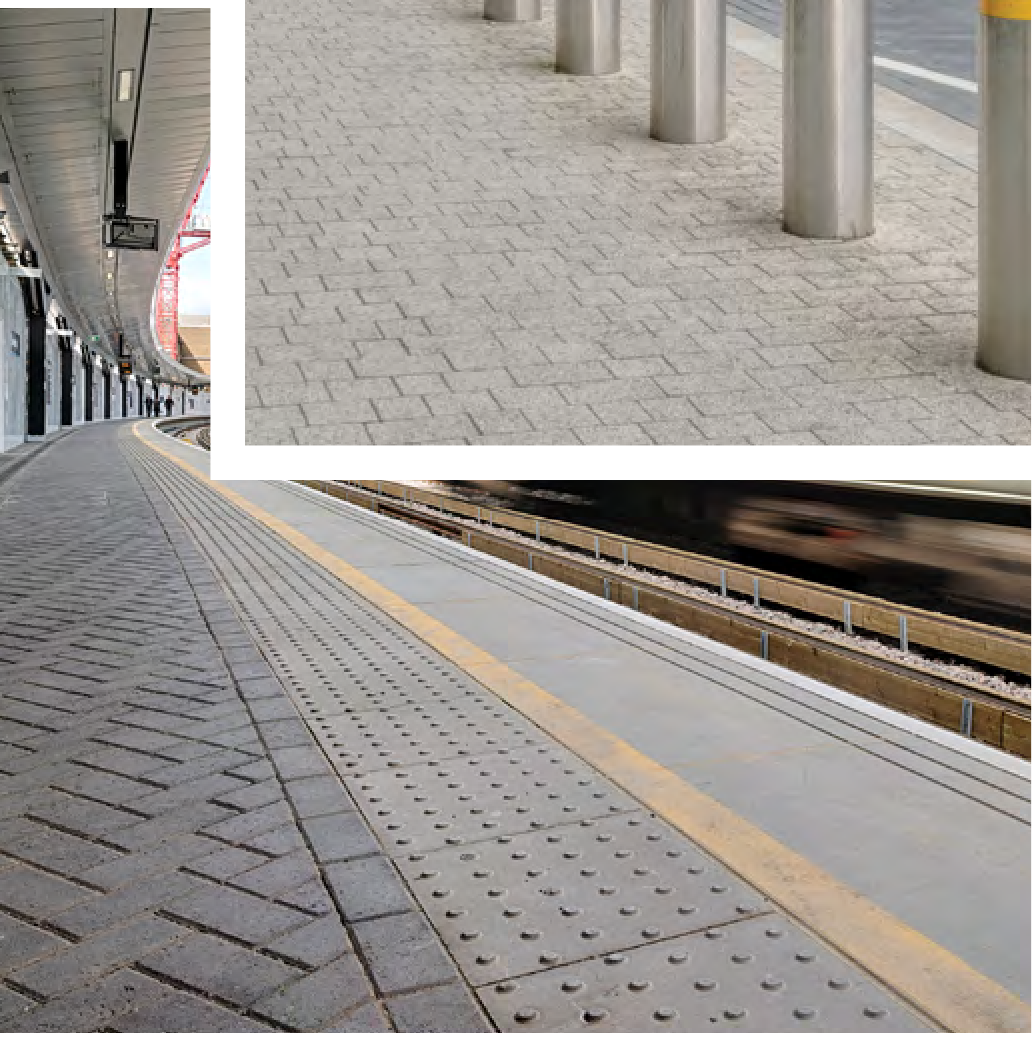


Digitalisation

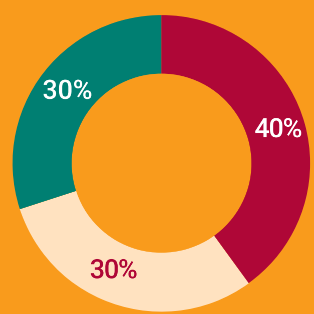
We continue to focus on executing our digital strategy, which aims to provide an end-to-end digital offering and to pioneer the digital standards for the industry. We have developed “Dropship”, a new digital trading platform that will allow us to offer an extended range of products on our customers’ websites without requiring the merchant to stock the ranges. Customers will be able to place orders with the merchants that will be fulfilled using Marshalls’ distribution capability. The model offers a win-win outcome where the merchant generates incremental sales due to an extended product range without incurring the costs associated with regular orders and Marshalls benefits by realising additional sales via the merchant channel. We are currently live or in testing with two national merchants and at an advanced stage with three other customers and will evaluate performance in the first half of 2023.

Carbon reduction

Our specification sales strategy, where we work with partners in the value chain to find solutions to their design and construction challenges, continues to evolve. Increasingly, and reassuringly, the challenges that we work on relate to taking carbon out of the built environment. Our strong ESG credentials, built over many years, mean that we are in a strong position to support partners with our extensive range and our deep insight in this critical area.



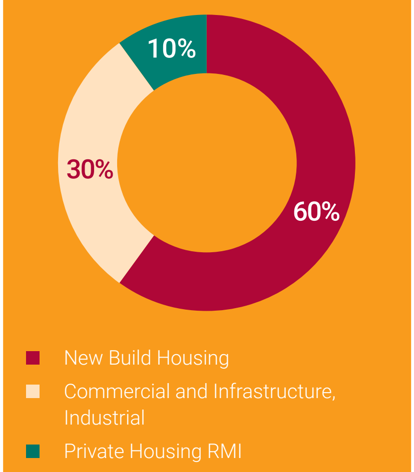
Coverage of construction end markets



- New Build Housing
- Commercial and Infrastructure, Industrial
- Private Housing RMI

Building Products

Coverage of construction end markets



Merlin Rise – Mayfair Vintage Stock facing brick

Review of the year

Marshalls Building Products comprises the Group's Civils and Drainage, Bricks and Masonry, Mortars and Screeds and Aggregates businesses. It delivered a strong performance in 2022 and reported revenue of £193.1 million, which represents year-on-year growth of 17 per cent.

	2022 £'m	2021 £'m	22/21 %
Revenue	**193.1**	164.5	17
Segment operating profit	**26.8**	19.6	37
Segment operating margin %	**13.9%**	11.9%	2.0ppts

This reporting segment generated around 60 per cent of its revenues from New Build Housing, around 30 per cent from Commercial and Infrastructure, with the balance being derived from Private Housing RMI. All the business units in this reporting segment delivered a good performance, supported by a resilient performance in the new housebuilding sector, with particularly strong demand for Bricks and Masonry products and our Mortars and Screeds from this end market. We reported some slowing of activity in the final quarter of the year with poor weather impacting construction sites and housebuilders opening new sites at a reduced rate, which particularly impacted demand for our Civils and Drainage products.

Segment operating profit increased by £7.2 million to £26.8 million. The businesses operated in an inflationary environment in 2022 driven by escalating energy and commodity prices and was successful in recovering these through sales price increases during the year. The adjusted operating margin increased by 2.0 ppts to 13.9 per cent reflecting the operational leverage benefit of higher revenues and offsetting the rate of growth in overheads.

2023 outlook

We expect the market backdrop for this reporting segment to be challenging in 2023 due to forecast reductions in activity in New Build Housing. However, we believe that there are opportunities to increase volumes in our Bricks and Masonry business given the relatively low carbon footprint of our products compared with clay bricks and our modest share of the UK facing brick market. The Group's block paving production assets have the flexibility to produce concrete bricks and therefore negligible investment is required to manufacture the additional volumes.

Key priorities

Growth in brick volumes

Our concrete bricks have around 50 per cent of the carbon content of a clay brick when measured using the "gold standard" cradle to grave methodology. We extended our range of facing bricks in 2022 and increased our manufacturing capacity through the conversion of an existing concrete block paving plant. These factors mean that we are well positioned to build market share in 2023 and offset the impact from the expected weakening of UK housebuilding.

Leverage low carbon credentials

Our ESG strategy continues to generate organic growth opportunities which, going forward, will be a source of significant competitive advantage. We are continuing to focus our new product development activity on lower carbon products and as part of this programme we are accelerating our development of technologies to materially reduce the carbon intensity of our products using carbon sequestration techniques. As part of this initiative, the Group is the first UK company to adopt CarbonCure Technologies' carbon mineralisation technology that reduces and removes carbon dioxide across the concrete manufacturing process. This process uses waste CO^2 from other industrial processes to accelerate the carbonation of concrete which effectively reduces the embodied carbon. This is being trialled during quarter one of 2023 in one of our concrete brick manufacturing sites. In addition, we are investing in a number of our sites to support the rollout of an innovative concrete mix design that will reduce both raw material costs and embodied carbon.

New product development

The Civils and Drainage range is being extended to include a broader, more comprehensive water management offer including headwalls, culverts and other system completing product components. Our customers will benefit from a more complete technical solution with Marshalls supporting them with their system design.

Roofing Products

Review of the year

Marley was acquired by the Group on 29 April 2022 and the results therefore include approximately eight months of trading from the Marley business. Marley's revenues in the post-acquisition period were six per cent higher than the corresponding period, pre-ownership, in 2021.

	2022 £'m	2021 £'m	22/21 %
Revenue	**132.2**	–	–
Segment operating profit	**34.4**	–	–
Segment operating margin %	**26.0%**	–	–

Approximately 40 per cent of Marley's revenues are generated from each of New Build Housing and Commercial and Infrastructure (including Public Housing RMI) with the balance of around 20 per cent from Private Housing RMI. The market environment for this reporting segment was positive in 2022 and the Private Housing RMI segment is less discretionary than in the Group's Landscape Products business due to a larger weighting of repair and maintenance activity rather than improvement. Revenue growth in the period was principally driven by a strong performance by our roof-integrated solar panel business, which benefited from the trend towards energy efficient solutions in the face of energy price inflation.

Segment operating profit in the post-acquisition period was £34.4 million, which represents an increase of one per cent compared to the corresponding period, pre-ownership, in 2021. This growth was driven by proactive management of inflationary pressures and it resulted in a segment operating margin of 26.0 per cent. In the medium term, segment operating margins are expected to be in the range of 20 per cent to 25 per cent reflecting an increasing proportion of total revenues being generated from lower margin Solar PV.

2023 outlook

We expect the market environment for this reporting segment to be more challenging in 2023 due to its exposure to New Build Housing and Private Housing RMI. However, we expect to see continued strong growth in roof-integrated solar panels due to increased penetration in RMI projects and changes in building regulations that require new build houses to achieve increased energy efficiency targets.

Key priorities

Deliver demand generation for roof system specifications

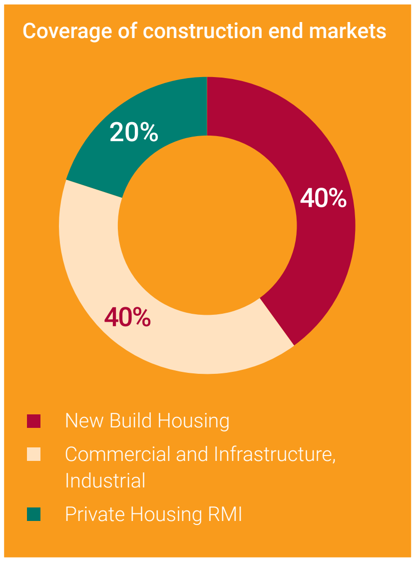
Marley is unique in being able to offer a full roof system, which is now enhanced by our roof-integrated solar proposition. Our commercial strategy is centred around generating demand through specifications for a full Marley roof system. This provides the opportunity to realise more value from each roof sold, rather than only focusing on the roof tile element.

Conversion of these opportunities is underpinned by service differentiation, particularly through digital services, which make it easier for specifiers and customers of our products. We continue to re-test the customer experience and invest in being "easier to work with", understanding that this provides a basis for maintaining and growing our market position.

Deliver profitable growth from solar

We are applying a key focus on marketing investment and commercial messaging for full roof-integrated solar systems. Recent changes to the building regulations for energy performance in new housing now include a requirement for low carbon energy systems, and the second wave of the Social Housing Decarbonisation Fund and Home Upgrade Grants have all enhanced solar opportunities. We will continue to focus on attracting roofing contractors to become accredited for solar installation as part of this commercial strategy.


Faygate – concrete plain tiles in Antique Brown



Further develop a brand that is synonymous with and preferred in roofing

Marley has a long-established heritage in roofing, stretching back 100 years, and retains the position as brand of choice in the sector. We see the opportunity to further leverage brand equity from Marshalls' ownership particularly related to sustainability and the extension of lower carbon product technologies.

Deliver operational improvements

Responsibility for Marley's operations was transitioned to the Group team in the second half of the year and the Board remain confident of delivering significant operational improvements focused on people, plant, and process. We have reduced vacancy rates using the Marshalls in-house recruitment team, assessed plant failure rates and implemented a targeted refurbishment programme, and introduced a structured performance management system. This has resulted in increased manufacturing efficiency on concrete tile production lines of 11 per cent in recent months. In addition, we have integrated our procurement functions, embarked on a review of our combined logistics footprint and are evaluating how we leverage Marshalls' ESG leadership within the business.

Business Model

Creating **better futures** for everyone

Our capital

Financial
Strong balance sheet and a conservative capital structure. An efficient portfolio of bank facilities, with extended maturities, provides prudent headroom

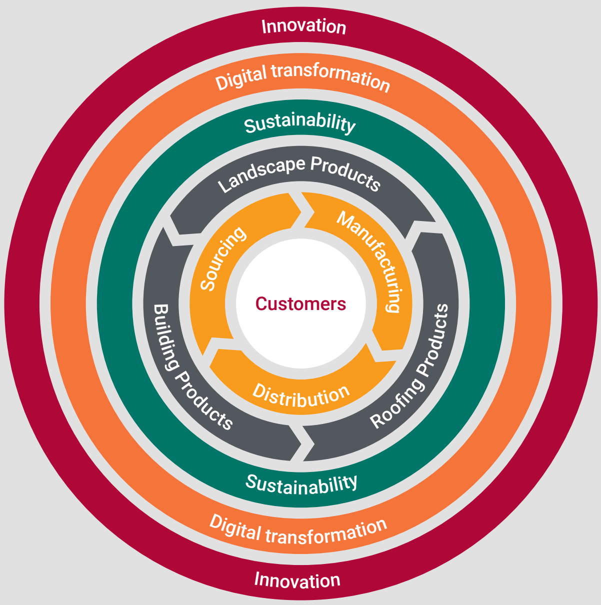
Business
National coverage and sustainable operations across a national network of manufacturing sites

Long-standing relationships with customers and suppliers and a diverse product range covering a number of end markets

Intellectual
With over 130 years' experience, we have a reputation built on transparency and long-standing core values. We focus on innovation and strong R&D and NPD

Natural resources
Marshalls has extensive reserves of UK natural stone. Strong supply chain relationships ensure the ethical sourcing of natural stone from India, China and Vietnam

Our business



Customers
Our customers range from Domestic homeowners to Public Sector and Commercial. We seek to exceed the expectations of customers in all our end markets.

Related risks
- Macro-economic and political
- Weather
- Cyber security risks
- Competitive activity
- Legal and regulatory

Read more about the risk management and principal risks on **pages 66 to 75**

Read more about what ESG means to Marshalls on **pages 42 to 59**

Read more about our segments on **pages 18 to 23**

Sourcing
Our main raw materials are cement, sand, aggregates and pigments – the majority of which are UK sourced.

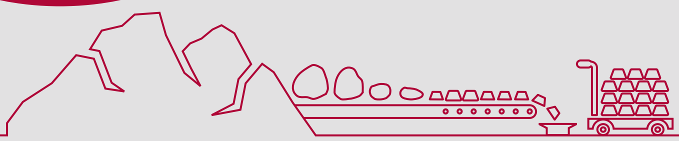
Related risks
- Macro-economic and political
- Security of raw material supply
- Cyber security risks
- Environmental
- Ethical
- Climate change

Manufacturing
We have well-invested sites and manufacture landscape, driveway and garden products from a range of materials, principally concrete and natural stone.

Related risks
- Competitive activity
- Threat from new technologies and business models
- IT infrastructure
- Legal and regulatory

Distribution
Our operations are part of a national network and 95 per cent of our customers are less than two hours away. We have our own fleet.

Related risks
- Macro-economic and political
- Road infrastructure
- Labour availability
- Cost inflation
- Environmental
- Climate change



Outcomes

Stakeholder outcomes

Shareholders
Cumulative growth of dividends of 12.7% (pre-supplementary) over the last eight years

Dividend per share
15.6p

Read more about stakeholder engagement on **pages 28 to 35**

Suppliers
Active membership of Supply Chain Sustainability School – leading role in upholding human rights at home and overseas in our supply chains

100%
Modern slavery country risk mapping

Customers
We aim to provide an outstanding customer experience at every step in the customer journey

Automated live customer experience dashboard in development, to improve existing metrics

Communities and environment
Positive impact, with direct investment in the community. Plastic consumption down by over 30% since 2013

Proportion of concrete and natural stone products now fully recyclable
100%

Doing things The Marshalls Way

Read more on **page 28**

Incorporating Marley

The acquisition of Marley was a transformational step in delivering the Group's strategic goal of becoming the UK's leading manufacturer of products for the built environment. It has extended the Group's product range into the pitched roofing market with an extensive range of products and solutions across the full roofing system with highly recognised and market leading brands.

Read more about the Marley acquisition on **pages 34 and 35**

Our capital

Human
The Group has an experienced workforce of 3,112 employees with specialist skills and a high level of engagement

Technology
We are accelerating the development of our digital strategy to enhance service and the overall customer experience, and to improve operational efficiency and communication

Social and relationships
We have strong stakeholder relationships through constructive dialogue with local authorities, industry bodies and regulators

Our stakeholder relationships are underpinned by a focus on responsible business which is a key part of the Marshalls culture

Our business

Landscape Products
Commercial and Domestic landscaping business, Landscape Protection and the International businesses

Related risks
- Macro-economic and political
- Security of raw material supply
- Cyber security risks
- Environmental
- Ethical

Building Products
Civils and Drainage, Bricks and Masonry, Mortars and Screeds and Aggregates businesses

Related risks
- Macro-economic and political
- Security of raw material supply
- Cyber security risks
- Environmental
- Ethical

Roofing Products
Marley Roofing Products business offering a comprehensive roofing system

Related risks
- Macro-economic and political
- Security of raw material supply
- Cyber security risks
- Environmental
- Ethical

Sustainability
Sustainability at Marshalls is at the heart of what we do – you can see it in our products, in our commitments and in our actions. The UN Global Compact's principles continue to guide us and provide our framework for reporting

The Marshalls Way of doing the right things, for the right reasons, in the right way underpins our sustainability model. Our three pillars of **Respecting People**, **Climate Action** and **Made to Last** demonstrate our areas of focus through becoming a **Better Workplace**, contributing to a **Better World** and giving our customers a **Better Product**

Related risks
- Security of raw material supply
- Cost inflation
- Ethical
- Climate change

Digital transformation
Our customer focused investment in digital technology is transforming the customer experience and advancing the business model.

Related risks
- Macro-economic and political
- Cyber security risks
- IT infrastructure
- Legal and regulatory

Innovation
We are committed to the development of innovative processes and equipment and to the delivery of innovative product solutions.

Related risks
- Competitive markets
- Cost inflation
- Security of raw materials supply
- Climate change

Outcomes

Employees
DERI strategy and employee engagement measurement

Active apprenticeships in 2022
142

Government and regulatory bodies
Responsible business commitments (e.g. Living Wage)

9 years
of being Fair Tax Mark certified

Strategic corporate objective outcomes

- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Read more about our strategy on **pages 36 to 39**

Doing things The Marshalls Way Read more on **page 28**

Our Section 172(1) Statement

Our Section 172(1) Statement

The Board of Directors of the Company consider that they, both individually and collectively, have acted in a way that would be most likely to promote the success of the Company for the benefit of its members as a whole in the key decisions they have taken during the year ended 31 December 2022.

Pages 30 and 31 provide details of who our stakeholders are, and how the Board and the business engage with them, and examples of the influence this has on our strategy, day-to-day business management and the way the Board makes decisions.

The Board directly engages with our employees and shareholders throughout the year. This is through well-established mechanisms for engagement, details of which are set out on pages 32 to 35.The Board occasionally engages directly with customers on site visits but, in general, its engagement with our other stakeholders is mainly indirect. The Executive Directors ensure the Board is kept fully informed of any material issues with other stakeholders and how we consider their interests in our operation of the business and in the decisions we make. The Board also receives presentations and reports from senior management as part of updates on how the business is progressing with its strategic priorities and these include stakeholder consideration. Further details of how we engage with our stakeholders are set out on pages 32 to 35.

It is through this combination of direct and indirect engagement that the Board is able to fulfil its Section 172(1) duties and ensures decision making is driven by a balanced consideration of what makes us successful and resilient in the short term and sustainable in the long term. Although there are established parameters for decisions that are reserved for the Board, the business engages openly and transparently with the Board, to ensure that key decisions that are technically outside these established parameters have the benefit of the Board's knowledge and experience.

In taking key decisions, the Directors of the Company considered the factors specified in Section 172(1) of the Companies Act 2006 (the "Act") including:

S172	Relevant disclosure	Reference
The likely long-term impact of any decisions	The Board sets the Group's purpose, mission and strategy and ensures they are aligned with our culture and look to the future "to create better spaces and futures for everyone: socially, environmentally and economically".	**Page 2**
	The annual strategic reviews conducted by the Board (the most recent being in November 2022), and the consideration of at least one of our strategic growth pillars at each Board meeting, focus on the long-term sustainable success of the Group and our impact on key stakeholders. Given current market conditions, the most recent strategic review also considered strategic issues we face in the short to medium term.	**Pages 36 to 39**
	The Board's risk management procedures identify the potential consequences of decisions in the short, medium and long term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to our business and wider stakeholders. Consideration of risk is integral to, and not separate from, all business decisions.	**Pages 66 to 75**
	The Board has adopted a clear capital allocation policy, with good organic and acquisition investment opportunities that help us achieve our strategic goals. This demonstrates its commitment to the development of the business over the medium to longer term, and the acquisition of Marley in 2022 is an example of this.	**Page 64**
The interests of the Company's employees	Our business is underpinned by people and talent development and is committed to diversity, equity, respect and inclusion. These are central to The Marshalls Way. Whilst we have made good progress with these during 2022, they remain areas which we are committed to continuously improve.	**Pages 54 to 57**
	Health, safety and wellbeing within our operations is our top priority, with this being a standing item on the agenda at every scheduled Board meeting. Our goal is continuous improvement with the achievement of annual health and safety targets being linked to the remuneration of our Executive Directors and our senior management team.	**Pages 58 to 59**
	The Board monitors culture through our engagement mechanisms, namely our Employee Voice Group which, in addition to being attended by our designated Director for employee engagement, Angela Bromfield, is regularly attended by other Board and senior management team members.	**Page 55**
	Our Chief People and ESG Officer presents the results of our employee engagement survey to the Board, together with details of the actions being taken to address the feedback received.	**Page 55**
	Angela Bromfield (our designated Director for employee engagement) and other members of the Board and senior management team, engage with employees on a variety of subjects through our Employee Voice Group.	**Pages 54 to 55**

S172	Relevant disclosure	Reference
The need to foster the Company's business relationships with suppliers, customers and others	Customer centricity and sustainable materials supply are both strategic growth pillars of the business.	**Pages 37 to 39**
	Our performance during 2022 was supported by regular engagement with our customers and suppliers against a backdrop of challenging macro-economic conditions including inflation, which presented us with obstacles on both the buy and sell side.	**Pages 30 and 31**
	We are committed to operating sustainably and ethically and, within our sector, seek to show leadership in these areas.	**Pages 42 to 59**
The impact of the Company's operations on the communities in which it operates and the environment	Our sustainability journey began more than 20 years ago and is at the heart of how we operate our business.	**Pages 42 to 45**
	The Board receives updates on our ESG programme from the Chief People and ESG Officer. The Board engages directly with shareholders through our annual programme of meetings with shareholder governance teams.	**Pages 42 to 59**
	Details of how the Board oversees our ESG programme are on page 46, including the role of the ESG Steering Committee established during 2022.	**Page 46**
	We have an established materiality matrix based on stakeholder engagement, the SASB Standards for Construction and the UN Sustainable Development Goals. This supports prioritisation within our ESG programme. Pages 42 to 59 set out, in detail, our ESG programme and activities and how we are integrating Marley into these.	**Pages 46 and 47**
The regulatory implications of any decisions	Board decisions are taken with the benefit of prior consideration by experienced, well-established, specialist functional teams and with the guidance of the Group's General Counsel and Company Secretary.	**Page 89**
	Where more specialist advice is required, the Board seeks guidance from its professional advisers, as was the case with our acquisition of Marley and the associated debt and equity fundraisings, which required shareholder approval.	
The importance of the Company maintaining a reputation for high standards of business conduct	The Marshalls Way defines our culture and our brand and all business decisions are driven by this.	**Page 28**
	Our prioritisation of the health, safety and wellbeing of our colleagues and our clear ESG commitments underpin our goal of creating better spaces, by putting people, communities and the environment first: better workplace, better world, better product.	**Pages 58 and 59**
	Our strategic growth pillars underpin our purpose, mission and strategy.	**Pages 36 to 39**
The need to act fairly as between members of the Company	The Executive Directors engage with shareholders following the publication of our interim and final results (and periodically throughout the year) and the Board receives detailed, real-time investor and market feedback from the Executive Directors, our brokers and our PR advisers.	**Pages 30 to 35**
	The Chair and the Remuneration Committee Chair meet annually with the governance teams of our key shareholders to ensure their views are reflected in how we make decisions, operate our business and evolve our strategy.	**Pages 100 to103**
	We consulted with and sought the approval of shareholders ahead of completing the acquisition of Marley.	**Pages 34 and 35**
	2022 saw the return of our first in-person AGM since the COVID-19 pandemic and provided shareholders the opportunity to ask questions and vote in real time to ensure maximum engagement opportunity.	**Pages 133 and 134**
	Equality of rights attaching to members' ensures we meet the obligation to act fairly between them.	**Pages 133 and 134**

Our stakeholders:
Who they are, what we do and how we benefit

The Marshalls Way

Shareholders
Communication and dialogue build confidence in our purpose, mission and strategy from investors

- Generate value by sustainable growth
- Investment, strategic guidance and stewardship

Customers
Engaging with our customers drives specification of our innovative product solutions for the built environment

- We deliver market leading product innovation
- Customer loyalty, brand preference and profitable sales

Employees
Our two-way dialogue helps Marshalls attract, develop and retain talented people who will help us achieve our purpose and mission

- A stretching, exciting, supportive and inclusive working environment
- Diverse, talented, engaged and productive colleagues

Marshalls

Our purpose

To create better spaces and futures for everyone: socially, environmentally and economically

- We treat suppliers fairly, building long-term relationships
- High-quality goods and services resulting in products our customers love and specify

Suppliers
Dynamic dialogue has built a strong supportive supplier base which supports our purpose and which shares in our success

- We act in support of the commitments we make to doing business responsibly
- We see the business through the lenses of others

Communities and the environment
We have open and honest dialogue, sharing our goals and progress in creating better futures for everyone

- We share knowledge and sector-specific expertise
- Government policy, regulatory frameworks and recognition

Government and regulatory bodies
We engage to build confidence in how we operate and to support our continuous improvement

We do the right things, for the right reasons, in the right way

Key What we do How we benefit

2022 in focus

The Directors fulfil their duty by ensuring that there is a strong governance structure at Board level and throughout the Group, supporting the delivery and culture of our longer-term strategy and our ability to respond to strategic challenges in the short to medium term.

During 2022, the business operated against the macro-economic backdrop arising from global and domestic events, and sought to manage the short-term impact, whilst not losing sight of the Group's longer-term strategic goals and acting on the opportunity to acquire Marley.

Section 172(1) of the Act sits at the top of each Board agenda and is considered in taking key decisions. In addition, the Board prioritises the health and wellbeing of our colleagues and the safety of our operations. Our sustainability and ESG commitments (pages 42 to 59), which are relevant to all our stakeholders, underpin our business and our success, and we are integrating Marley into these important programmes. The Board recognises that our brand and ability to attract and retain talented people depend on our responsible operation of the business.

Given market volatility and current expectations for the sector in the year ahead, the Board will continue to dynamically manage our strategy to ensure we capture the opportunities and manage the issues we are presented with. In addition, the Board will conduct its annual strategic review to ensure we balance our consideration of the short with the long term.

The performance of the Group during 2022 validates the, at times, difficult and challenging decisions that were made amidst the economic uncertainty, including the reduction in manufacturing capacity to ensure it is aligned with expected demand in the year ahead.

The fulfilment of the Board's duty under Section 172(1) sits alongside its consideration of the Group's capital structure and capital allocation policy and its resilience to existing and emerging risks (pages 66 to 75), which have all been reviewed in light of the Group's performance during the year and its future growth aspirations.

The Board has continued to engage collaboratively with the senior management team, providing the challenge and support that only comes where there is transparency of information and open communication. The business has benefited from the Board's experience in specific areas such as business transformation and mergers and acquisitions, and from its diverse knowledge and skills.

Our stakeholders:
How and why we engaged

Marshalls' purpose, to create better spaces and futures for everyone: socially, environmentally and economically, can only be achieved if we consider and engage with our stakeholders.

Marshalls' stakeholder relationships

The way we do business and make decisions in support of our purpose and strategy can have an impact on people, both inside and outside the business. They can affect the communities, companies and other organisations we deal with or which are otherwise interested in what we do and how we do it. It is by considering these things that we have identified who our stakeholders are.

The way in which we engage with and consider the interests of our stakeholders is guided by The Marshalls Way. Doing "the right things, for the right reasons, in the right way" means our relationships with them involve open and transparent two-way communication over a long period of time. This builds trust and confidence which, in the long term, strengthen our brand, drive loyalty and generate value for all stakeholders, whether it be by operating in a more sustainable way, reducing our impact on the environment or supporting the business with long-term capital investment that drives our growth and shareholder value.

Marshalls engages with stakeholders in many different ways and these interactions influence what we do every day but also how we plan for the future. It is vital that our strategy looks inwards and outwards to ensure the products and solutions we make and sell have regard to the interests of all of our stakeholders.

Details of who our stakeholders are, how and why we engage with them and an example of how we have considered their interests in taking key strategic decisions during 2022 are set out on pages 28 to 35.

Following the acquisition of Marley, we are extending our engagement mechanisms to ensure Marley is integrated within them.

Links to strategic corporate objectives

- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

How we engaged

Shareholders

Business engagement

- AGM, Annual Report, trading updates and presentations
- Regular phone and video calls, face to face meetings, site visits and investor roadshows
- Investor relations website
- Group Sustainability Director engages regularly on ESG and sustainability
- Capital Markets Day held in September 2022
- General Meeting approving Marley acquisition in April 2022

Board engagement

- The Chair and Remuneration Committee Chair held meetings with shareholders in November 2022
- Through regular feedback to the Board by the CEO, CFO, brokers and PR advisers
- Investor site visits and written consultations (e.g. in relation to policy)
- At the Company's AGM

Links to strategic corporate objectives

Suppliers

Business engagement

- Centralised procurement for the entire Group enabling optimal buying power and attention from suppliers
- Commencement of integration of Marley expenditure into Group-wide deals
- Effective, regular and honest communication with suppliers – underpinned by Code of Conduct and other core Marshalls policies
- Payment of invoices made consistently in accordance with agreed payment terms
- Transparent formal tenders and negotiations
- Contracts agreed on mutually beneficial terms
- Focus on total end-to-end supply chain including inbound and outbound logistics, materials, manufacturing processes and efficiency, network design, packaging, indirect costs, etc.
- Supply chain risk mapping processes and regular audits of the highest supply risks based on the ETI Base Code
- Implementation of a new Supplier Relationship Management system as a single source of all supplier data increasing supply chain transparency
- Strategic partnerships with NGOs, governmental institutions, ethical regulators and charities

Board engagement

- Board presentations on growth pillars dependent on our engagement and relationships with key suppliers
- Board participation in our strategic review
- Feedback reports on supply chain compliance
- Regular supply chain and business continuity internal audit reviews
- Annual consideration and approval of our Modern Slavery Act statement
- Reports on ethical sourcing and ETI Base Code

Links to strategic corporate objectives

Customers

Business engagement

- Dedicated customer experience team and improvement plan supported by external advisers
- Customer journey mapping completed and regularly updated across all businesses to highlight customer "pain points" and "moments of truth" through the end-to-end customer journey
- Transactional/live time feedback opportunities for customers post-transaction on quotes, orders and deliveries
- Development of a customer metrics dashboard to report on all customer impacting performance
- Structured customer experience improvement projects process to create improvement based upon the customer feedback
- Service-level agreements and quality standards in customer agreements
- Further development of our websites and digital solutions focused on the customer to aid ease of purchase
- Consumer support to find an installer and find a stockist
- Customer surveys, customer visits and a commitment to deliver on feedback
- Sustainability awareness training educating customers on our commitments and products
- Awards ceremonies for professional installers and design competitions for commercial specifiers
- Design and engineering support for Domestic and Commercial customers
- Continuous professional development ("CPD") for specifiers and influencers
- Training sessions for professional installers and resellers
- Research sessions and focus groups to help with product development
- On-site discovery to watch how our products are used to help us develop new solutions
- Significant and constant research on our brand preference

Board engagement

- Board presentations on customer centricity and brand preference
- Participation in our strategic review
- Customer visits and meetings with sales teams
- Receiving updates on and engaging with our customer experience programme
- Installer and site visits seeing practical application of our products

Links to strategic corporate objectives

Employees

Business engagement

- Employee Voice Group represents all business areas and levels
- Driver Working Party engaged on decisions and actions impacting these colleagues
- Regular communication across channels – supporting those employees working remotely and those without access to Company email
- Senior management team site visits and engagement through our Leadership Connected Group (which meets at our annual management conference as well as monthly business briefings)
- Development, training and apprenticeship programmes (including recognition of study completion)
- People and culture strategy to unlock potential
- Participation in the Your Voice survey (one survey completed in Spring 2022)
- With the recognition of two Trade Unions within the Group there are numerous opportunities for leaders to connect with the elected representatives and, via this, the constituents that they represent

Board engagement

- Board participation in the Employee Voice Group via Angela Bromfield, our designated Director for employee engagement, chaired by Chief People and ESG Officer, with other Board and senior management team members attending regularly
- Board site visits
- Board attended strategy review
- Annual reviews of People and Group reward strategies
- Review of senior management team performance, succession planning and wider talent development initiatives
- Monthly health and safety Board reviews
- Active engagement in workforce diversity, reward and recruitment
- Reporting to Audit Committee the trends reported through the Serious Concerns policy and our external third party partner, Safecall

Links to strategic corporate objectives

Communities and the environment

Business engagement

- Collaborative approach to capturing carbon by using CarbonCure technology
- Engagement with UN Global Compact UK working groups on modern slavery, diversity and climate disclosures
- Working with suppliers on health and safety improvements
- Social value partnerships with Rotherham College and Barnardo's

Board engagement

- Board is actively engaged with the Group's ESG and sustainability strategy, including the setting of science-based targets
- Board receives regular updates on our ESG programme and commitments
- Chair, with our Group Sustainability Director, engaged with shareholders on ESG in November 2022
- ESG measures included within Executive Director incentives

Links to strategic corporate objectives

Government and regulatory bodies

Business engagement

- Regular dialogue with Government, regulators and industry groups
- Active membership of the Construction Products Association and Mineral Products Association
- Effective and clear policies against bribery and the elimination of modern slavery with training for staff and business partners

Board engagement

- Board provides direction to the support of the UN Global Compact's principles, and policies relating to modern slavery and anti-bribery

Links to strategic corporate objectives

Our stakeholders: How and why we engaged

The influence this has

Strategy

Effect

- Engagement with our stakeholders ensures that our strategy has regard to their interests and reflects how these change over time.
- It ensures our customers understand that a relentless pursuit of achieving the highest possible customer satisfaction is at the core of our "customer centricity" programme, which is one of our eight strategic pillars.
- Our ESG principles and responsible business practices are central to the achievement of our strategic objectives and provide the foundation for long-term sustainable growth and are central to our purpose.

Outcome

- Whilst the acquisition of Marley has triggered a re-baselining of our carbon reduction targets in accordance with guidance from the Science Based Targets initiative and the Carbon Trust, we remain committed to achieving our goal of becoming net zero.
- We were the first UK concrete manufacturer to install mineralisation technology, injecting waste CO_2 directly into concrete as it is being mixed, permanently locking the carbon into the concrete.
- With the benefit of the Marley acquisition, we achieved record performance during 2022 in spite of the macro-economic conditions.
- We have continued to listen to our customers, acknowledging their disappointment at times regarding availability and price rises.
- We've listened to our stakeholders and reflected on how the Board oversees our ESG programme. Our ESG Report on pages 42 to 59 articulates our transparent approach to sharing details of our progress with our ESG objectives.

Board decision making

Effect

- The Board made a number of key decisions during 2022 that required a balanced consideration of our strategic growth pillars, the long-term sustainable growth of our business and the interests of stakeholders.
- Whilst a number of these decisions have been driven by those matters which are formally reserved for the Board, the Executive Directors, exercising their judgement, and in the spirit of transparency, engage the Board on other business critical decisions. This is consistent with The Marshalls Way and we feel this ensures we are operating with the highest standards of governance at all times.

Outcome

- The Board approved the payment of an interim dividend to shareholders for the year ended 31 December 2022, and is recommending a final dividend for the year ended 31 December 2022.
- This decision was taken only after the Board assessed the capital requirements of the Group in line with the Group's capital allocation policy.
- The Board recommended (subject, at the time, to shareholder approval) the Group's acquisition of Marley, which accelerates the Group's strategy to become the UK's leading manufacturer of products for the built environment. Further details are set out on pages 34 and 35.
- In November 2022, the Board approved a reduction in our manufacturing capacity to reflect inventory levels and what we anticipate will be a challenging year ahead.

Fairstone sawn vesuro Linear

Dynamic business management

Effect

- During 2022, regular engagement with our customers through our customer experience programme has given us greater insight into their challenges, including those specific to dealing with Marshalls. Prices and service remain key areas of importance to customers.
- Ensuring all colleagues have a voice is critical to the achievement of our purpose and to the preservation of our culture and values.
- During 2022, inflation throughout our supply chain put pressure on our cost base. The quality and availability of materials are critical to ensuring our products meet the high standards our customers expect. We've worked closely with our suppliers, in many cases benefiting from our long-term relationships with them, to secure materials that meet the high standards and ethical sourcing requirements that have become synonymous with the Marshalls brand. Diligence and monitoring in high risk areas of the Marshalls supply chain have been maintained and we are integrating Marley into these processes.

Outcome

- With the benefit of the Marley acquisition, we achieved record performance during the year despite the challenging environment.
- We are acting on customer feedback to improve the adoption of technology solutions that support better engagement and service delivery. We are also working on a trading simplification programme that makes it easier to understand how order values are calculated.
- The Board continues to support our approach of establishing long-term relationships with trusted suppliers where there is a balanced consideration of quality, availability, price and sustainable supply. As part of the integration of Marley, we are leveraging our increased buying power given the commonality of materials. We have adjusted our requirement to reflect anticipated demand without materially compromising our relationships with suppliers. Security of supply of high quality, ethically sourced materials underpins the long-term sustainability of our business.
- The Board has ensured the business is "right-sized" and that our cost base gives us resilience in the short to medium term.

Board decision:
Acquisition of Marley Group

Background
Marshalls has a strong track record of delivering organic growth whilst also making successful complementary acquisitions that have enhanced its product offering as part of its strategic goal to become the UK's leading manufacturer of products for the built environment.

For this reason, Marley, a leader in the manufacture and supply of pitched roof systems to the GB construction market, with a respected brand with around 100 years of heritage, represented a compelling strategic fit for Marshalls, enhancing the Group's product portfolio with the introduction of Marley's pitched roofing products and systems and its integrated solar panel offering. Marley's people and performance were central to consideration of this transformational acquisition.

Board role
The Board approved the acquisition of Marley in April 2022 and then gave its recommendation for approval by shareholders.

The Board challenged every key aspect of the acquisition, including its alignment with Marshalls' purpose, mission and strategic goal. The Board considered the risks associated with the acquisition, including its structure and financing. In recommending that shareholders approve the acquisition, the Board satisfied itself that the interests of all key stakeholders had been considered, including not only the risks but the long-term benefits of a more diversified Group and the introduction of the Marley brand. Throughout, the Board challenged and supported the senior management team's assessment of the opportunity and the structuring of the transaction, which included detailed due diligence over a period of five months with the support of the Group's professional advisers.

Stakeholder considerations and impacts
In assessing and executing the transaction, the Board had regard to the interests of all key stakeholders and as to whether the acquisition would promote the success of the Group for the benefit of shareholders as a whole.

Customers – Consistent with Marshalls, Marley's commercial strategy is centred around generating "pull demand" by gaining specification of its products, and has developed a strong go-to-market approach to facilitate this. As Marshalls and Marley share a number of common customers, the acquisition enables the enlarged Group to offer customers a broader range of products and create deeper relationships, accelerating the Group's five-year Strategy to become the UK's leading manufacturer of products for the built environment.

Suppliers – The risks that the acquisition presented were considered. Analysis of key supplier relationships was undertaken with the commonality of materials presenting an opportunity to leverage the increased buying power of the Group. Certain key suppliers were consulted with, after the announcement of the acquisition, to ensure continuity of supply and service. As our integration programme progresses, there will be opportunities to develop deeper relationships with suppliers benefiting from the enlarged Group's scale.

Shareholders – The acquisition, which constituted a Class 1 transaction under the Listing Rules and was conditional upon shareholder approval, was financed through a combination of debt and equity fundraisings. In recommending shareholders approve the deal, the Board presented its detailed assessment of the risks, benefits and opportunities it presented and confirmed how it would alter the capital structure of the Group. Ultimately, our shareholders supported the transaction.

Lenders – We consulted with our lenders to secure the necessary debt finance that part-funded the acquisition and to refinance our existing debt facilities, giving careful consideration to the impact on the Group's capital structure.

Colleagues – Our people are central to our culture and the achievement of our long-term strategy. The Board, together with the senior management team, considered the impact of the deal on our existing colleagues and on those joining us from Marley. The Board recognised that the acquisition not only gives us more scale, but greater depth of experience and knowledge in both familiar (RMI and house building) and new markets (integrated solar). Harnessing and sharing these skills will support the development and growth of both the Marshalls and Marley businesses and has already created new opportunities for colleagues in both businesses.

Outcomes and decisions

The Board considered the acquisition to be in the best interests of shareholders and Marshalls as a whole, and our shareholders approved the acquisition in April 2022.

Links to strategic corporate objectives

Read more about our strategy on **pages 36 to 39**

Impact on business model

Read more about our business model on **pages 24 and 25**

Strategy

Focused strategy to deliver **sustainable growth**

Our strategic goal is to become the UK's leading manufacturer of products for the built environment. The acquisition of Marley is a major step in delivering this.

Enablers

People

Digital

Governance

Focus on innovation

Eight growth pillars

- Brand preference for product
- Logistics excellence
- Sustainable materials supply
- Customer centricity
- Operational excellence
- Innovation and new product development
- Growth in the emerging business
- Digital transformation

Integration of Marley

Six corporate pillars

- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Our strategic goal
To become the UK's leading manufacturer of products for the built environment

The Marshalls Way

Doing the right things, for the right reasons, in the right way

Respecting People

Made to Last

Climate Action

Brand preferences for product specification

Our objectives
- To secure product specification by building relationships with consumers, developers, builders and architects
- To increase the project pipeline and conversion through our leading service and solutions offer
- To develop the brand to support our market leading position
- To build brand preference through NPD, marketing and innovation

What we have achieved
- Strong relationships with key stakeholders
- Internal restructuring, and our development programme has strengthened opportunities with architects and designers
- Improved process mapping and measurement
- Process improvements using artificial intelligence

How Marley integrates and provides more opportunity
- Leveraging lead generation and digitalisation
- Marley is the preferred specification brand in roofing
- Opportunities to leverage Marshalls' ESG credentials across the Marley brand
- Wider utilisation of Marshalls' network and technical expertise for cement replacement

Future priorities
- To increase our range of innovative and sustainable products
- To target greater penetration of all market sectors
- To develop marketing and new skills into the process
- To develop KPIs to ensure consistent measures and to drive performance
- To launch apps to help customers better visualise their landscaping projects

Links to ESG pillars

Links to strategic corporate objectives

Customer centricity

Our objectives
- To grow the business by providing outstanding customer service
- To improve the customer experience and the ease of doing business
- To support the Group's brand leadership
- To increase the use of digital communication

What we have achieved
- KPI dashboard developed and driving improvement activity
- Development of email automation software to improve efficiency
- Customer centricity embedded in the logistics operation
- Reduction in quality complaints
- Launched digital survey tools to better understand our customer order experiences

How Marley integrates and provides more opportunity
- Opportunity to align processes to improve efficiency and reduce cost
- Potential to widen the use of digitalisation
- Opportunity to align and simplify price and quotation processes
- Opportunity to streamline complaint handling across both businesses

Future priorities
- To embed our "customer centric" culture
- To improve our customer experience dashboard and streamline KPIs
- To use further automation to improve order processing efficiency
- To launch a fully integrated ticketing system to manage queues

Links to ESG pillars

Links to strategic corporate objectives

Growth in the emerging businesses

Our objectives
- To ensure all businesses are set up to achieve sustainable growth
- To expand into further growth areas
- To deliver margin growth
- To develop the product ranges and increase market share

What we have achieved
- Improved business processes in Civils and Drainage
- Bricks and Masonry gaining greater leverage from the Marshalls brand
- Building Products incorporated into the new segmental reporting structure

How Marley integrates and provides more opportunity
- Opportunity for efficiency gains by utilising the enlarged network
- Sharing of best practice and process improvement opportunities

Future priorities
- To continue sales and profit growth plans
- To develop of service offer
- To improve operational efficiency

Links to ESG pillars

Links to strategic corporate objectives

Links to ESG pillars
- Respecting People
- Made to Last
- Climate Action

Links to strategic corporate objectives
- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Logistics excellence

Our objectives
- To deliver logistics excellence and provide outstanding customer satisfaction
- To use lower emission vehicles and new technologies across the full fleet
- To increase the efficiency across the enlarged network

What we have achieved
- New Group Transport Management System now live
- Fleet of over 230 vehicles with a broad range of capability
- MPA award for safer transport and logistics

How Marley integrates and provides more opportunity
- Opportunity to share best practice in systems and processes
- Increased flexibility and opportunity to improve utilisation across the enlarged Group

Future priorities
- To optimise our delivery systems and processes
- To ensure we continue to attract and retain HGV drivers
- To reduce transportation costs

Links to ESG pillars

Links to strategic corporate objectives

Operational excellence

Our objectives
- To effectively manage our cost base and add value
- To provide market leading facilities, products and services
- To improve competitive advantage by developing new ways of working
- To deliver the D365 cloud-based system implementation

What we have achieved
- Commissioning of dual block plant at St. Ives nearing completion
- Continual development of manufacturing network to improve operational efficiency
- Simplification of processes utilising Marshalls' Enterprise Project Management Office
- Quality improvement programme and ongoing reduction in waste

How Marley integrates and provides more opportunity
- Opportunity for further efficiency gains by simplification of enlarged network
- Standardisation of policies and procedures to improve health and safety processes and reduce risk

Future priorities
- To improve asset utilisation efficiency across the enlarged Group
- To improve workforce skills and attract and retain the best people
- To reduce rectification and maintain quality standards

Links to ESG pillars

Links to strategic corporate objectives

Sustainable supply

Our objectives
- To create a sustainable and ethical supply chain
- To meet our ESG commitments by reducing embedded carbon
- To ensure consistent availability of raw materials

What we have achieved
- Significant progress with our cement-free mix design development
- Alternative sourcing now embedded in the supply chain
- Centralised procurement team
- Embedded ethics, human rights and environmental commitments

How Marley integrates and provides more opportunity
- Synergy opportunities in procurement to reduce cost and consistency of supply
- Opportunities for leverage on the basis of increased scale

Future priorities
- To establish new sources of key materials
- To prioritise carbon reduction programmes and cost reduction
- To reduce the reliance on cement
- To strengthen reliance on UK materials sourcing

Links to ESG pillars

Links to strategic corporate objectives

New product development

Our objectives
- To develop new innovative products that will deliver growth
- To deliver new products that help secure specification
- To focus on ESG opportunities in NPD
- To develop best-in-class facilities, processes and products

What we have achieved
- New dual block plant at St. Ives will add additional face mix lines and advanced secondary processing
- Launch of Lunar product range utilising dual block plant
- New Civils and Drainage products developed for 2023 production
- New Bricks and Masonry products launched

How Marley integrates and provides more opportunity
- Opportunity to align systems and processes to improve efficiency
- Opportunity to share resources and expertise

Future priorities
- To complete Landscape Products range review
- To focus on opportunities that reduce embedded carbon
- To investigate embedding technology/sensors into selective products

Links to ESG pillars

Links to strategic corporate objectives

Digital transformation

Our objectives
- To provide an end-to-end digital offering
- To pioneer the digital standard for the industry
- To move to B2B digital trading wherever possible
- To move ERP system to the cloud – complete D365 implementation

What we have achieved
- Progressed electronic trading project with chosen EDI partner
- Mobile app developed for Mortars and Screeds business
- Launch of "Dropship" with a major customer
- D365 project in progress
- Launched data literacy programmes across all business functions

How Marley integrates and provides more opportunity
- Opportunity to align processes and controls to improve efficiency and reduce risk
- Opportunity to reduce risk by enhancing focus on cyber controls

Future priorities
- To continue to increase orders via digital channels
- To continue D365 project delivery
- To launch multi-channel communication and customer portal
- To reduce risk by continually focusing on cyber controls

Links to ESG pillars

Links to strategic corporate objectives

Links to ESG pillars
- Respecting People
- Made to Last
- Climate Action

Links to strategic corporate objectives
- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Key Performance Indicators

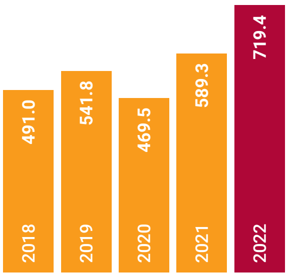
Measuring **our performance**

The Group's KPIs monitor progress towards the achievement of its objectives.

Revenue (£'m)

£719.4m

(up 22%)



Why is this KPI important?
Delivering sustainable growth is key to the Group's strategy. The aim is to outperform the market and grow market share.

Performance
Market conditions have been challenging during 2022. We continue to focus on those market areas where demand is expected to be greatest.

Links to strategic corporate objectives

Principal risks
- Continued cost inflation impacts demand
- Macro-economic and political
- Raw material and labour shortages
- Increased rate of digital change

Risk mitigation
- Close monitoring of trends and lead indicators
- Diversity of business
- Customer centricity
- Digital strategy

Links to remuneration
AI LTIP

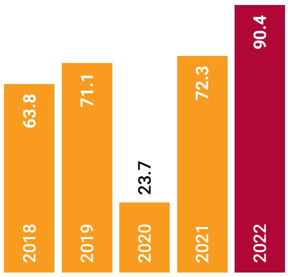
Stakeholder linkage
- Customers
- Suppliers
- Employees
- Communities

Profit (£'m)

Profit before tax (after adding back adjusting items)

£90.4m

(up 23%)



Why is this KPI important?
Sustainable improvement in profitability is a strategic priority.

Performance
Robust profit performance despite increasingly challenging market and cost inflation. Statutory profit before tax was £37.2 million, including the impact of adjusting items.

Links to strategic corporate objectives

Principal risks
- Cyber security risks
- Cost inflation
- Security of raw material supply
- Climate change

Risk mitigation
- Innovation and new product development
- Focus on cyber security controls
- Proactive supply chain management

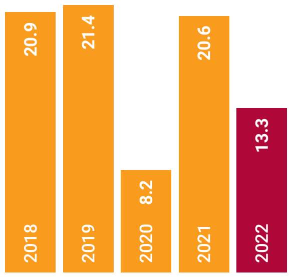
Links to remuneration
AI LTIP

Stakeholder linkage
- Shareholders
- Employees

ROCE (%)

Proforma ROCE (after adding back adjusting items)

13.3%



Why is this KPI important?
ROCE is an important indicator of sustainable shareholder value.

Performance
Proforma adjusted ROCE for 2022 is 13.3 per cent (2021: 20.6 per cent). ROCE is defined as EBITA/ shareholders' funds plus net debt. The 2022 ROCE includes the pre-acquisition trading of Marley.

Links to strategic corporate objectives

Principal risks
- Threat from new technologies and business models
- Increased pace of digital change
- Capital structure

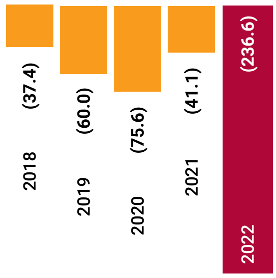
Risk mitigation
- Digital transformation
- Operational excellence
- Flexible capital structure
- Capital allocation policy

Links to remuneration
AI LTIP

Stakeholder linkage
- Shareholders
- Employees

Net debt (£'m)

Pre-IFRS 16	Reported basis
£190.8m	**£236.6m**



Why is this KPI important?
Marshalls continues to support a prudent capital structure.

Performance
New £210 million term loan to post-fund acquisition of Marley. Net debt was £236.6 million at 31 December 2022 (£190.8 million on a pre-IFRS 16 basis). Gearing remains low at 35 per cent.

Links to strategic corporate objectives

Principal risks
- Funding strategy
- Overpaying for acquisitions
- Cost inflation

Risk mitigation
- Close monitoring of trends and lead indicators
- Diversity of business
- Customer centricity
- Digital strategy

Links to remuneration
AI LTIP

Stakeholder linkage
- Shareholders
- Employees
- Customers
- Suppliers

Links to strategic corporate objectives

- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Links to remuneration

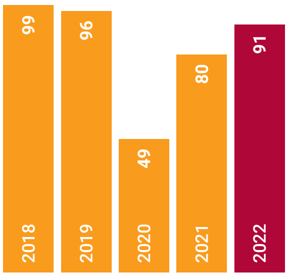
- LTIP Long-term Incentive Plan
- AI Annual incentive award

Read more about our strategy on **pages 36 to 39**

Adjusted operating cash flow ("OCF")

91%

OCF:EBITDA (pro forma rolling annual basis)



Why is this KPI important?
The conversion of profit to cash is key to our growth strategy and for delivering increased shareholder value.

Performance
Adjusted operating cash flow was 91 per cent of EBITDA, on a proforma rolling annual basis.

Links to strategic corporate objectives

Principal risks
- Supply shortages requiring increased investment in working capital
- Cost inflation

Risk mitigation
- Excellent customer service and quality
- Customer relationships and brand value

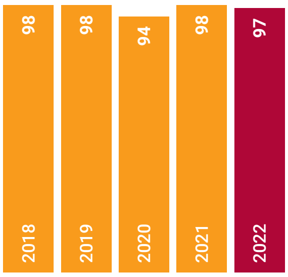
Links to remuneration
AI LTIP

Stakeholder linkage
- Shareholders
- Customers
- Suppliers

Customer service (excluding Marley)

97%

customer service index



Why is this KPI important?
Customer centricity is a key strategic priority. Customer service lies at the heart of the Marshalls brand.

Performance
The Group's manufacturing operations are responding to market demand and changing trading patterns. The focus remains on quality, on-time delivery and order accuracy.

Links to strategic corporate objectives

Principal risks
- Quality, service and reliability
- Brand reputation
- Further COVID-19 disruption

Risk mitigation
- Customer centricity strategy
- Digital strategy

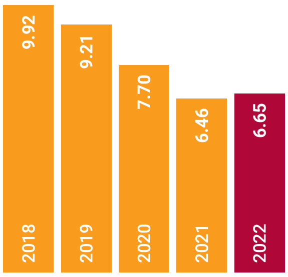
Links to remuneration
AI

Stakeholder linkage
- Customers
- Communities
- Environment

Climate change (excluding Marley)

3%

carbon increase per tonne of production output in 2022



Why is this KPI important?
The Group's continued commitment to our sustainability strategy is that our annual carbon reduction targets must be achieved.

Performance
Whilst our relative Scope 1 and 2 emissions have increased slightly in 2022, our absolute Scope 1 and 2 emissions have decreased. Both absolute and relative emissions remain well within our science -based target pathway.

Links to strategic corporate objectives

Principal risks
- Physical risks from climate change, such as wind and water
- Rising energy prices and carbon taxes
- Changing product requirements in the built environment

Risk mitigation
- Climate site risk analysis
- Market price increases
- Mitigation and adaptation strategy

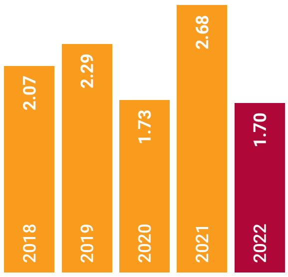
Links to remuneration
AI LTIP

Stakeholder linkage
- Shareholders
- Employees
- Customers
- Suppliers
- Environment
- Regulators

Health and safety (lost time incident frequency rate) (excluding Marley)

1.7

compared with the target benchmark of 2.28



Why is this KPI important?
Marshalls is committed to meeting the highest health and safety standards.

Performance
In 2022 the lost time incident frequency rate per million hours worked was 1.7 (target <2.28 average over three years).

Links to strategic corporate objectives

Principal risks
- Consistency of standards
- Regulatory controls
- Investment in operation network
- Reintroduction of COVID-19 restrictions
- Mental health and employee wellbeing

Risk mitigation
- Embedded culture – The Marshalls Way
- Compliance procedures and policies
- Employee training

Links to remuneration
AI LTIP

Stakeholder linkage
- Employees
- Customers
- Communities
- Environment

Our ESG journey continues

Dear stakeholder

The Marshalls Way says that we do "the right things, for the right reasons, in the right way". We believe a business should be responsible and transparent – that's why we are a Living Wage employer and have the Fair Tax Mark accreditation.

Being a responsible business is how we've operated for over 130 years and as we face current global challenges, it's never been so important to be a transparent corporate citizen.

Following our acquisition of Marley in 2022, we put in place a programme of work to integrate our businesses. The Science Based Targets initiative ("SBTi") dictates that such an acquisition triggers a re-baselining of our carbon footprint and therefore our reduction targets. Our commitment to net zero remains, and this year we will work with the Carbon Trust to re-baseline for the Marshalls Group, including Marley. We will bring together the monitoring and measuring of our carbon emissions and validate our roadmap for the Group.

Going through this process doesn't mean we're slowing down our carbon reduction activities. The historical data shown on page 48 shows the steady decrease of our carbon footprint over time and we continue to forge ahead with some really exciting projects. For more information on our plans, turn to page 49.

We made some great strides in 2022. We have been recognised by the Financial Times and Statista as one of Europe's Climate Leaders for the second consecutive year and one of our safety improvement projects won an award at this year's MPA Health & Safety Awards. We also won two prizes at the Engagement Excellence Awards 2022 – I'm especially proud to be recognised for the approach we've taken to supporting employee wellbeing.

As we move forward in 2023, our focus will very much be on continuing to integrate what is now the entire Marshalls Group and actively demonstrating our ESG credentials.

When standing still is effectively going backwards in this fast-moving ESG space, it's important that we communicate clearly and consistently – we take the environmental, social and governance responsibilities of our business seriously. We steer clear of greenwash. We are transparent in our dealings with our stakeholders. We stand for responsible business.

Vanda Murray OBE
Chair
15 March 2023

2023 onwards	• Our acquisition of Marley has triggered a re-baselining of our carbon reduction targets. Our newly integrated data will be externally verified and submitted to the Science Based Targets initiative ("SBTi") for approval.
2022	• Our updated science-based targets are approved by SBTi to a 1.5°C pathway. • We commit to reduce Scope 1 and 2 GHG emissions 59.4 per cent per tonne of production by 2030 (equivalent to 50.5 per cent absolute) and 73 per cent of suppliers by emissions will have science-based targets by 2024.
2021	• We work with the Carbon Trust to update our targets and raise our ambition to a 1.5°C pathway, in line with the Paris Agreement.
2020	• Our science-based targets are approved by SBTi to a well below 2°C pathway. • We commit to reduce Scope 1 and 2 GHG emissions 40 per cent per tonne of production by 2030 and 73 per cent of suppliers by emissions will have science-based targets by 2024.
2019	• Our data is submitted to the Science Based Targets initiative ("SBTi") for approval.
2018	• We work with the Carbon Trust to get our data ready for setting science-based targets for carbon emissions reduction.

Our sustainability strategy is underpinned by the UN Global Compact's principles in the key areas of human rights, labour, the environment and anti-corruption. These principles, alongside the UN's Sustainable Development Goals ("SDGs"), continue to guide us.

The evolution of our three pillars – Better Workplace, Better World, Better Product – highlight our focus areas towards creating better net positive futures, whilst maintaining The Marshalls Way of "doing the right things, for the right reasons, in the right way".

The evolution of our purpose is to create better net positive futures. A net positive business puts back more into society, the environment and the global economy than it takes out. For Marshalls, it's about better understanding the net impact of our actions and having a net positive mindset in the decisions we take.

Non-financial information statement

As required by the Companies Act 2006, the table below sets out where the key content requirements of the non-financial statement can be found within this document (or required by Sections 414CA and 414CB of the Companies Act 2006).

Reporting requirements	Relevant policies	Section within Annual Report
Environmental matters	Environmental Policy Statement*	Sustainability strategy (pages 46 to 53)
	Climate Change Policy*	Sustainability commitments relating to the environment (page 46)
	Timber and Paper Policy	
	Transport Policy	
Social	Code of Conduct*	Responsible business (page 42)
	Social Community Investment Policy	Charitable donations (page 54)
	Corporate Responsibility Policy*	Health and safety (page 58 and 59)
	Tax Policy*	Stakeholder engagement (pages 28 to 35)
	Human Rights Policy	
	Modern Slavery and Anti-Human Trafficking Policy*	
	Children's Rights Policy	
Governance	Anti-Bribery Code*	Governance and compliance (pages 78 to 91)
	Tax Policy*	Corporate Governance Statement (pages 78 to 91)
	Trading Policy*	
	Schedule of matters reserved for the Board*	Corporate Governance Statement (pages 78 to 91)
	Board Committee Terms of Reference*	Corporate Governance Statement (pages 78 to 91)
Employees	Health and Safety Policy	Headcount (page 58 and 59)
	Serious Concerns Policy	People engagement (pages 54 to 57)
	Diversity and Inclusion Policy	Board diversity (pages 76 and 77)
	Drug and Alcohol Policy	Gender diversity (page 55)
	Mental Health and Wellbeing Policy	Stakeholder engagement (pages 28 to 35)
Principal risks		Description of risk process (page 66 and 67)
		Risk framework (page 67)
		Principal risks and uncertainties (pages 69 to 75)
Business model		Our business model (pages 24 and 25)
Non-financial KPIs		Key performance indicators (pages 40 and 41)
		Strategy (pages 36 to 39)

Full versions of the policies referred to above form part of the Group's Policy Framework that supports Marshalls' Code of Conduct. These can be found on the Group's investor relations website at ***marshalls.co.uk/about-us/policies***.

The above policies refer to Marshalls only. The integration of policies with Marley is starting in 2023.

* Key policies referred to in this Annual Report.

What ESG Means to Marshalls continued

Achievements in 2022

B score for climate change disclosure

We continue to disclose our approach to climate change to CDP (Carbon Disclosure Project)

Employee wellbeing

Winner of the Best Strategy for Supporting Employee Wellbeing and Grand Prix awards at the Engagement Excellence Awards 2022

Constituent of the FTSE4Good

Member of the index series since 2005

Living Wage employer

As a Living Wage employer since 2014, all our people earn a real living wage

Fair Tax Mark

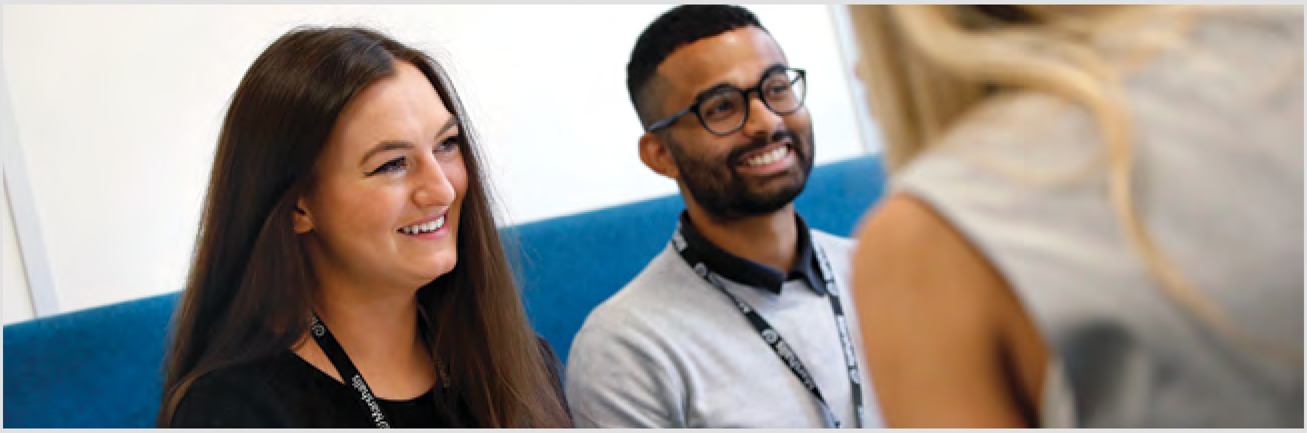
We've held the Fair Tax Mark for seven years, demonstrating our commitment to paying our fair share of tax

Supply chain ethics

Commendation for Disruption of Supply at the Data to Disrupt Trafficking Awards 2022

Responsible sourcing

Our Marley clay and concrete roofing tile products are rated "excellent" by BES 6001 accreditation for responsible sourcing



Carbon sequestration

First UK concrete manufacturer to use CarbonCure technology to sequester carbon in concrete bricks

MPA Award winners

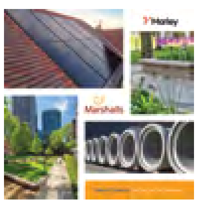
Winner of the Safer Transport and Logistics Award for our Crane Improvement Project at the MPA Health & Safety Awards

Supply Chain Sustainability School

Gold member of the Supply Chain Sustainability School

Code of Conduct

Our Code of Conduct has been revised and the communications and training rollout will start in 2023



Made in Britain

Committed to UK manufacturing since our story began in the 1890s

Climate leader

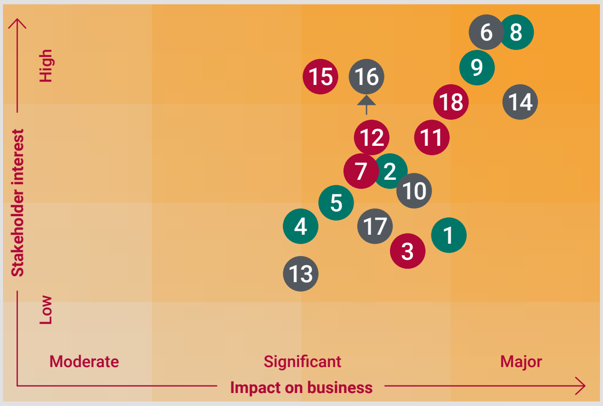
Named one of Europe's climate leaders for two consecutive years

Superbrand status

Marshalls has been recognised as a Superbrand for 13 consecutive years

What ESG Means to Marshalls continued

ESG materiality and governance



1. Energy management
2. Water management
3. Circular economy
4. Biodiversity impacts
5. Natural capital
6. Health and safety
7. Product innovation
8. Impact of climate change
9. Carbon reduction
10. Employee wellbeing
11. Supply chain resilience
12. Sustainable procurement
13. Community relations
14. Human rights and environmental due diligence
15. Anti-corruption
16. Diversity and equity
17. Talent and development
18. Regulatory environment

Materiality matrix
This is our third materiality matrix for ESG and sustainability. In 2020, we published our first matrix and set out the process used to develop it. The following year, the matrix was further updated following a comprehensive review. Our 2022 materiality matrix continues to be based on the SASB Standards for Construction and the UN Sustainable Development Goals, and it's aligned to our risk heatmap (on page 67).

Review process
The materiality review process takes into consideration the issues that matter most to our stakeholders and have impact on our business, whilst linking back to our strategic objectives. Using a combination of desk research, analysis of industry issues and stakeholder feedback, the matrix is then analysed and reviewed.

2022 review
The newly formed ESG Steering Committee has conducted the 2022 review. They concluded that key material issues continue to be relevant and still broadly fall in the categories of **environment**, **people** and **responsible business**. Due to increased attention on DERI (diversity, equity, respect, inclusion), the one issue that has moved is 16: Diversity and equity. We see this area as having increased stakeholder interest.

Next review
With the acquisition of Marley into the Marshalls Group, the ESG Steering Committee concluded that the 2023 materiality review will fully reflect Marley's addition to the Marshalls Group.

ESG Steering Committee

In 2020, an ESG Committee was formed to share knowledge internally and drive our sustainability agenda. With increased focus and scrutiny on ESG, the Committee has evolved and in 2022 became the ESG Steering Committee.

Reporting through the CEO to the Board, the ESG Steering Committee is chaired by our Chief People and ESG Officer and is made up of Executive Team and Board members, including our CEO, CFO and COO. The ESG Steering Committee's remit is to drive our sustainability and ESG priorities by working collaboratively with teams in ESG, Finance, Operations, Legal, HR and Procurement.

Governance
Further to 2021's ESG audit by KPMG, a set of action points were put in place focusing on formalising processes, looking at skill assessments and aligning ESG metrics and reporting. This formed part of the remit of the newly formed ESG Steering Committee and will be further progressed in 2023.

Risk
ESG risk is included in the Group Risk Register and another area of focus for the ESG Steering Committee is to look at risk and emerging risks, specifically relating to ESG. In 2023, the Committee will be looking further at identifying, managing and mitigating ESG risks, reviewing ESG risk management, and internal controls.

Case study

Carbon reduction

Marshalls continues to make great progress on carbon reduction by meeting science-based targets. Now Marley has joined the Marshalls Group, the ESG Steering Committee has approved the decision to review our overall carbon reduction targets. In 2023, teams in Sustainability, Operations and ESG will work on the re-baselining activity and seek formal approval of targets from the Science Based Targets initiative.

Link to strategic objective:
Operational excellence

Sustainable Development Goals

Over the last two years, we have reviewed our impact on each of the Sustainable Development Goals ("SDGs") that are material to Marshalls. We have also taken a more granular view and reviewed each goal's associated targets.

Our process is detailed in the diagram and sets out our activity plan. We have completed Step 1 by understanding each SDG and its associated targets, prioritising and relating to our strategic objectives and analysing our contribution at target level.

Before we move on to Step 2 to measure and analyse, we will be undertaking a review to include Marley in this process. Whilst the review is taking place, we will be looking to set objectives and define metrics, as well as starting the process of collecting and analysing relevant data – linking back to our material SDGs.

Sustainable Development Goals material to Marshalls:

Case study

SDG contribution: social value

Goal 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

Social value plays an important part in the built environment and construction industry. It's a term used for the value an organisation provides to society – through helping local people into employment, supporting local businesses or working with young people on improving their employability skills.

In 2022, we started a partnership with RNN Group and Rotherham College to create the Marshalls Academy. This partnership enables us to engage with brickwork students on a range of activities including curriculum planning, mock interviews and employability skills workshops, and site visits. Here we are able to provide employability skills to young people in local communities, share construction expertise in order to inform the curriculum, help young people understand the requirements of employers, and showcase Marshalls as an employer of choice.

Marshalls has also started working with Barnardo's in 2022 to support their Gap Homes project, offering bespoke supported living for young people leaving care. As part of this project, Marshalls is providing landscape design for outdoor spaces as well as paving product donations.

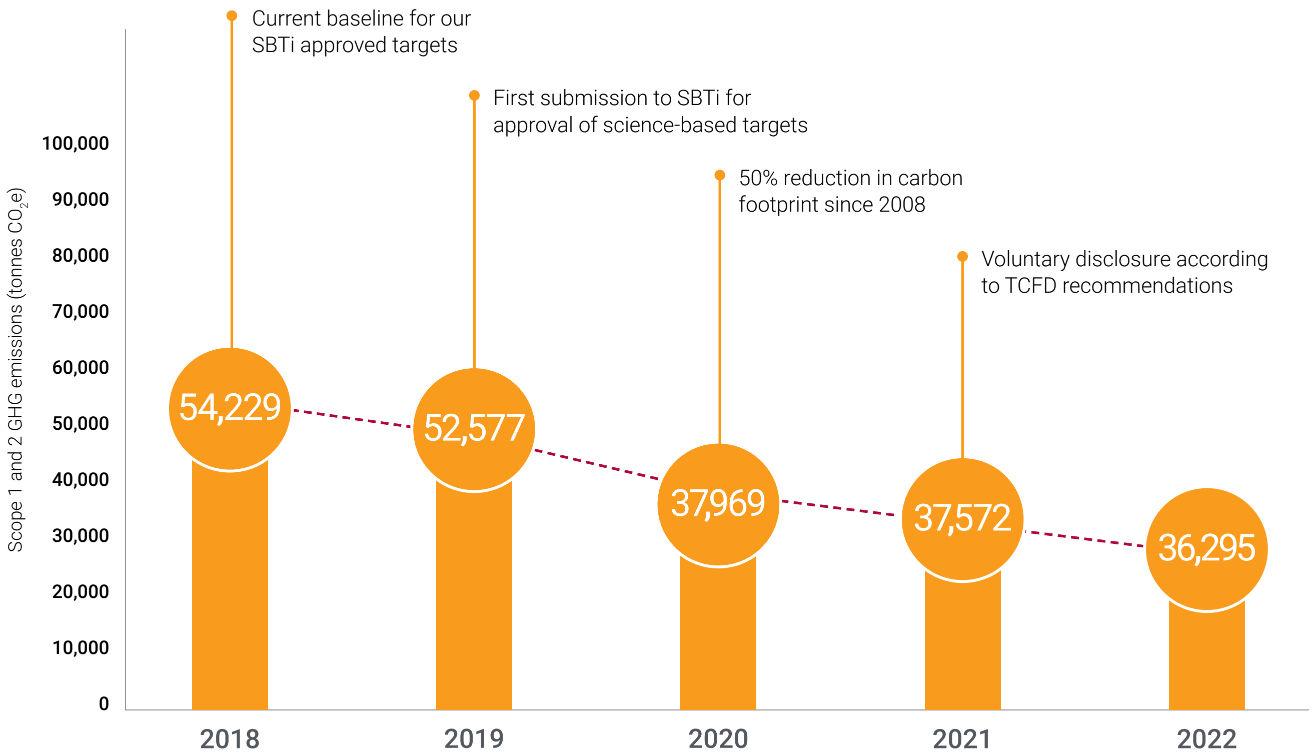
Link to strategic objective:
Brand preference for product specification

Read our Sustainability Report:
https://www.marshalls.co.uk/sustainability/document-library

What ESG Means to Marshalls continued

Carbon reduction

Reducing our carbon emissions has long been a priority for Marshalls. We started reporting our emissions data back in 2004. Between 2008 and 2020, we reduced our carbon footprint by 50 per cent. Every year, we allocate capital for carbon reduction and energy saving projects. In 2022, this consisted of lighting upgrades, removal of diesel heating and operational control improvements. We also approved the installation of a 740kW solar array at a third manufacturing site. Though our acquisition of Marley means we are re-baselining our carbon reduction targets, Marshalls is still well on track to achieving its approved science-based targets.



Note: All data in this table excludes Marley.

Note: 2004-2019 data is location based; 2020 onwards data is market based.

Case study

Environmental Product Declarations

Marshalls was a pioneer in carbon footprinting, having worked with the Carbon Trust to generate independently calculated product footprints since 2008. However, consistency and standardisation in product sustainability reporting are paramount, and it has become clear that the construction sector is finding this consistency in Environmental Product Declarations ("EPDs") - detailed reports of a product's sustainability performance including product carbon footprints. EPDs give our customers the defendable, comparable evidence they need, so in 2022 we engaged with OneClick LCA to generate EPDs for our products. We already have EPDs for our concrete bricks and solar PV modules, and our latest EPD for through-mix concrete block paving shows that we're 40 per cent lower in carbon than our only published competitor's equivalent on a cradle to grave basis. This represents a saving of over 8kg of CO_2 per m². More EPDs will follow in 2023.

Link to strategic objective:
Brand preference for product specification

Read more about our products:
www.marshalls.co.uk

Carbon reduction projects and initiatives

As we continue along our carbon reduction journey, we also move forward with a range of different projects that will contribute to our carbon reduction targets. These projects are collaborative and encourage innovative thinking for the concrete industry.

Case study

Carbon sequestration

Over its life, concrete absorbs carbon. Over the past three years, we've been exploring different technologies which can either increase or accelerate absorption. Ultimately, having the ability to absorb and lock away waste carbon is a really important step forward for our industry.

We have committed to several projects to further investigate carbon sequestration, at small and large scale. As a result, we were proud to announce in 2022 that we were the first UK concrete manufacturer to install CarbonCure Technologies' mineralisation technology. The way this works is by injecting waste CO_2 directly into concrete as it is being mixed. The carbon immediately reacts with cement in the mix and mineralises. Once mineralised, the carbon is permanently locked into the concrete for millennia — never to be released into the atmosphere, even if the concrete is demolished. We are applying this technology at our concrete brick manufacturing site in Grove, using waste carbon from the fertiliser industry as the carbon source. It is estimated that the pilot project will permanently remove approximately 30,000kg of carbon every year. This isn't a huge amount, but it's the start of a journey which enables us to tackle climate change through product innovation.

Case study

Replacing cement

In traditional concrete, cement accounts for about 80 per cent of the total carbon embodiment of the final product, so replacing it with more sustainable alternatives has long been our goal. In recent years, we have been working on a technical development programme across our concrete block paving ("CBP") sites in order to substitute an element of the cement with Ground Granulated Blast Furnace Slag ("GGBS") which is a low carbon by-product of the steel industry. As a result, we have been able to replace a minimum of 40 per cent of the cement with GGBS across all of our CBP sites.

In 2022, we took cement substitution technology a stage further when we introduced our Tri-blend powder technology into our first site at Ramsbottom. This utilises an additional cement substitute into our mix designs, limestone powder, which has an even lower carbon embodiment than GGBS. Whilst technically it's not been easy to achieve, this combination of GGBS and limestone powder has enabled us to replace 60 per cent of the cement at Ramsbottom, cutting the embodied CO_2 of our final units by approximately 50 per cent (versus traditional concrete containing 100 per cent cement binder). We have a clear two-year plan of investment to allow us to roll out this technology across our CBP production network.

Case study

Supplier emissions

Our current approved science-based target is to have 73 per cent of our suppliers, by emissions, with a science-based target of their own by 2024.

We're keen to report our carbon footprint in a more detailed way for Scope 3 supplier emissions. So we've put a plan in place to review supplier emissions with a view to submitting new targets to the Science Based Targets initiative.

What ESG Means to Marshalls continued

Task Force on Climate-related Financial Disclosures ("TCFD")

Marshalls has publicly committed to being a supporter of the TCFD. We have made TCFD-aligned disclosures according to the requirements of Listing Rule 9.8.6R in this Annual Report and in our Sustainability Report 2022. We believe we are partly compliant in our disclosure. For those pillars where we feel we are not yet fully compliant (marked with a *), we have given an explanation and the reasons behind our assessment as well as our plans to become more fully compliant.

Recommendation	Recommended disclosures	Location
Governance a. Describe the Board's oversight of climate-related risks and opportunities b. Describe management's role in assessing and managing climate-related risks and opportunities	**2022 Progress: Approved science-based targets aligned to 1.5°C and set up of new ESG Steering Committee** The Board has ultimate responsibility for climate-related risks and opportunities. Board oversight is through the ESG Steering Committee (attended by our CEO, CFO and COO). In 2022, we introduced Executive remuneration linked to carbon reduction science-based targets. 2023 will see the creation of a Climate Disclosures Working Group, involving teams from ESG, Finance, Legal and Operations, reporting to the ESG Steering Committee. The Group Risk Register, which includes climate change, is updated by the Executive Team at least every six months and the overall process is the subject of regular review by the Board. Risks are recorded with a full analysis, and risk owners are nominated who have authority and responsibility for assessing and managing the risk. The Climate Disclosures Working Group will work more closely with sites and other teams to better assess and manage these risks and opportunities. **2023 focus: Set up of Climate Disclosures Working Group, publication of our Carbon Reduction Plan and preparing to report according to the TPT framework**	Corporate Governance Statement (pages 78 to 91) Sustainability Report 2022 (page 14)
Strategy a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term * b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning * c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario*	**2022 Progress: Climate risk analysis for all Marshalls Group sites including Marley** We have identified climate-related risks and opportunities over estimated short term (0-1 year), medium term (1-5 years) and long term (5-30 years) horizons. This is linked to our transition roadmap, which has been financially quantified and will be refined to include Marley. We have also looked at risks and opportunities in terms of low, medium and high impact, though this requires further exploration. Financial quantification of risks and opportunities has been highlighted as one of the focus areas of our 2023-25 plan. Our main transition risk is the inability to deliver on our mitigation strategy, which focuses on achieving our approved science-based targets and driving manufacturing efficiencies. Our opportunities are focused on our adaptation strategy and the products we can offer to adapt to the effects of climate change, including urban heat island, flood alleviation and cement free alternatives. Although we have assessed impact on our business and strategy, we intend to interrogate our processes further in order to better quantify impact on financial planning. This will be done through the work of the Climate Disclosures Working Group and will ensure we are fully compliant by end 2023. Our current approved science-based targets are aligned to a 1.5°C trajectory and we have a roadmap of carbon reduction projects planned to 2030 for the Marshalls business. This roadmap is subject to transitional challenges and will be refined to reflect the Marley acquisition. In terms of scenario analysis, we commissioned research that looked at four different scenarios impacting our overseas stone supply chain. Although these were not climate-related scenarios, we plan to engage in climate-related scenario analysis as part of our 2023-25 plan. **2023 focus: Re-baselining of our carbon reduction targets for the whole Marshalls Group, publication of Environmental Product Declarations and scenario analysis planning**	Sustainability Report 2022 (pages 16-19)

Our climate disclosure journey

As we continue to develop our process for alignment to TCFD recommendations, we have also begun to include other frameworks into our planning. The Transition Plan Taskforce (TPT) and the ISSB standards have now been incorporated into our climate disclosures plan to 2025, which includes:

- refining our metrics following the re-baselining of our carbon reduction targets;
- setting up a Climate Disclosures Working Group to bring together teams from ESG, Finance, Legal and Operations;
- publication of our Carbon Reduction Plan;
- taking a closer look at Scope 3 supplier emissions in terms of supplier engagement and disclosure;
- financial quantification of climate-related risks and opportunities;
- more detailed climate-related scenario analysis; and
- reporting on progress.

Case study

Scenario analysis

We have begun the process of using scenario analysis through a project which set out to build a set of contrasting, plausible future contexts through which to understand how sustainability could impact the supply and demand for natural stone. The project developed a set of four challenging, relevant and plausible scenario stories to describe four possible future worlds in 2040. The scenarios examine how the supply and demand for natural stone in hard landscaping could be impacted by factors related to sustainability and potential different responses to mitigate and adapt to climate change. Future scenario analysis will focus on resilience testing our overall strategy, using contrasting climate-related scenarios.

Recommendation	Recommended disclosures	Location
Risk a. Describe the organisation's processes for identifying and assessing climate-related risks b. Describe the organisation's processes for managing climate-related risks c. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management*	**2022 Progress: Publication of first Climate Action Report to identify key risks and opportunities** Climate change is a principal risk. We have formal ongoing processes to identify, assess and analyse risks and these form part of our Group Risk Register. Climate-related risks are explained fully in our risk section (pages 66 to 75), including our risk heatmap featuring climate change in relation to other risks. Our materiality matrix has identified climate change as high interest and high impact for our business (see page 46). We have started analysing physical risk at all our sites, using Verisk Maplecroft data, and in 2022 added Marley sites and our Belgium site to the analysis. Looking forward, we intend to look more closely at which areas of climate change each site is more likely to face – initial analysis shows this to be water stress, heat stress and high winds. Having identified acute and chronic physical risks which could affect our sites, we are now focusing on climate change-related risks which may impact on other areas of our activities. Key to this is financial quantification, impact on financial planning and resilience testing – all of which we are looking to investigate further through the work of the Climate Disclosures Working Group in 2023/24. **2023 focus: Financial quantification of risks and opportunities and formalising processes for assessing and managing climate-related risk**	Sustainability Report 2022 (page 15)
Metrics and targets a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks* c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	**2022 Progress: Decision to re-baseline and review Scopes 1, 2 and 3 science-based targets** We have described our climate-related risks and opportunities according to TCFD guidelines in our Sustainability Report. As one of our risks centres on achieving our science-based targets, we use metrics to measure absolute and relative emissions (see page 52). These metrics are linked to Executive remuneration. We also use metrics relating to physical risk by analysing changes and trends, as well as analysing weather data in order to monitor impact to production and site operation. We disclose Scope 1 and 2 GHG emissions. For Scope 3, we have a science-based target however as part of our re-baselining project (to incorporate Marley into Group carbon emissions targets), we are looking to analyse Scope 3 emissions more closely by ensuring we are measuring for each material section of Scope 3. This work is due to take place in 2023. We don't disclose externally about any related risks. Our approved science-based targets are aligned to 1.5°C (see page 42). We are committed to achieving net zero, however due to our acquisition of Marley we have to recalculate our targets. We are due to start an ESG data project in 2023 which will refine our ESG metrics and look at alignment and robustness of data. **2023 focus: ESG data alignment project and Scope 3 supplier engagement**	Annual Report 2022 (pages 52-53) Sustainability Report 2022 (page 14)

Metrics and targets

Our approach to reporting focuses on being transparent and adhering to mandatory requirements and best practice. We have approved science-based targets aligned to 1.5°C for Scope 1 and 2, along with a Scope 3 target for supplier emissions. Our base year is 2018.

Our metrics and targets relate to Marshalls only. Marley has its own carbon and energy reduction targets however we will not be reporting as a Group until our carbon reduction targets have been re-baselined and approved by the Science Based Targets initiative. We have a plan in place and will update our reporting in due course.

Metric	Unit	Description
Absolute Scope 1	Tonnes CO_2e	Scope 1: fuel usage including diesel, petrol, gas oil, LPG, bio LPG, kerosene and natural gas. Base year emissions: 44,090 tonnes CO_2e
Absolute Scope 2 (location and market based)	Tonnes CO_2e	Scope 2: electricity usage. Base year emissions (location based): 13,782 tonnes CO_2e Base year emissions (market based): 10,896 tonnes CO_2e
Intensity Scope 1 and 2	Kg CO_2e/ tonne of production	Relative emissions as a proportion of production. Base year emissions (location based): 10.44 kg CO_2e/tonne Base year emissions (market based): 9.92 kg CO_2e/tonne
Energy	kWh	Energy performance reported as absolute and intensity (per tonne of product).
Renewable energy	kWh	Self-generated energy from solar arrays at site.

Read our Sustainability Report
www.marshalls.co.uk/sustainability/document-library

What ESG Means to Marshalls continued

Carbon reporting

Our Energy and Climate Change Policy Statement confirms our commitment to reducing the energy and carbon impact of the business. We remain committed to achieving net zero; however our acquisition of Marley in 2022 has triggered a re-baselining of our carbon reduction targets. This means that we will be integrating our carbon data, recalculating our carbon footprint and submitting our revised targets to the Science Based Targets initiative ("SBTi") for approval.

Our current goals:

- reduce our relative Scope 1 and 2 emissions by 59.4 per cent by 2030 against a 2018 baseline, which is equivalent to absolute Scope 1 and 2 emissions reduction of 50.5 per cent;
- 73 per cent of suppliers by emissions have science-based targets by 2024; and
- start re-baselining our targets to include our Marley acquisition and submit to SBTi.

Marshalls has a mandatory duty to report annual greenhouse gas ("GHG") emissions under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. We use The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and the June 2018 Department for Business, Energy and Industrial Strategy ("BEIS") published CO_2e conversion factors to measure GHG emissions.

This year, in line with mandatory requirements, we have reported according to recommendations from TCFD, which can be found on pages 50 and 51, and in our Sustainability Report.

Our approach to the Energy Savings Opportunity Scheme ("ESOS") legislation was to define our energy management in compliance with the international standard for energy management, ISO 50001, gaining re-accreditation in 2022. In 2022, we also began the process of incorporating Marley into our ISO 50001 accreditation.

Measuring carbon emissions

We measure carbon emissions by monitoring Scopes 1 and 2.

Scope 1 refers to our fuel usage, including diesel, petrol, gas oil, liquefied petroleum gas ("LPG"), bio LPG, kerosene and natural gas.

Scope 2 refers to our indirect emissions and for us, it's the electricity that we've purchased. We continue to report our Scope 2 emissions as location based (using Government emissions factors) and market based (using supplier emissions factors). Our Scope 2 market based performance has been very low since 2020 as this was the year we switched to green electricity which comes from renewable sources.

Both Marshalls and Marley carbon and energy data has been externally verified. We have separated Marshalls and Marley in this year's reporting as Marley is not yet included in our approved science-based targets.

Progress against targets

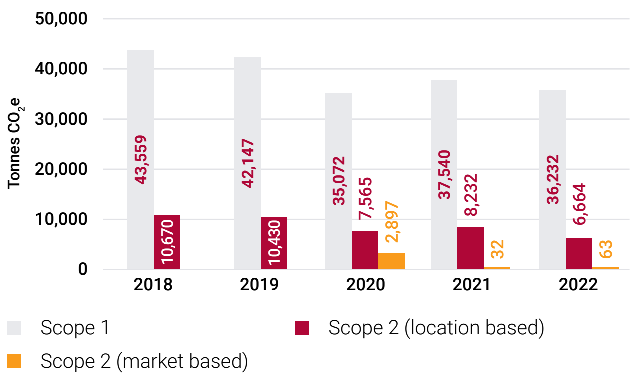
Our absolute target for 2022 was 48,150 tonnes CO_2e and our relative target was 8.34kg CO_2e per tonne.

For 2023, our targets are 45,719 tonnes CO_2e and 7.76kg CO_2e per tonne of production.

Absolute Scope 1 and 2 emissions (tonnes CO_2e)

This chart illustrates UK and Belgium absolute CO_2e emissions in tonnes, including transport activities, for Marshalls (excluding Marley).

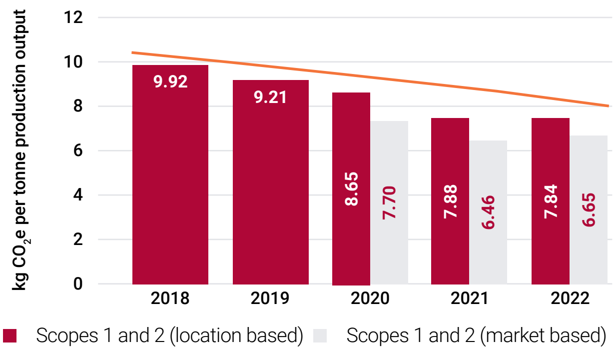
Marley's absolute Scope 1 and 2 emissions for 2022 were 22,610 tonnes CO_2e (market based).



Relative Scope 1 and 2 emissions (kg CO_2e per tonne of production)

This chart illustrates UK and Belgium CO_2e intensity emissions as a proportion of production output, including transport activities, for Marshalls (excluding Marley).

We use an intensity ratio in order to define emissions data in relation to our business – for Marshalls, this is kg CO_2e per tonne of production. This allows us to benchmark ourselves, give context to stakeholders and allows for business growth.



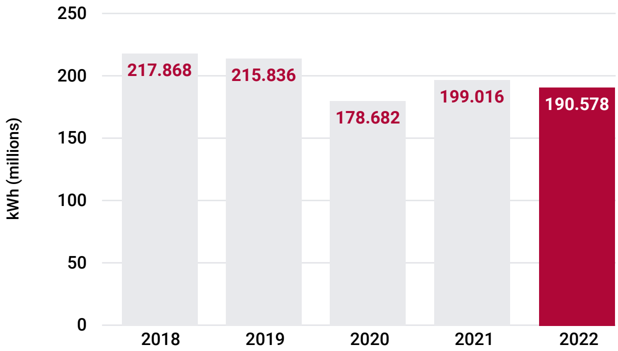
The relationship between the energy used and volume of product manufactured is not linear. Whilst our relative Scope 1 and 2 emissions have increased slightly in 2022, our absolute Scope 1 and 2 emissions have decreased. This is in line with our expectations and both absolute and relative emissions remain well within the approved 1.5°C science-based target pathway for Marshalls (excluding Marley).

Streamlined Energy and Carbon Reporting ("SECR")

Marshalls continues to report global Scope 1 and 2 GHG emissions in tonnes of carbon dioxide equivalent. In accordance with the SECR framework, we are also reporting underlying energy use, which includes self-generated energy from renewables. Unless otherwise stated, the information below excludes Marley.

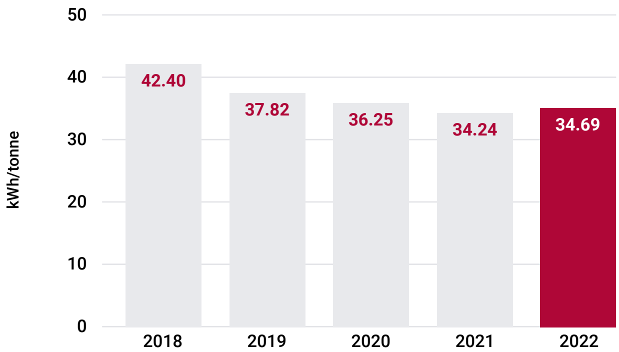
Energy performance in the UK

The chart below shows underlying UK energy use for Marshalls. Belgium's energy use for 2022 was 1.975 mkWh (2021: 1.936 mkWh). Marley's energy use for 2022 was 135.05 mkWh.



Relative energy performance in the UK

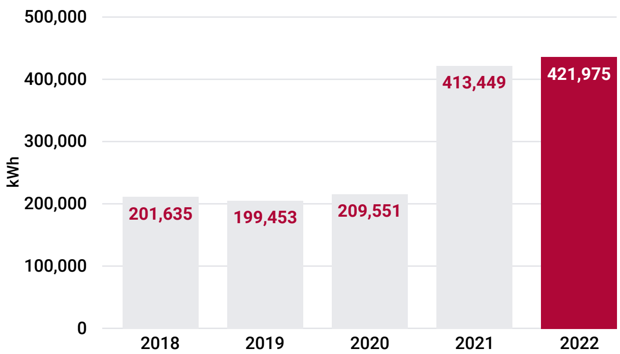
This chart shows energy use for Marshalls in the UK in relation to product.



Note: The intensity ratio is calculated by dividing our kWh (energy) usage by our production output (tonnes).

Self-generated energy from renewables

This chart shows self-generated energy from the solar arrays at our Marshalls manufacturing sites.



Energy reduction

We continue to engineer high emission fuels like gas oil out of the business and in 2022, we removed diesel heating at our Buxton site. Operational controls and building management systems are also areas of focus, with improvements made at our Grove site. Lighting upgrades also continue, with our Brookfoot and West Lane sites updated. We have approved the installation of a 740kW solar array at our St. Ives dual block plant and carried out feasibility studies on wind energy. Marley has joined us by having 100 per cent of its electricity coming from renewable sources, as well as adding more electric car charging points at Keele and Glasgow sites.

Case study

Renewables

We have installed solar panels at two sites, with the third due for completion in 2023, and all our sites are powered by electricity from renewable sources. But this is not the only way we're looking at renewable energy. In 2022, we set up a Renewables Working Group comprising colleagues from Legal, Property, Operations and Procurement.

Their first project is to investigate the feasibility of using wind turbines to produce energy at five of our manufacturing sites, with significant projected cost and energy savings as well as reduced reliance on the grid.

Link to strategic objective:
Operational excellence

Making Marshalls **a great place to work**

A message from our Employee Voice Group Board sponsor

At Marshalls, our people are the key differentiator. We designed a People Strategy built around the modernisation of the colleague experience; building a diverse and engaged workforce that supports the performance of the business.

Listening to the colleague voice is a fundamental part of how Marshalls operates and it's been a privilege to continue to work as the Board sponsor of the democratically elected Employee Voice Group ("EVG") in 2022. The group has been working to make sure that we "do the right things, for the right reasons, in the right way". The Marshalls Way.

Representatives of all levels have created an environment of trust where they take part in decision making, share feedback and have honest conversations with leaders. We've made strides in 2022 with the EVG playing a key role in a number of different projects and programmes we're sharing in this report.

I'm looking forward to continuing to work with the EVG to make Marshalls a great place to work and deliver on our purpose to create better spaces and futures for everyone.

Angela Bromfield
Non-Executive Director
15 March 2023

3,112
employees (2021: 2,700)

8 years
as a Living Wage employer

142
colleagues in apprenticeship programmes (2021: 102)

10,143
training courses completed* (2021: 8,287)

£33,901
charitable donations (2021: £103,500)

7.6
engagement score* – 0.2 above industry benchmark (2021: 7.6)

95%
of colleagues disclosing diversity data*

31%
of women in leadership roles (2021: 35%)

16%
women colleagues (2021: 17.8%)

Transformational change The Marshalls Way

2022 saw the continuation of our digital transformation programme, with the introduction of our new core people system, Marshalls Connect.

We launched Marshalls Connect to modernise our HR capability and achieve greater organisational agility and resilience. Our people data and analytics now have a solid foundation and inform better decision making. In 2022, we also concluded our standardisation programme of legacy terms across the business which created greater transparency for our colleagues.

To do the right thing for our people, it was important that we brought colleagues on the change journey from the start, so they understood why the transformation was happening and they had time to learn about Marshalls Connect. We showed colleagues how easy the system was to use and demonstrated how their data* was safe and secure. The change management programme further reinforced our collaborative culture.

We'll be moving into the next phase of digital modernisation by consolidating and integrating other technology (learning, performance management as standout examples) into this core system.

Marshalls connect

As at 16 December 2022, a total of 2,500 colleagues engaged with Marshalls Connect. That means over 98 per cent of the workforce* have control of their data at the touch of a button.

* This data excludes Marley.

Building a diverse workforce

Our new HR system, Marshalls Connect, has given us an opportunity to collect up-to-date diversity data from colleagues to better understand our workforce and what we need to do to be better.

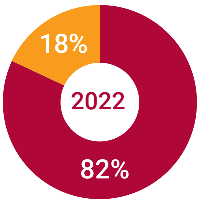
Colleagues disclosing some or all of their diversity data has increased to 95 per cent in 2022*. This demonstrates the progress we've made on our DERI (Diversity, Equity, Respect, Inclusion) journey.

* The data below excludes Marley.

Future key focus areas

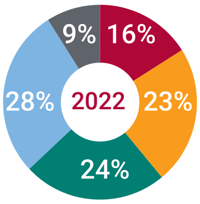
Since our DERI strategy launched in 2019, we've built solid foundations. We know there's more to do and our plans for 2023 will continue to move us forward to make Marshalls a place where everyone wants to work. We're taking the approach of delivering small changes as these will have a greater impact in changing our overall demographics. We'll be setting small yet achievable localised diversity targets and plans to influence change. The Board supports the creation of targets and KPIs to monitor, track and hold our leadership accountable. It's our intention, once identified, to publish targets and track these.

Gender split



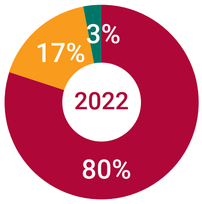
- Male
- Female

Generational representation



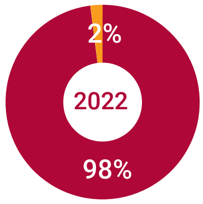
- Aged under 30
- Aged 31-40
- Aged 41-50
- Aged 51-60
- Aged 61+

Ethnicity



- White British/White other
- No disclosure
- Minority ethnic group (Asian, Black, mixed/multiple heritage or other minority ethnic groups)

Disability



- No disability
- Disability

Employee voice and engagement

Your Voice all-employee survey

Our programme of understanding what drives engagement among colleagues continued throughout 2022, with a comprehensive survey carried out in May. We included a range of questions in the survey to help us measure and understand colleague engagement across key topics such as wellbeing and Company strategy.

The culture of transparency and openness we've been building through our People Strategy has started to pay back; we've built trust and confidence in the varied feedback avenues available to colleagues, and in 2022, 72 per cent of colleagues gave us their feedback. The most recent survey gave us an engagement score of 7.6 (eNPS 27), which is 0.2 above the benchmark for our industry. This data excludes Marley and our aim for 2023 is to include our Marley colleague voice as part of our integration activities.

Employee Voice Group ("EVG")

In 2022, the EVG continued to represent colleagues across the business with Executive Team member Louise Furness and Board member Angela Bromfield sponsoring this activity to ensure it's a valuable forum for all. In 2023, Marley colleagues joined the EVG.

The EVG held six meetings during 2022 and was invited to steer the business across a number of areas, including our Reward Strategy and our HR and people activity.

They've all played a key role when discussing topics and shared suggestions like the creation of a company car newsletter, corporate charity partner selection and representation on the Pensions Governance Committee. They've provided deep insight into the core focus areas from the employee surveys – personal growth and development and employee wellbeing – and helped the business build a tangible action plan that will make a difference to all colleagues.

Development

Personal growth and development have been highlighted, through our employee surveys, as a key area of focus. Based on colleague feedback, we now have an accelerated strategy in place to enhance this further. This will be delivered from 2023 onwards.

A key core element of building capability, for now and the future, is apprenticeships and 2022 has been another successful year. We have seen 142 colleagues engaging in apprenticeship programmes (levels 3 to 7), with 37 of those colleagues successfully graduating in 2022. These graduates have excelled in their learning, not just compared to the Marshalls standard, but also when compared to their peers nationally.

Our apprenticeship development programme focused on engineering, digital and technology solutions, digital marketing, leadership and management, LGV drivers, and human resources. This development strategy has helped us bring new talent into the business while growing existing talent and creating internal mobility. Our ambition for 2023 is to continue growing our own talent through increasing the number of apprentices.

Case study

The Marshalls Data Academy

The Marshalls Data Academy was launched in 2022 with the clear objective of building capability for data insight, and supporting better data-driven decisions to shape the sustainable future of Marshalls. 28 applicants* have successfully been accepted to three different programmes of the Academy.

They will be supported in their learning by experts in their field and also form strong peer networks for learning and mentoring.

Link to strategic objective:
Digital transformation

Business and human rights

Marshalls has been a signatory of the UN Global Compact ("UNGC") since 2009. We take a multi-strand approach to aligning with the objectives of the UNGC framework, working in house and with external partners to better understand the human rights risks in our operations and supply chains at home and abroad. We also work with UK and overseas governments, NGOs and industry groups to promote sustainable and ethical working practices across our own and other industries.

Our CEO signs our annual Modern Slavery Statement and has overall Board responsibility for human rights.

Marshalls supports human rights as laid out in the Universal Declaration of Human Rights and we work diligently in all respects to support and uphold the UN Guiding Principles on Business and Human Rights. Our Human Rights and Children's Rights policies support our work and are reviewed every year by the Board.

Case study

Supply chain mapping in China

In 2022, we embarked on the most detailed mapping process of our natural stone supply chain in China to date, identifying tiers one to three, from factories to quarries. Our local China-based team, Marshalls Xiamen, provided geoco-ordinates for each premises. We then used risk analysis tools supplied by Verisk Maplecroft to map out the environmental, social and human rights risk for each location. Supply chain-specific analysis was conducted in parallel with an extensive review of NGO and academic reports on the region. We are using this research to inform our next steps for engaging with suppliers and workers, including the introduction of monitoring tools and the rollout of a worker hotline.

Link to strategic objective:
Sustainable supply

Due diligence and human rights highlights for 2022

Highlight	Impact
Established a cross functional approach involving procurement, commercial and ESG teams, to support our human rights and environmental due diligence systems and processes	• Leadership and dynamic decision making at Board level
Expanded our business and human rights team to increase capacity for in-house risk assessment, supplier visits and engagement for both domestic operations and our international supply chains	• Increased capacity for human rights due diligence and responsiveness to issues
Refreshed our Code of Conduct for Marshalls employees and suppliers, with added emphasis on whistleblowing and human rights due diligence	• Reinforcing our values with employees and supply chain partners
Implemented an independent Modern Slavery Risk Assessment and training programme at 32 of our Marshalls manufacturing sites in the UK	• High levels of awareness of modern slavery and appropriate systems and processes
Introduced a two-stage desk analysis process to understand ethical labour and environmental risks in our global supply chains. Human rights, social and environmental risks are first identified at country level, and then mapped against geolocations of suppliers	• Integration of human rights and environmental analysis, preparing for mandatory reporting requirements
Trialled the Everyone's Business supplier monitoring app in China, for wider rollout in 2023	• Live monitoring and real time information allowing for faster identification and response to issues
Engaged with local experts to map out our South Indian supply chain back to raw materials and to analyse current and evolving human rights risks	• Further deepening local knowledge to inform ongoing strategy and engagement with the region
Completed Modern Slavery Country Risk Mapping for 100% of our Marshalls Group business operations and supply chains, making this publicly available online	• Transparency to enable our customers to make informed choices
Continued to engage with UK Government, overseas governments, international business associations and bodies on the issues of modern slavery	• Strategic working at UK and international level to bring an end to modern slavery

Marshalls due diligence

Case study

Modern slavery training in the UK

As part of our commitment to training colleagues on modern slavery, we deliver a mix of online and onsite training. Online training is available on our Marshalls Learning Zone. In 2022, we also delivered a programme of modern slavery training awareness to colleagues at 32 of our manufacturing sites. Starting with director and manager interviews, training was followed with toolbox talks and tailored training materials. Overall, feedback was positive. The identified areas for improvement will form part of our 2023 training plan which includes engaging with more colleagues at different sites and bespoke training for our procurement team.

Link to strategic objective:
Operational excellence

Case study

Cross sectoral approach in India

Marshalls has been an active member of the International Labour Organization ("ILO") Child Labour Platform since 2015 and co-chairs the ILO Child Labour Platform India Working Group, as part of a cross-sectoral initiative.

This dynamic platform gives us the opportunity to join other global brands and organisations committed to eliminating child labour in supply chains. We convene to share experience, knowledge and challenges in order to gain new perspective and recommit to doing all that we can as businesses to accelerate progress and take action.

This year we co-chaired the ILO Child Labour Platform India Working Group developing a cross sectoral, multilateral approach in South India. Working in concert with other engaged brands, the ILO, state governments and local communities, we will continue to pursue the decent work agenda.

Link to strategic objective:
Sustainable supply

Case study

Collaborative working in Vietnam

Marshalls has been working with the International Organization for Migration ("IOM") to promote fair and ethical labour practices in the Vietnamese natural stone sector since 2019. This year we continued the collaboration with a mixed method study to understand how suppliers in the region have been impacted by the COVID-19 pandemic, and to assess obstacles and enabling factors in implementing responsible recruitment and employment practices. The project is in line with the IOM's Corporate Responsibility in Eliminating Slavery and Trafficking and is informing our future engagement with the region.

Link to strategic objective:
Sustainable supply

Case study

Modern Slavery Innovation Fund

At the end of 2022, Marshalls was part of a successful consortium bid to the Home Office Modern Slavery Innovation Fund, together with UN Global Compact UK Network and Trilateral Research. The Modern Slavery Innovation Fund aims to decrease the prevalence of victims of modern slavery in the UK and overseas.

The two-year project will focus upon strengthening partnerships between local businesses, UK business, investors, and local public authorities to prevent and remedy modern slavery in supply chains. Learnings will also inform UK and international policy on modern slavery and human trafficking.

Link to strategic objective:
Sustainable supply

Read our Modern Slavery Statement:
https://www.marshalls.co.uk/sustainability/modern-slavery

What ESG Means to Marshalls continued

Health, safety and wellbeing

Health and safety performance
Marshalls' CEO, Martyn Coffey, is the Board Director responsible for the health and safety performance of the Group.

Our Health and Safety Policy is approved by the Board and reviewed at least annually. Our five-year health and safety strategy is aligned with the business strategy with set objectives, and clearly demonstrates the commitment of the business to take the safety and wellbeing of its people to the highest level. The Board is fully committed to the continuous development and improvement of the business' safety processes and the importance of engaging and developing a competent workforce.

The achievement of annual health and safety improvement targets is directly linked to the remuneration of the Executive Directors and senior management, as explained in the Remuneration Report on pages 100 to 130.

The headline target for 2022 was to maintain lost time incidents at a figure no higher than the average over three years (2019-2021). This excludes the impact of acquisitions within a period of three years from purchase, therefore our Bricks & Masonry division is now included in our data reporting but our Marley acquisition is excluded.

Health and safety reporting changes
In 2022, it was decided by the Executive Team to start reporting our lost time incident frequency rate, instead of lost days injury frequency rate. This decision was taken because reporting lost time instead of lost days enables us to give a more rounded view of our health and safety performance over time. It also brings us in line with the most widely used measure in our industry.

2022 achievements
- Reduction in lost time incident frequency rate
- 62 Mental Health First Aiders ("MHFAs")
- Alignment of Marshalls and Marley health and safety function
- Award wins for employee wellbeing strategy and crane safety improvement project
- 26,969 training hours on health, safety and environment

2023 focus
- Roadmap to Compliance and simplification of policies
- Introduction of Safety Excellence Model and management programmes to manage high risk activities
- Continuing rollout of root cause analysis training and incident investigation
- Internal recruitment and training of MHFAs at Marley sites
- Focus on a positive safety culture by reinforcing recognition of good behaviours and continuing rollout of the Fair and Just Approach

	2020	2021	**2022**
Lost time incident frequency rate (per million hours worked)	1.73	2.68	**1.7**
Fatalities	0	0	**0**

Note: The above data covers employees and contractors.

Note: All data in this table excludes Marley.

1.7
lost time incident frequency rate per million hours worked (target: <2.28 average over 3 years)

Case study

Crane improvement project

In 2022, we reviewed processes for operating vehicle cranes further to two site incidents. A project team was set up in order to review current risk assessments and standard operating procedures ("SOPs"). The SOPs were made easier to follow and understand, with emphasis on pictorial instructions, and communicated to our Logistics colleagues. The team then started working in collaboration with our crane supplier, resulting in a new system which means that each crane has an independent key welded to the same keyring as the vehicle ignition key. This means the vehicle ignition key must be removed before and whilst the crane is in operation. This is also a fail-safe system as the crane must be stowed away correctly before the vehicle can be started and driven away. We have started a retrofit programme with the new system for our crane fleet. The system not only ensures the health and safety of our colleagues, it also minimises risk to production. This system is not proprietary to Marshalls and we are encouraging others in our industry to adopt it for their own operations.

Link to strategic objective:
Logistics excellence

Putting employee wellbeing first

In 2022, we continued our focus on employee wellbeing by delivering our three-year strategy. Since colleagues helped us shape our programme and Simon Bourne, our Chief Operating Officer, became our Executive sponsor, we've seen it go from strength to strength.

Through our intranet, Marshalls NOW, all Marshalls colleagues have access to a dedicated area for wellbeing, providing education and support. This one-stop-shop is accessible by all colleagues at any time, on any device. Here, colleagues can access our four wellbeing pillars (physical, mental, financial and social) where they can find support, hints and tips that support their wellbeing.

Marshalls was awarded the "Best Strategy for Employee Wellbeing" Award at the Engagement Excellence Awards 2022. The judges commended our collaborative working across functions as well as consideration for the employee voice.

Comments from the judges included: *"Fantastic to see senior sponsorship of the strategy and that its three years demonstrates the buy-in into this"* and *"The wellbeing strategy is clearly built on collaboration and creativity... Marshalls should be really proud of what they've achieved on their wellbeing journey"*.

Marley integration

A key focus for 2023 will be the continued integration of the Marley and Marshalls health and safety teams, by aligning common processes, management systems, policies and documentation as well as introducing a new data management system into the Group.

Case study

Road safety training

We run a fleet of around 200 HGV vehicles, delivering mainly to building sites, merchants yards and to the public. As such, we are keen to engage with local communities on road safety. In 2022, our qualified and experienced driver trainers visited primary schools in West Yorkshire and Cambridgeshire to deliver training to groups of primary schoolchildren. Covering different types of HGVs, potential dangers and hazards, the session was interactive with a vehicle demonstration in the playground to explain and show blind spots to the children. We're looking to do further training with schools located near our manufacturing sites in 2023.

Link to strategic objective:
Logistics excellence

Supporting Healthy Minds

Case study

Mental Health First Aiders

Marshalls has a strong network of 62 trained Mental Health First Aiders ("MHFAs"). We continue to support our MHFAs by providing supervised sessions with clinical therapists through CiC, our employee assistance programme. We also have a programme of refresher training on mental health and wellbeing, as well as a Supporting Healthy Minds Working Group which collaborates with unions. A key focus in 2023 will be on training managers on mental health and managing change. We will also be integrating our processes with Marley in order to share our wellbeing resources and promoting access to our MHFA network.

Link to strategic objective:
Operational excellence

62
Mental Health First Aiders
(2021: 53)

MPA HEALTH & SAFETY AWARDS SAFER BY SHARING

- **Winner: Safer Transport and Logistics Award for Crane Improvement Project**
- Finalist: Safer Transport and Logistics Award for School Awareness Project
- Finalist: Supporting Healthier Minds and Employee Wellbeing Award
- Finalist: Young Persons in Safety Award for Sam Wood at West Lane
- Highly Commended: Safer Handling of Inbound and Outbound Materials Award for Concrete Block Board Exchange at Ramsbottom site
- Highly Commended: Safer Together Award for "See it, Sort it & Go and See" Gas Walks at Brookfoot site
- Highly Commended: Safer Transport and Logistics Award for SLAM (Stop, Look, Assess, Manage)

Financial Review

"We maintain a flexible capital structure which now includes a deleveraging objective in order to pay down the new bank loan over the medium term.

The Group is strongly cash generative and has **good headroom against its bank facility and covenants**

Summary

- Full year revenue of £719.4 million – 22% increase on 2021, including eight months of Marley
- Revenue growth of 1% on a like-for-like basis
- Adjusted operating profit of £101.1 million, up 31% on 2021 (statutory basis: £47.9 million)
- Adjusted profit before tax of £90.4 million - an increase of 23% on 2021
- Profit before tax on a statutory basis of £37.2 million (2021: £69.3 million)
- Strong cash generation
- Deleveraging objective elevated as a capital allocation policy
- Net debt of £190.8 million (on a pre-IFRS 16 basis) and leverage of 1.35 times adjusted pre-IFRS 16 proforma EBITDA
- Significant headroom against bank facilities
- Recommended dividend of 9.9 pence – 15.6 pence for the full year

Trading summary

Revenue

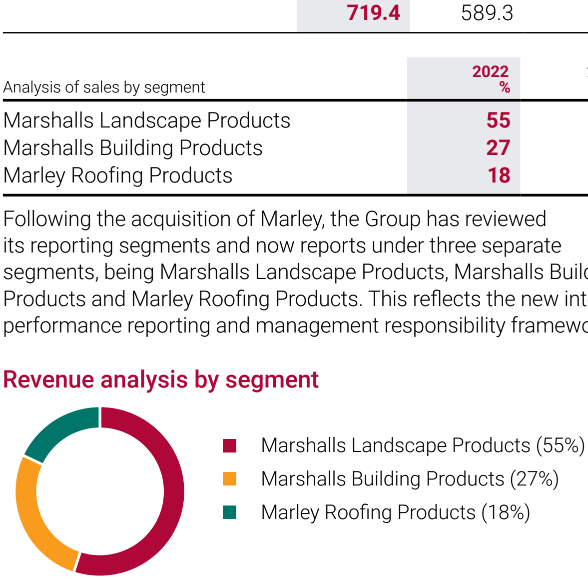
Group revenue for the year ended 31 December 2022 was £719.4 million (2021: £589.3 million), which is 22 per cent higher than 2021 including the benefit of Marley's revenue following the acquisition. On a like-for-like basis, Group revenue growth was one per cent.

Analysis of sales by segment	**2022 £'m**	2021 £'m	22/21 %
Marshalls Landscape Products	**394.1**	424.8	(7)
Marshalls Building Products	**193.1**	164.5	17
Marley Roofing Products	**132.2**	–	–
	719.4	589.3	22

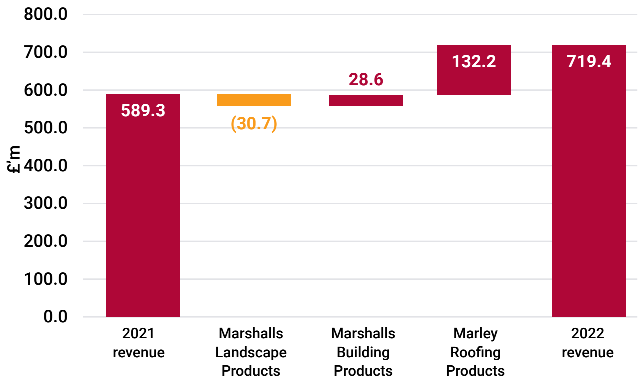
Analysis of sales by segment	**2022 %**	2021 %
Marshalls Landscape Products	**55**	72
Marshalls Building Products	**27**	28
Marley Roofing Products	**18**	–

Following the acquisition of Marley, the Group has reviewed its reporting segments and now reports under three separate segments, being Marshalls Landscape Products, Marshalls Building Products and Marley Roofing Products. This reflects the new internal performance reporting and management responsibility framework.

Revenue analysis by segment



Analysis of revenue growth
2021–2022



Adjusted operating profit

	2022 £'m	2021 £'m	22/21 %
Marshalls Landscape Products	**45.3**	62.4	(27)
Marshalls Building Products	**26.8**	19.6	37
Marley Roofing Products	**34.4**	—	—
Central costs	**(5.4)**	(4.6)	(17)
2022	**101.1**	77.4	31

The growth in adjusted operating profit for the Group of 31 per cent was largely driven by the benefit of Marley from 29 April 2022 together with a strong performance from Marshalls Building Products. This has been partially offset by Marshalls Landscape Products, where the impact of a softer Private Housing RMI market compared to the elevated levels reported in 2021 and reduced commercial sales resulted in sharply lower volumes and profitability. Commentary on the performance of each reporting segment is set out pages 18 to 23.

The statutory operating profit is stated after adjusting items totalling £53.2 million as summarised in the following table. Further details are set out in Note 4.

Group cash flow	Year ended 31 December 2022 £'m	Year ended 31 December 2021 (as restated) £'m
Transaction related costs	**14.9**	—
Amortisation of acquired intangible assets	**7.3**	1.2
Fair value adjustment to inventory	**3.9**	—
Additional contingent consideration	**3.9**	—
Restructuring costs	**13.0**	2.8
Impairment of assets in Belgian subsidiary	**10.2**	—
Other	**—**	(2.8)
Adjusting items	**53.2**	1.2

Transaction related costs totalling £14.9 million were incurred in respect of the acquisition of Marley and principally comprised adviser fees. A purchase price allocation ("PPA") exercise was undertaken to recognise the assets of Marley on acquisition at fair value and this resulted in the creation of intangible assets and a non-cash adjustment to increase inventory to its fair value. The acquired intangible assets are being amortised over a period of between 15 and 25 years and therefore the associated charge will be a recurring feature of the Group's statutory profit and loss account. Additional contingent consideration of £3.9 million has been charged as an adjusting item following a re-assessment of the amounts that will become payable to vendors arising in relation to Marley's acquisition and of Viridian Solar Limited in 2021.

In response to lower levels of customer demand, we undertook a restructuring exercise to right-size our capacity and cost base and this resulted in a charge of £13.0 million, which comprises £3.0 million of cash redundancy costs and £10.0 million of non-cash impairment charges.

The impairment of assets in the Group's subsidiary in Belgium arose from an impairment review carried out in response to a downturn in the business performance during 2022.

The Group's accounting policy is that adjusting items are disclosed separately because of their size, nature or incidence and to provide additional information in order to enable a full understanding of the Group's results. The policy to exclude amortisation of acquired intangible assets has required a modest restatement of Marshalls' 2021 alternative performance measures. The disclosure of results before adjusting items represents an alternative performance measure, in order to demonstrate the Group's capacity to deliver dividends to shareholders. Further details of the adjusting items are set out in Note 4 on pages 162 and 163.

Adjusted profit margins

Margin analysis	Revenue £'m	Adjusted operating profit £'m	Margin impact %
2021	589.3	77.4	13.1
Marshalls Landscape Products	(30.7)	(17.1)	(2.3)
Marshalls Building Products	28.6	7.2	0.7
Marley Roofing Products	132.2	34.4	2.7
Central costs	—	(0.8)	(0.1)
2022	**719.4**	**101.1**	**14.1**

The Group's adjusted operating margin increased by one percentage point to 14.1 per cent (2021: 13.1 per cent) and reflects some compression in margins within Marshalls Landscape Products largely offset by an improved performance by Marshalls Building Products and the benefit of Marley's structurally higher margins.

Adjusted EBITDA and operating profit
Adjusted EBITDA was £136.0 million (2021: £107.1 million). This represents an increase of 27 per cent compared with 2021. EBITDA on a statutory basis was £90.2 million (2021: £107.1 million). Adjusted operating profit increased to £101.1 million (2021: £77.4 million).

	2022 £'m	2021 £'m	Change 22/21 %
Adjusted EBITDA	**136.0**	107.1	27
Depreciation/amortisation	**(34.9)**	(29.7)	
Adjusted operating profit	**101.1**	77.4	31
Adjusting items	**(53.2)**	(1.2)	
Statutory operating profit	**47.9**	76.2	

Financial Review continued

Trading summary continued

Profit before tax

	Adjusted 2022 £'m	Reported 2022 £'m	Adjusted (as restated) 2021 £'m	Reported 2021 £'m	Adjusted charge 22/21 %
Operating profit	**47.9**	**47.9**	76.2	76.2	
Adjusting items	**53.2**	**–**	1.2	–	
Adjusted operating profit	**101.1**	**47.9**	77.4	76.2	31
Net finance costs	**(10.7)**	**(10.7)**	(4.1)	(6.9)	
Adjusted profit before taxation	**90.4**	**37.2**	73.3	69.3	25
Taxation	**(17.0)**	**(10.7)**	(15.0)	(14.4)	
Adjusted profit after taxation	**73.4**	**26.5**	58.3	54.9	
Earnings per share – pence	**31.3**	**11.4**	29.2	27.5	7

Adjusted profit before tax was £90.4 million (2021: £73.3 million). Statutory profit before tax was £53.2 million lower than the adjusted result at £37.2 million (2021: £69.3 million), reflecting the impact of the adjusting items.

Net financial expenses

Net financial expenses were £10.7 million (2021: £6.9 million after taking a charge to recognise an additional pension liability of £2.8 million). This comprised bank interest and associated fees of £8.2 million (2021: £1.8 million), IFRS lease interest of £2.4 million (2021: £1.9 million) and a pension scheme funding cost of £0.1 million (2021: £3.2 million including the additional charge of £2.8 million).

On a rolling annual basis, interest after adding back the impact of adjusting items, was covered 9.4 times (2021: 18.6 times).

Including scheme administration costs, there was a normal IAS 19 notional interest charge of £0.1 million (2021: £0.4 million) in relation to the Group's pension scheme. The IAS 19 notional interest includes interest on obligations under the defined benefit section of the Marshalls plc pension scheme, net of the expected return on scheme assets. The pension related interest cost in 2021 included a non-cash charge of £2.8 million, which was accounted for as an adjusted item.

Taxation

The adjusted effective tax rate was 18.9 per cent (2021: 20.5 per cent), which is broadly in line with the UK headline corporation tax rate. The UK corporation tax rate increases to 25 per cent in 2023, and the deferred tax liability at 31 December 2022 has been calculated at 25 per cent, being the rate at which the deferred tax is expected to unwind.

On a reported basis the effective tax rate was 28.7 per cent due to certain transaction related costs not being eligible for a tax deduction and there being no tax relief available for the asset impairment in the Belgian subsidiary.

The Group has paid £11.6 million (2021: £13.5 million) of corporation tax during the year. A deferred tax charge of £0.8 million in relation to the actuarial loss arising on the defined benefit pension scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

For the ninth year running, Marshalls has been awarded the Fair Tax Mark, which recognises social responsibility and transparency in a company's tax affairs. The Group's tax approach has long been closely aligned with the Fair Tax Mark's objectives and this is supported by the Group's tax strategy and fully transparent tax disclosures. Taking into account not only corporation tax but also PAYE and NI paid on our employee wages, aggregate levy, VAT, fuel duty and business rates, Marshalls has funded total taxation to the UK economy of £108 million.

Dividends

The Group's stated dividend policy is to maintain two times cover, through the cycle, of adjusted earnings per share. A progressive dividend policy remains a key objective.

The Board is recommending that a final dividend of 9.9 pence be paid for 2022. This will be payable on 3 July 2023. When combined with the interim dividend of 5.7 pence, this results in a full year dividend of 15.6 pence per share. Dividend payments will continue to be aligned with appropriate caution and stewardship but reflect our stated strategy and capital allocation policy.

Net debt

Reported net debt was £236.6 million at 31 December 2022 (2021: £41.1 million), including £45.8 million (2021: £41.1 million) of IFRS 16 lease liabilities. On a pre-IFRS 16 basis, net debt was £190.8 million (2021: £0.1 million net cash).

On 3 May 2022, the Group drew down the new four-year term loan of £210 million to support the funding of the acquisition of Marley. In addition to the term loan, the Group has entered into a new committed revolving credit facility of £160 million with a maturity date of four years. Good headroom is maintained against the new bank facility and its covenants, which will support investment priorities going forward, were comfortably met.

Borrowing facilities

The total bank borrowing facilities at 31 December 2022 amounted to £370 million, of which £120.1 million remained unutilised. The facility matures in April 2026. The bank facilities are unsecured. The Group's committed bank facilities are charged at variable rates based on SONIA plus a margin. The Group's bank facilities continue to be aligned with the current strategy to ensure that headroom against available facilities remains at appropriate levels and are structured to provide balanced and committed medium-term debt.

At 31 December 2022, on an adjusted, pre-IFRS 16 proforma covenant test basis (pre-IFRS 16), and after adding back the impact of adjusting items the relevant ratios were achieved comfortably and were as follows:

- EBITA: interest charge – 16 times (covenant test requirement – to be greater than 3.0 times); and
- net debt: EBITDA – 1.35 times (covenant test requirement – to be less than 3.0 times).

Cash generation

Cash generation remains strong, and cash generated from operations were £106.8 million. After adding back the cash cost of adjusting items totalling £17.4 million paid, net operating cash flows were £124.2 million. Adjusted operating cash flow (before interest and taxation) for the twelve months to 31 December 2022 represented 91 per cent of adjusted EBITDA (2021: 80 per cent) which demonstrates the cash generative nature of the Group's businesses. The Marley business is cash generative and is expected to enhance the Group's free cash flow. Strong conversion of EBITDA into operating cash flow is expected to support the Group's capital allocation priorities going forward, including continued investment in organic growth opportunities, new product development, dividend payments and progressive deleveraging. The ratio of net debt to EBITDA at 31 December 2022 on an adjusted pre-IFRS 16 proforma basis was 1.35 times. The ratio was 2.6 times on a reported basis. Both are comfortably within our target ranges, and well below covenant levels.

The Group continues to prioritise the close control of inventory and the effective management of working capital. Debtor days remain industry leading due to continued close control of credit management procedures. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. We do not engage in debt factoring, but do have access to a supplier finance facility entered into by one of our major customers. This provides an additional short-term facility that can be utilised to facilitate the management of mid-month cycles. The Group complies with prompt payment guidelines and best practice, and abides by a clearly defined payment policy which has been agreed with all major suppliers.

Group cash flows

Group cash flow	2022 £'m	2021 £'m
Net cash from operating activities	**102.8**	68.3
Net cash from investing activities	**(114.9)**	(7.0)
Net cash from financing activities	**(161.4)**	(31.6)
Adjusting items	**(17.4)**	(2.8)
Change in IFRS 16 lease liabilities and other	**(4.6)**	7.6
Movement in net debt in the year	**(195.5)**	34.5
Net debt at beginning of year	**(41.1)**	(75.6)
Net debt at end of year	**(236.6)**	(41.1)

Cash outflow on capital expenditure in the year was £30.1 million (2021: £21.9 million).

The table below summaries the Group's cash utilisation on a pre-IFRS 16 basis both for the current and prior year and cumulatively over the last seven years.

Analysis of cash utilisation (pre IFRS 16 basis)	2022 £'m	2021 £'m	Last 7 years (pre-IFRS 16 basis) £'m
Net cash from operating activities(i)	**74.4**	55.5	373.1
Capital expenditure	**(30.1)**	(21.9)	(153.4)
Proceeds from the sale of surplus property assets	**1.4**	14.9	37.5
Acquisition of subsidiary undertakings(ii)	**(378.2)**	—	(439.1)
Payments to acquire own shares/share issues	**180.3**	(3.6)	167.4
Dividends	**(38.7)**	(17.9)	(162.1)
Movement in net debt in the year (pre-IFRS 16)	**(190.9)**	27.0	(176.6)

(i) after the cash cost of adjusting items.

(ii) includes the repayment of debt on acquisition of subsidiaries.

The summary provides a medium-term seven-year analysis of the cash generation capacity of the Group and how cash has been invested to grow the business and also to show the cash returned to shareholders. Cash generated from operating activities was £373.1 million. The Group has invested £153.4 million back into the business to generate growth, improve productivity and provide industry leading manufacturing facilities. The Group has also invested £439.1 million in the targeted acquisitions of Marley, CPM and Edenhall. Dividends to shareholders over the last seven years have totalled £162.1 million, which equates to 43 per cent of net cash generated from operating activities.

Return on capital employed ("ROCE")

Adjusted proforma ROCE was 13.3 per cent (2021: 20.6 per cent) with the year-on-year reduction arising from an increase in capital employed following the Marley acquisition and the weaker performance from Marshalls Landscape Products. We expect adjusted ROCE to increase progressively in the medium term to around 15 per cent as volumes recover and we benefit from operational leverage.

Balance sheet

The Group balance sheet reflects the acquisition of Marley, along with the equity fundraising and additional debt financing. The financing structure of the acquisition was designed to be conservative with over 60 per cent of the consideration funded by equity, and debt facilities sized to ensure that the Group continues to operate with significant headroom. Our key medium-term financing priority is to utilise the cash generated by the enlarged Group to reduce leverage. We will continue to invest in organic capital investment opportunities and new product development where these support our strategic goals.

A PPA exercise has been undertaken to establish the constituent parts of the Marley balance sheet at fair value on acquisition. As part of the ongoing review of the fair value of assets and liabilities, adjustments have been made to certain balances during the period. Further details are set out at Note 25 to the Condensed Consolidated Financial Statements and is summarised below.

	Provisional fair values acquired £'m
Tangible assets	97.6
Intangible assets	228.2
Net working capital	26.2
Net debt	(259.5)
Provisions	(4.9)
Tax (including deferred tax)	(63.8)
	23.8
Goodwill	244.1
	267.9
Consideration:	
Cash consideration	120.3
Equity consideration	147.6
	267.9

Trading summary continued

Balance sheet continued

Net assets have increased to £661.1 million compared with £344.3 million at 31 December 2021. This is largely due to the equity issuance of £330.3 million to part fund the acquisition of Marley. Intangible assets have increased by £464.7 million, which includes balances identified by the PPA exercise and those already in the Marley balance sheet at the acquisition date. This comprises principally of customer relationships of £145.4 million and the values attributable to the Marley and Viridian brands of £82.8 million. Residual goodwill of £244.1 million has been recognised. The acquisition has also increased tangible fixed assets by £96.2 million, net working capital by £26.2 million and tax balances (mainly deferred tax) by £63.8 million. A term loan of £210 million was introduced to partially fund the acquisition. As is customary in these circumstances, we have kept this under review in the second half of the year and made some more changes to the initial assessment performed at the half year. This assessment will remain under review and subject to change during the twelve-month hindsight period which ends in April 2023. Further details of this are set out in Note 25 on page 182.

Group balance sheet	2022 £'m	2021 £'m
Non-current assets	**886.9**	332.7
Current assets	**322.0**	263.2
Current liabilities	**(167.3)**	(150.6)
Non-current liabilities	**(380.5)**	(101.0)
Net assets	**661.1**	344.3
Net cash/(debt) (pre-IFRS 16)	**(190.8)**	0.1
Net debt (reported)	**(236.6)**	(41.1)
Net debt: EBITDA (pre-IFRS 16)*	**1.35**	–
Net debt: EBITDA (reported)	**2.6**	0.4
Gearing (reported)	**35.8%**	11.9%

* Calculated on per-IFRS 16 net debt to adjusted proforma EBITDA basis.

Pension

The balance sheet value of the Group's defined benefit pension scheme was a surplus of £22.4 million (2021: £25.8 million). The amount has been determined by the Scheme's pension adviser using appropriate assumptions which are in line with current market expectations. The fair value of the scheme assets at 31 December 2022 was £254.9 million (2021: £392.1 million) and the present value of the scheme liabilities is £232.5 million (2021: £366.3 million).

The volatility in gilt markets since the half year has had a significant impact on defined benefit pension schemes. Due to the scheme's strategy of using liability driven investments ("LDI") to provide an effective hedge against both inflation and interest rates, this volatility and the significant spike in gilt rates also had consequences for the Marshalls' scheme. Despite the unprecedented levels of market volatility, the scheme's LDI asset portfolio continues to hedge protection against volatility in interest rates and inflation. The Scheme's strategy is to include a relatively high proportion of "liquid" investments in the portfolio and this has helped the scheme respond to the recent market volatility and the short-notice collateral calls. However, during the last year the AA corporate bond rate has increased significantly from 1.90 per cent to 4.90 per cent. This has led to a reduction in liabilities but due to the high level of hedging in the investment strategy the scheme assets have also decreased in value. The expected rate of CPI inflation has reduced slightly from 2.70 per cent to 2.60 per cent.

These changes have resulted in an actuarial loss, net of deferred taxation, of £2.3 million (2021: £19.8 million actuarial gain) and this has been recorded in the Consolidated Statement of Comprehensive Income. The last formal actuarial valuation of the defined benefit pension scheme was undertaken on 5 April 2021 and resulted in a surplus of approximately £24.3 million, on a technical provisions basis, which was a funding level of 107 per cent. The scheme remains in a healthy position and the Company has agreed with the Trustee that no cash contributions will be payable under the funding and recovery plan.

Capital allocation

The Group's capital allocation policy was reviewed by the Board in the second half of the year in the context of increased balance sheet leverage following the acquisition of Marley. Whilst the Board is comfortable operating with the Group's post- transaction leverage, in the light of the macro-environment, the policy has been revised to focus on accelerating the repayment of borrowings, prioritising this over significant M&A activity until leverage is around one times EBITDA (December 2022: 1.35 times). Supplementary dividends have temporarily been removed from the policy. The Board is targeting net debt to reduce to around one times adjusted EBITDA by December 2024 through organic free cash-flow. In addition, the Group is undertaking a review of its manufacturing and property network with the potential to dispose of non-core sites, which would accelerate deleveraging whilst improving network efficiency. Marshalls continues to recognise the three guiding principles of security, flexibility and efficiency in the determination of its capital structure. The Group's optimal capital structure supports the Group's current strategic objectives, but also reflects the economic background and the cyclical nature of the construction sector.

The Group's capital allocation policy is to maintain a strong balance sheet and flexible capital structure. The key elements of the strategy are:

- to prioritise organic capital investment (£25 million investment planned for 2023), supported by an increase in new product development and research and development expenditure;
- to continue the payment of dividends on the basis of a dividend cover of two times adjusted earnings;
- to maintain a capital structure that recognises cyclical risk and volatility by continuing to maintain an appropriate level of bank headroom;
- targeting to reduce the net debt:EBITDA ratio to around 1.0 times on a pre-IFRS 16 basis by December 2024; and
- to continue to target selective bolt-on acquisition opportunities if there is a suitable strategic driver.

Clear and consistent capital allocation policy

1 Organic growth

2 R&D new product development

3 Ordinary dividends

4 Deleveraging (reduction of debt)

5 Selective acquisitions

Continued development of the Group's growth strategy

Organic investment remains the priority for capital allocation and the Group has a pipeline of significant capital expenditure projects with good paybacks. Capital expenditure of £25 million is planned for 2023. This includes the dual block plant at the Group's site in St. Ives, Cambridgeshire which is now in its commissioning phase producing its first blocks and we expect it to be operational in the first half of 2023. The facility will be unique in the UK and will support the launch of new ranges of innovative value-added products that have the aesthetic appeal of natural stone at a lower price point and with a significantly reduced carbon footprint. The project will increase operational agility and the flexibility within our manufacturing network. The first in the range of these products was launched to commercial specifiers in the second half of the year and has received positive feedback.

The Marshalls and Marley businesses employ a similar commercial strategy that focuses on generating pull demand from key specifiers and influencers. Responsibility for Marley's operations was transferred to the Group team in the second half of the year and the Board remains confident of delivering significant operational improvements focused on people, plant and process. We have reduced vacancy rates using the Marshalls in-house recruitment team, assessed plant failure rates, and implemented a targeted refurbishment programme and introduced a structured performance management system. This has resulted in increased manufacturing efficiency on concrete tile production lines of eleven per cent in recent months. In addition, we have integrated our procurement functions and embarked on a review of our combined logistics footprint and are evaluating how we leverage Marshalls' ESG credentials within the business.

Our ESG strategy continues to generate organic growth opportunities which, going forward, will be a source of significant competitive advantage. We are continuing to focus our new product development activity on lower carbon products, and as part of this programme, we are accelerating our development of technologies to materially reduce the carbon intensity of our products using cement replacement and carbon sequestration techniques. As part of this initiative, the Group is the first UK company to adopt CarbonCure Technologies' carbon mineralisation technology that uses waste CO_2 from other industrial processes to accelerate the carbonisation of concrete, which effectively reduces the embodied carbon. This is being trialled during the first half of 2023 in one of our concrete brick manufacturing sites. In addition, we are investing in several sites to support the roll out of a new concrete mix design that will reduce both raw material costs and embodied carbon.

We continue to focus on executing our digital strategy, which aims to provide an end-to-end digital offering and to pioneer the digital standards for the industry. We have developed a new digital trading platform, using dropship technology, that will allow us to offer an extended range of products on our customers' websites without requiring the merchant to stock the ranges. Customers will be able to place orders with the merchants that will be fulfilled using Marshalls' distribution capability. The model offers a win-win outcome, where the merchant generates incremental sales due to an extended product range without incurring the costs associated with regular orders. Marshalls benefits by realising additional sales via the merchant channel. We are currently live or in testing with two national merchants and at an advanced stage with three other customers and will evaluate performance in the first half of 2023.

Conclusion

Marshalls reported a record adjusted financial performance in 2022. This was delivered despite challenging market conditions which adversely impacted our Landscape Products business, and it demonstrates the benefit of the Group's increased diversification following our acquisition of Marley in 2022 and other acquisitions in recent years that now form the core of our building Products segment.

We will continue to monitor performance, respond flexibly to evolving market conditions and execute self-help initiatives.

Justin Lockwood
Chief Financial Officer
15 March 2023

Managing risk is a key factor in the **delivery of the Group's strategic objectives**

The Board plays a central role in the Group's risk management process which covers emerging risks and incorporates scenario planning and detailed stress testing.

Achievements in 2022

There continue to be external risks and significant volatility in UK and world markets with continuing cost inflation and an uncertain outlook. In an addition to the macro-economic environment, the key risks for the Group continue to be cyber security and information technology, the security of raw materials supply and supply chain risks and climate change and other ESG related issues. All these areas are considered in more detail on pages 69 to 75. In all these cases, specific assessments continue to be reviewed and certain new operating procedures have been developed. Mitigating controls continue to be reviewed as appropriate. The Group's risk function has placed particular emphasis on the following areas during the year:

- The Group's resilience and flexibility in response to macro-economic uncertainty has been a major focus during the year. The acquisition of Marley has been an important transaction for the Group and has increased the diversification of the business and its underlying resilience by broadening the range of markets we sell into. The integration of Marley into the Group across all business areas has been a key priority and this is covered in more detail in the case study on page 67. Marley has now been fully integrated into Marshalls' risk management process and procedures. There is a close correlation between the key risks of Marshalls and Marley.
- The Group's process and internal financial controls review. This is in progress and was commissioned at the end of 2021 in response to the BEIS White Paper. The primary goal is to develop a Risk and Control Matrix ("RACM") for all identified in-scope processes, in order to record the key controls and associated metadata of the end-to-end process and to identify and remedy any control gaps identified. KPMG has provided support to this project and during 2022 RACMs were completed for both the purchase-to-pay and inventory processes for the Marshalls businesses.
- Cyber risk has continued to be a major focus in light of increasing external threats. Ongoing reviews, with additional resource, continue to be undertaken using both internal and external specialists. Practical support and guidance, together with additional cyber security training, are provided to facilitate home working and this continues to be a priority.

KPMG completed a number of targeted internal audit projects during 2022 covering the following areas:

- tendering;
- project delivery;
- inventory (both Marshalls and Marley); and
- cyber security (both Marshalls and Marley).

The internal audits include "risk-based" audits, identified as a result of assessing the Group's key risks. They also include audits identified to cover key operational, financial, IT and regulatory areas subject to routine cyclical coverage.

Priorities for 2023

The priorities for the Group's risk function in 2023 include the following areas:

- the integration of Marley into the Group's ESG development and governance framework;
- the completion of a number of targeted projects will again be a major focus for KPMG. In 2023, projects will cover ESG reporting, cyber security and IT general controls will be completed; and
- continuing to support the Group's project to review the Group's financial control environment.

Approach to risk management

Risk management is the responsibility of the Board and is a key factor in the delivery of the Group's strategic objectives. The Board establishes the culture of effective risk management and is responsible for maintaining appropriate systems and controls.

The Board sets the risk appetite and determines the policies and procedures that are put in place to mitigate exposure to risks. The Board plays a central role in the Group's risk review process, which covers emerging risks and incorporates scenario planning and detailed stress testing.

Process

There is a formal ongoing process to identify, assess and analyse risks, and those of a potentially significant nature are included in the Group Risk Register.

The Group Risk Register is updated by the full Executive Management team at least every six months and the overall process is the subject of regular review by the Board. Risks are recorded with a full analysis, and risk owners are nominated who have authority and responsibility for assessing and managing the risk. KPMG, as the Group's Internal

Risk management framework

The Board:
- determines the Group's approach to risk, its policies and the procedures that are put in place to mitigate exposure to risk.

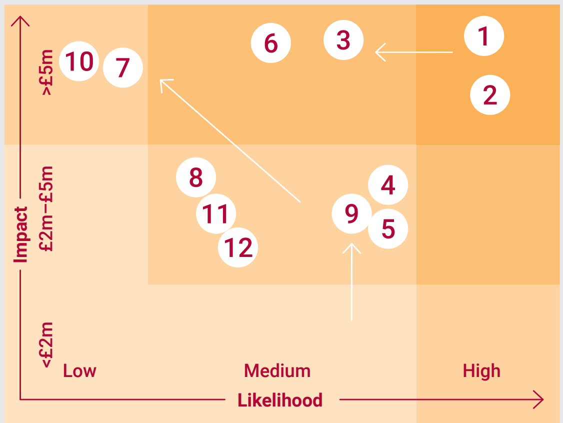
The Audit Committee:
- has delegated responsibility from the Board to oversee risk management and internal controls;
- reviews the effectiveness of the Group's risk management and internal control procedures; and
- monitors the effectiveness of the internal audit function and the independence of the external audit.

Executive Directors:
- are responsible for the effective maintenance of the Group's Risk Register;
- oversee the management of risk;
- monitor risk mitigation and controls; and
- monitor the effective implementation of action plans.

Internal audit:
- independently reviews the effectiveness of internal control procedures;
- reports on effectiveness of management actions; and
- provides assurance to the Audit Committee.

Operational managers:
- are responsible for the identification of operational and strategic risks;
- are responsible for the ownership and control of specific risks;
- are responsible for establishing and managing the implementation of appropriate action plans; and
- are responsible for the impact of controls (net basis).

Risk heatmap (net risk scores)



1 Macro-economic and political
2 Cyber risks
3 Security of raw material supply
4 Long-term impacts of climate change
5 Human rights consideration
6 Short-term impacts of weather events
7 Threat from new technologies and business models/ increased pace of digital change
8 Corporate, legal and regulatory
9 Competitor activity
10 Project delivery of major strategic business projects and change management
11 Health and safety
12 People risk

Auditor, regularly attends the risk review meetings. The process continues to be a robust mechanism for monitoring and controlling the Group's principal risks, and for challenging the potential impact of new emerging risks. All risks are aligned with the Group's strategic objectives, each risk is analysed in terms of likelihood and impact to the business and the determination of a "gross risk score" enables risk exposure to be prioritised. The Marley business has historically utilised a similar risk management process, and this has been mapped across and embedded in the Marshalls risk management process.

The Group seeks to mitigate exposure to all forms of strategic, financial and operational risk, both external and internal. The effectiveness of key mitigating controls is continually monitored, and such controls are subject to internal audit and periodic testing in order to provide independent verification where this is deemed appropriate. The effectiveness and impact of key controls are evaluated and this is used to determine a "net risk score" for each risk. The process is used to develop detailed action plans that are used to manage, or respond to, the risks, and these are monitored and reviewed on a regular basis by the Group's Audit Committee.

The Group has a formal framework for the ongoing assessment of operational, financial and IT-based controls. The overriding objective is to gain assurance that the control framework is complete and that the individual controls are operating effectively. Additional independent verification checking of key controls and reconciliations is undertaken on a rolling basis. Such testing includes key controls over access to, and changing permissions on, base data and metadata.

Case study

Integration of Marley

Nature of risk	Potential impact	Mitigating factors
Ineffective integration of Marley into the wider Group (in any of a number of functional areas and on a wider basis), due to a lack of planning, control, effort, focus, resource, leadership and execution. A potential "people"-perceived "change" risk.	A lack of planning could lead to significant business distractions and "eye off the ball" in respect of the existing Marshalls' operations. This could lead to an inefficient utilisation of unplanned resource away from the existing business. Non-delivery of strategy, goals and performance objectives. Additional costs, reduced profits and non-delivery of plan. Negative perception from stakeholders and a risk of reducing shareholder value.	Detailed integration plan, which has been subject to third party scrutiny during the acquisition process. Detailed delivery plans for each part of the business, with significant Executive Management focus. Steering Committee, formal reporting and responsibility framework and structure. Active engagement with Marley personnel during this process. Monthly reporting to Marshalls' Executive. Integration of KPIs.

Priorities for 2023 continued

Risk appetite

The Group is prepared to accept a certain level of risk to remain competitive, but continues to adopt a conservative approach to risk management. In assessing risk appetite, the aim is to ensure that internal controls and risk mitigation measures are designed to reduce the net risk score to a point that aligns with the identified risk appetite. The aim is to ensure that we continue to channel resources to those mitigation measures and controls that specifically reduce risk to areas where we have a net risk score that lies outside our acceptable risk appetite. The risk framework is robust and provides clarity in determining the risks faced and the level of risk that we are prepared to accept. Marshalls' strategies are designed to either treat, transfer or terminate the source of the identified risk.

Viability Statement

After considering the principal risks on pages 69 to 75, the Directors have assessed the prospects of the Group over a longer period than the period of at least twelve months required by the "going concern" basis of accounting. The Directors consider that the Group's risk management process satisfies the requirements of provision 31 of the UK Corporate Governance Code.

The Board considers annually, and on a rolling basis, a strategic plan, which is assessed with reference to the Group's current position and prospects, the strategic objectives and the operation of the procedures and policies to manage the principal risks that might threaten the business model, future performance and target capital structure. In making this assessment, the Board considers emerging risks and longer-term risks and opportunities.

The aim is to ensure that the business model is continually reviewed to ensure it is sustainable over the long term. Security, flexibility and efficiency continue to be the guiding principles that underpin the Group's capital structure objectives. The Group's funding strategy is to ensure that headroom remains at comfortable levels under all planning scenarios.

For the purposes of the Viability Statement, the Board continues to believe that three years is an appropriate period of assessment as this aligns with the current planning horizon. Although our central forecasting models cover a five-year period, it remains the case that there is less visibility beyond three years. The Construction Products Association's ("CPA") forecasts currently go out to 2024. This remains compatible with the five-year Strategy and the longer-term objectives for our strategic growth pillars over a five-year period. The Group's financial forecast includes an integrated model that incorporates the income statement, balance sheet and cash flow projections.

The detailed stress testing reflects the principal risks that could impact the Group and could conceivably threaten the Group's ability to continue operating as a going concern. The assessment concluded that the deteriorating macro-economic environment is the key risk for this purpose and, in response to this, two scenarios have been run, namely a "reasonable worst-case scenario" and a "reverse stress test."

The reasonable worst-case scenario comprises a significant stress test sensitivity run against the base case model. This sensitivity reflects a scenario that is worse than the assumptions in the CPA's lower scenario from the 2022/2023 Winter forecast. This scenario results in a cumulative revenue reduction of eleven per cent during 2023 and 2024 against the base case forecast. A contribution "drop-through" rate has been applied based on the operational gearing of each business unit and an allowance has been made for uncovered input cost inflation. Under the downside model, net debt reduces to £234 million by the end of 2023, and bank covenants are still comfortably met. The net effect of reduced operating profit and increased interest is mitigated by reduced tax and dividend cash flows. Gearing reduces to 34.7 per cent at the end of 2023, and there remains comfortable headroom against bank facilities and bank covenants are still comfortably met with the pre-IFRS 16 net debt to adjusted EBITDA covenant peaking at 1.9 in December 2023. In this scenario, we would have £27 million headroom against EBITDA and £96 million against net debt.

In practice, such a downside scenario would see the Group instigate certain mitigation measures. These might include significant reductions in fixed overheads, lower capital expenditure and actions to further reduce capacity, for example reducing shifts, production lines and potentially mothballing or closing sites.

The reverse stress test scenario aims to identify a deeper downside trading position that would give rise to a covenant breach. Against the base budget revenue reductions of 18 per cent would be required across 2023 and 2024 (all other things remaining unchanged) to increase the pre-IFRS 16 net debt: adjusted EBITDA covenant to three times at 31 December 2023. This scenario equates to around 1.7 times the reduction assumed in the CPA's lower scenario from the 2022/2023 Winter forecast.

This reverse stress test scenario reduces revenue by approximately £300 million over 2023 and 2024. Under this scenario, gearing peaks at 41 per cent at the end of 2023. There remains reasonable headroom against bank facilities, but the net debt: EBITDA bank covenant marginally breaches three times at 31 December 2023. The model assumes no further cash mitigation (e.g. reduced capital expenditure). Dividends have been reduced in line with the two times cover policy but the Board would retain the ability to further reduce or cancel dividends in order to maintain liquidity.

In undertaking its review, the Board has considered the appropriateness of any key assumptions, taking into account the external environments and the Group's strategy and risks. Based on this assessment, and taking account of the Group's principal risks and uncertainties, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the next three years.

The reverse stress test scenario provides an indication of the scale of downturn that could be absorbed by the Group without taking action to reduce cash flows on capex and dividends or undertake more severe restructuring. The analysis provides the required evidence that the Directors' assessment that the going concern assumption remains appropriate and supports a positive conclusion for the longer-term Viability Statement.

Links to strategic corporate objectives

- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Read more about our strategy on **pages 36 to 39**

Impact on business model

- Sourcing
- Manufacturing
- Distribution
- Customers

Read more about our business model on **pages 24 and 25**

Scenario	Nature of scenario planning process	Outcome of scenario stress testing
1. Reasonable worst-case scenario A prolonged downturn in economic conditions leading to reduced consumer and business confidence and a consequent reduction in demand.	**Stress test modelling uses severe downside assumptions against the base model. These include:** • Cumulative revenue reduction of eleven per cent across 2023 and 2024; • PBT falls by £70 million across 2023 and 2024; and • No further reduction in interest rates – with SONIA assumed to increase to 4.5 per cent by mid-2023 in the base model.	**Outcomes** • Operating margin reduces to 9.5 per cent in 2023; • Reported net debt to reduce to around £234 million (which is lower than the base case rate of deleveraging); and • Bank covenants continue to be met - pre-IFRS 16 net debt to adjusted EBITDA peaks at 1.9 times in December 2023.
2. Reverse stress test The reverse stress test scenario is a deeper downside trading position that would give rise to a covenant breach.	**The main elements of the reverse stress test model are:** • Cumulative revenue reduction of 17 per cent; and • Operating margin falls to 6.7 per cent at 31 December 2023.	**Outcomes** • Under this scenario the net debt : adjusted EBITDA bank covenant (pre-IFRS 16 basis) is marginally breached at 31 December 2023; • The model assumes that no additional cash mitigation measures (e.g. reducing capital expenditure) would be made. In practice a series of cash mitigation measures would be taken under this scenario.

Principal risks and uncertainties

The Directors have undertaken a robust, systematic assessment of the Group's emerging and principal risks. These have been considered within the timeframe of three years, which aligns with our Viability Statement on page 68. The risk process has increasingly allocated greater focus on emerging risks and risk outlook. The reporting includes more detailed assessments of proximity (how far away in time the risk will occur) and velocity (the time that elapses between an event occurring and the point at which the effects are felt).

1. Macro-economic and political

Nature of risk and potential impact

The Group is dependent on the level of activity in its end markets. Accordingly, it is susceptible to economic downturn, the impact of Government policy, volatility in UK and world markets and supply chain and labour market issues. During 2022, higher interest rates and significant cost inflation (particularly in relation to energy costs) have created a cost of living crisis for large elements of the UK population. This uncertainty has impacted market sentiment and this has been exacerbated by the increasing impact of wider geo-political factors (including the conflict in Ukraine) and the impact of unprecedented levels of Government borrowing.

Potential impact

The potential longer-term impact of macro-economic uncertainty and continued cost inflation and higher interest rates could reduce consumer confidence and demand and lead to lower activity levels. This could have an adverse effect on the Group's financial results. There continues to be volatility in world markets and global economic uncertainty continues to be a risk. A continuation of high interest rates and inflation could lead to disrupted markets over a more extended period.

Key risk indicators

- Government policy failing to contain inflation.
- An escalation of the war in Ukraine and other increased global uncertainty.
- Reductions in consumer confidence and order pipeline.
- Further COVID-19 uncertainty and the emergence of new virus variants.

Mitigating factors

- The Group closely monitors trends and lead indicators, invests in market research and is an active member of the CPA.
- The Group benefits from the diversity of its business and end markets. The acquisition of Marley has significantly increased diversification and made the Group more resilient.
- The proactive development of the product range also continues to offer protection.
- The Group undertakes scenario planning to support improved business resilience.
- The Group continues to focus on those market areas where growth prospects are greatest.
- Focus on innovation, new product development and the ESG driven opportunities to drive competitive advantage.

Change

Increase in risk

The UK Government's stated objective is to support construction and significant investment support for infrastructure and housing is expected over the medium term however, the short-term outlook for construction has weakened. The economic slowdown has resulted in a loss of business and consumer confidence in 2022, leading to delays in investment decisions.

Priorities

- Regular scenario planning to assess various market risks and disruptive events.
- Strategic reviews focusing on business resilience and diversification.
- Increase operational efficiency and maintain flexibility in the manufacturing network.

Links to strategic corporate objectives

Impact on business model

Principal risks and uncertainties continued

2. Cyber security risks

Nature of risk and potential impact	Key risk indicators	Mitigating factors	Change
Fast growing and indiscriminate risk of cyber attack. Inadequate controls and procedures over the protection of intellectual property, sensitive employee information and market influencing data. The failure to improve controls against cyber security risk quickly enough, given the rapid pace of change and the continuing threat of ransomware and denial of service attacks and new cyber threats. IT is increasingly integrated into all business processes. *Potential impact* Operational disruption and financial loss. The Group's industrial network is becoming more IT dependent and the risk is one of data loss causing financial and reputational risk.	• Emergence of new cyber security risks. • Increased examples of data loss and security breaches in the wider market.	• Use of IT security policies. • Regular cyber security risk audits undertaken by specialists and the use of mitigation controls and other recommended procedure updates. Annual penetration tests are undertaken on external facing systems and during 2022 cyber internal audits were undertaken by KPMG in respect of the Group's cyber controls in relation to both Marshalls and Marley. The Group's "cyber maturity assessment" score has continued to increase. • Restriction of sensitive data to selected senior and experienced employees who are used to handling such data. • Appropriate tools and training procedures are in place to protect sensitive data when stored and transmitted between parties (e.g. encryption of hard drives, restricted USB devices, secure data transmission mechanisms and third party security audits). • A continuous programme of awareness campaigns and training for staff.	*No change in risk* Cyber risk has increased after the COVID-19 pandemic and remains a high profile area. We are witnessing more incidents, especially in the construction industry, and increasingly in relation to ransomware. The cyber control environment in Marley is not as mature as that in Marshalls and is an area of focus. Considerable focus continues to be given to promoting awareness of IT security policies. The perception is that the risk of data loss through new (or as yet unseen) security threats continues to increase. *Priorities* • Constant review and ongoing challenge to procedures – use of external experts. • Continue to develop cyber risk strategy. • Improve our cyber security response plans and identify and rectify any gaps. • Alignment of controls in Marley.

Links to strategic corporate objectives

Impact on business model

3. Security of raw material supply/raw material and labour shortages

Nature of risk and potential impact	Key risk indicators	Mitigating factors	Change
Globally, the impact of the ongoing Ukrainian conflict and general energy supply continues to impact material availability and has resulted in significant cost inflation. There continues to be market capacity stresses for sand, cement and other raw materials. Longer term there is a risk of "carbon taxation." *Potential impact* Cost inflation could lead to customer dissatisfaction and reduce demand and margins.	• Temporary shortages and cost inflation, impacting materials and labour. • Decreases in labour availability and skills shortages.	• The Group benefits from the diversity of its business and end markets. • The acquisition of Marley has increased diversification and created additional procurement opportunities. • Maintaining adequate, but not excessive, stocks. • Continued development of our own haulage fleet. • Collaboration with all EU-based tier one and tier two suppliers to ensure any supply risks are minimised. • The digitalisation of the supply chain through the implementation of a best-in-class Supply Relationship Management System. • The Group focuses on its supplier relationships, flexible contracts and long-term supply agreements, the use of hedging instruments and the use of flexible freight forwarding options. • The Group utilises sales pricing and purchasing policies designed to mitigate the risks. • Consideration of alternative technologies, including the reduction of cement content.	*Reduced risk* Weakening demand has led to reduced availability issues, although cost inflation has continued. The risk of temporary shortages is mitigated by proactive supply chain management and the use of alternative suppliers. *Priorities* • Increase productivity and manufacturing efficiency. • Continue to develop supply chain strategies to reduce risk.

Links to strategic corporate objectives

Impact on business model

Links to strategic corporate objectives

- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Read more about our strategy on **pages 36 to 39**

Impact on business model

- Sourcing
- Manufacturing
- Distribution
- Customers

Read more about our business model on **pages 24 and 25**

4. Long-term impacts of climate change

Nature of risk and potential impact

Increasing focus on ESG and the heightened awareness of the environmental challenge, with increased operational and reporting requirements, hardening targets and greater scrutiny by investor and stakeholder groups. The acquisition of Marley may impact our publicly stated ESG commitment of being net zero by 2030.

Risk of allocating insufficient resource and investment to support the science-based targets and other environmental protocols.

A summary of more specific environmental risks is included in the Sustainability section on pages 42 to 59.

Potential impact
Risk that investors and customers could reduce support if the Group failed to improve performance against targets or did not report appropriately. Risk of customers switching products away from those with a higher carbon footprint.

Cost impact of the "Environmental Protocol," and mitigation programmes could lead to increasingly expensive processes.

Key risk indicators

- Negative feedback from stakeholders – loss of business and investment.
- Failure to meet internal targets.

Mitigating factors

- The Group utilises experienced, specialist staff to support the Group's focus in this area.
- An ESG Steering Committee with Executive and Board level representation.
- Specialist third parties including the Carbon Trust and Verisk Maplecroft (see further details on pages 42 to 59.
- Climate risk analysis.
- Agreed carbon reduction plan and a set of KPIs established.
- The Group is committed to the Science Based Targets initiative and a new Group plan is now being developed to include the impact of the Marley business.
- Working groups established in all focus areas and controls being progressively embedded across the business.

Change

No change in risk
Significantly heightened focus from stakeholders, Government, customers and investors.

Increased expectation of clarity over financial impact of strategic plans and transition risk. TCFD disclosure requirements.

Priorities
- Integration of Marley into the Group's ESG policies and procedures.
- Re-work "net zero" timeline to include Marley – in conjunction with the Carbon Trust.
- Ongoing assessment of climate change and risks for production, facilities, products and distribution.
- Develop comprehensive strategy covering targets, products and business processes.
- Review of opportunities to improve ESG reporting.

Links to strategic corporate objectives

Impact on business model

5. Human rights

Nature of risk and potential impact

Mandatory human rights disclosure from 2022 and increased focus on modern slavery and diversity reporting. Lack of visibility of human rights within the supply chain.

The continuing requirement to identify risk across the whole supply chain and the need to maintain reliable and consistent internal systems, processes and procedures.

A summary of more specific social risks is included in the Sustainability section on pages 42 to 59.

Potential impact
Risk that stakeholders could reduce support if the Group failed to address issues around modern slavery and diversity appropriately.

Key risk indicators

- Negative feedback from stakeholders – loss of business and investment.
- Inadequate data to support systems and procedures.
- Increase in general level of disclosure required and administrative compliance.

Mitigating factors

- The Group utilises experienced, specialist staff to support the Group's focus in this area and the development of a comprehensive strategy.
- Regular internal cross-functional meetings to discuss progress, issues and focus areas.
- Specific supply chain human rights training for entire procurement team.
- Introduction of Safecall overseas.
- Annual analysis of sourcing country risk.
- Strategic partnerships with external agencies – UNGC framework.
- Focus on ethical sourcing processes with BES 6001 and ISO 20400.
- Working groups established in all focus areas.

Change

No change in risk
Significantly heightened focus from stakeholders, Government, customers and investors and increased operational and reporting requirements.

Priorities
- Develop strategic partnerships. These include the UN Global Compact ("UNGC") together with UK and overseas governments, NGOs and industry groups.
- Increase focus on the development of the Group's comprehensive strategy.
- Develop robust IT platform for data collection and analysis.

Links to strategic corporate objectives

Impact on business model

Principal risks and uncertainties continued

6. Impact of weather events

Nature of risk and potential impact

Increasingly unpredictable weather conditions and extreme weather events. Increased incidence of flooding and droughts across the country.

The longer-term implications of climate change give rise to the transition risk of not addressing the challenges quickly enough.

Potential impact

Disruption to supply chain and operations that might reduce short-term activity levels.

Operational difficulties at manufacturing sites due to flooding and droughts.

Financial risk caused by adverse impact on margins and cash flows as well as sales and production volumes.

Key risk indicators

- Prolonged periods of bad weather (e.g. snow, ice and floods) which make ground working difficult or impossible.
- Changing public perceptions of the longer-term implications of climate change.

Mitigating factors

- Diversity of the business.
- The Group utilises centralised specialist functions to support mitigation plans and the management of relationships on commercial contracts.
- Climate change risk analysis in place.
- Commitment to water harvesting and recycling schemes.
- The development of resilience strategies for climate change is a key element of the Group's Climate Change Policy.
- The development of the Group's Water Management business and the continuing focus on new product development.

Change

No change in risk

Weather conditions continue to be closely monitored but are beyond the Group's control.

Significant increase in public awareness of climate change.

Priorities

- Continue to develop resilience strategies.
- Development of Civils and Drainage business.

Links to strategic corporate objectives

Impact on business model

7. Threat from new technologies and business models, and the increased pace of digital change in the market

Nature of risk and potential impact

Reduction in demand for traditional products. Risk of new competitors and new substitute products appearing although this risk is set against a challenging 2023 outlook.

Failure to react to market developments, including digital and technological advances.

Potential impact

The increased competition could reduce volumes and margins on traditional products.

Increased costs and production capacity tied up in redundant technologies.

Despite significant additional focus made by the Group in this area in recent years, there remains a risk that a new third party could use emerging digital technology to enter the market and transition more quickly and effectively.

Key risk indicators

- Less demand for traditional products and routes to market.
- Emergence of new competitors and new digital business models.
- More widespread availability of artificial intelligence technology.

Mitigating factors

- Good market intelligence and ongoing monitoring of competitive threats.
- Flexible business strategy able to embrace new technologies.
- Significant focus on research and development and new products.
- Development of the Group's e-commerce platform and digital strategy.

Change

Reduced risk

The ongoing diversification of the business, the continued development of the Marshalls brand and the focus on new products and greater manufacturing efficiency continue to mitigate the risk.

The pace of digital change in the market continues to increase although this is balanced by a challenging outlook.

Priorities

- Collaboration with universities to develop new products and processes.
- Increase pace of digital change and technological solutions (e.g. Dropship).
- Focus on cost reduction and projects that improve business flexibility and agility.

Links to strategic corporate objectives

Impact on business model

Links to strategic corporate objectives

- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Impact on business model

- Sourcing
- Manufacturing
- Distribution
- Customers

Read more about our strategy on **pages 36 to 39**

Read more about our business model on **pages 24 and 25**

8. Corporate, legal and regulatory

Nature of risk and potential impact	Key risk indicators	Mitigating factors	Change
Inadvertent failure to comply with elements of a significantly increased governance, legislative and regulatory business environment. The Group may be adversely affected by an unexpected reputational event, e.g. an issue in its supply chain or due to a health and safety incident. *Potential impact* Significant increases in the penalty regime across all areas of business (e.g. health and safety, competition law, the Bribery Act and GDPR) could lead to significant fines and/or prosecution in the event of a breach. A health and safety or environmental incident could lead to a disruption to production and the supply of products for customers. Such incidents could lead to prosecutions, increased costs and have a negative impact on the Group's reputation.	• Increased regulatory and compliance requirements. • Integration requirements for new acquisitions. • Significant increases in the penalty regime for health and safety and environmental incidents.	• Centralised legal and other specialist functions, the use of specialist advisers and ongoing monitoring and mandatory compliance training programmes. • Centralisation of certain Marley functions into the central legal team. • Regular reviews of policies and procedures. • Regular compulsory data protection training implemented. • The Group has a formal Group sustainability strategy focusing on impact reduction. • The Group employs compliance procedures, policies, ISO standards and independent audit processes which seek to ensure that local, national and international regulatory and compliance procedures are fully complied with. • The Group uses professional specialists covering carbon reduction, water management and biodiversity.	*No change in risk* The significant increase in governance requirements and regulation continues to require additional management focus and robust compliance procedures within all areas of the business. *Priorities* • Continue to renew all compliance processes and control effectiveness. • Develop stress tests and crisis planning procedures.

Links to strategic corporate objectives

Impact on business model

9. Competitor activity

Nature of risk and potential impact	Key risk indicators	Mitigating factors	Change
The Group has a number of existing competitors which compete on range, price, quality and service. Potential new low cost competitors may be attracted into the market although the 2023 outlook is challenging. In addition, cost inflation and higher energy costs are now impacting all suppliers and consumers. Competitive risk increases if we fail to maintain high levels of customer service. *Potential impact* Increased competition could reduce volumes and margins on manufactured and traded products. Reputational damage if the Group loses competitive advantage.	• Threat from new low-cost competitors and new technologies. • Less demand for traditional products and the increased emergence of new digital business models and product solutions.	• The Group has unique selling points that differentiate the Marshalls branded offer. • The Group focuses on quality, service, reliability and ethical standards that differentiate Marshalls from competitor products. • The Group has a continuing focus on new product development. • The continued development of the Group's digital strategy and its focus for customers and all stakeholders. • Restructuring programme implemented in Q4 2022 will reduce cost base by approximately £10 million.	*Increased risk* The impact of cost inflation potentially changes competitive pressure in certain areas. *Priorities* • New product development. • Research into green technologies. • Review marketing and communications. • Continue to review all elements of customer service, including the continuing development of KPIs.

Links to strategic corporate objectives

Impact on business model

Principal risks and uncertainties continued

10. Project delivery

Nature of risk and potential impact
Ineffective management of major development projects, from initial scoping to final delivery and benefits management, due to constraints that might impact the Group's ability to absorb change. During 2022 such projects included the integration of Marley, the construction of the dual block plant at St. Ives and the successful implementation of a restructuring programme, which has included the mothballing of the Sandy manufacturing site.

Potential impact
The extent and complexity of projects may cause delays and inefficiency.

Potential failure to realise expected benefits from strategic business projects.

Reputational damage, service under-delivery and staff retention risks.

Key risk indicators
- Delays to project delivery.
- Inefficiencies in resource utilisation.

Mitigating factors
- Robust and standardised project appraisal process.
- Change management framework and process in place.
- Programmes are continually reviewed with strong governance and executive oversight, including project specific steering committees where appropriate.

Change
No change in risk
Although the underlying risk continues, effective control and the ongoing development of an appropriate management framework continue to mitigate the risk.

Priorities
- Develop strategies to manage growth.
- Ongoing reviews of acquisition strategy and the business model.

Links to strategic corporate objectives

Impact on business model

11. Health and safety

Nature of risk and potential impact
Unexpected health and safety incident, possibly caused by human error or the actions of a subcontractor. Additional risks introduced in relation to the acquisition of Marley.

Ongoing risks in relation to COVID-19 and the need to maintain safe working environments.

Ongoing welfare and mental health of employees.

Potential impact
Risk of harm to all stakeholders, including on-site employees and subcontractors.

Negative impact of working from home for certain employees.

Significant increases in penalty regime could lead to significant fines and prosecution.

A major incident could lead to a disruption to production and a negative impact on the Group's reputation.

Key risk indicators
- Integration requirements for new acquisitions.
- Significant increases in the penalty regime.

Mitigating factors
- Centralised specialist functions and clear policies in place.
- Detailed central review of Marley health and safety risks, controls, systems and procedures.
- Regular communication and support for employees, including those working from home. Mental health first aiders.
- Group-wide health and safety strategy.
- Ongoing monitoring, training and health and safety audits.
- Introduction of a digital management system for enhanced data collection and analysis.
- All senior managers receive the Marshalls Health and Safety and Environmental stage 3 training.

Change
No change in risk
Health and safety continues to be a high profile risk area.

Continuing risks arising from COVID-19, including mental health and employee welfare.

Development in risk profiling procedures leading to improved root cause analysis.

Priorities
- Ensure health and safety embedded in the "day-to-day" culture.
- Improve reporting structures.
- Full integration of Marley into the Group's health and safety and employee wellbeing protocols.

Links to strategic corporate objectives

Impact on business model

Links to strategic corporate objectives

- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Read more about our strategy on **pages 36 to 39**

Impact on business model

- Sourcing
- Manufacturing
- Distribution
- Customers

Read more about our business model on **pages 24 and 25**

12. People risks

Nature of risk and potential impact	Key risk indicators	Mitigating factors	Change
Availability of labour – with risks around core skills, demographics, capability and changing working patterns. This has become a key differentiator in the market. The "War for Talent" has increased with skill shortages in certain areas. Ongoing risks and requirements concerned with training, development and succession planning. Implications of technological change and automation. *Potential impact* Inability to recruit people with required skills, calibre and potential. Risk of reduced skills and inadequate training potentially leading to reduced productivity and efficiency. Companies are changing their "employment position" and creating a more competitive landscape. Implications for employee health and wellbeing and overall workforce morale. Potential risk to the Marshalls brand.	• Skill shortages and lack of diversity within the workforce. • Increased stress levels within workforce leading to employee absenteeism. • Increased levels of staff turnover.	• Focused human resources department with experienced staff and specialist skills. • Group People and Organisational Plan. • Strong employee and trade union relationships. • Strong communication channels and employee feedback through the "Employee Voice Group". • Regular feedback questionnaires supported by a third party provider. • Independent "Safecall" employee helpline. • Ongoing focus on training, apprenticeships and staff development and leadership potential.	*No change in risk* Increasingly competitive labour market. The emergence of challenges for employees caused by new working requirements, health and safety regulations and operational working practices. These include issues that could give rise to heightened employee wellbeing issues and risks to mental health. *Priorities* • Develop retention and recruitment strategies. • Effective marketing and communications. • Focus on succession planning, internal development and diversification in the leadership teams. • Integration of Marley into all of the Group's "People" strategies, policies and procedures.

Links to strategic corporate objectives

Impact on business model

Board of Directors

A diverse, decisive **and dynamic Board**

The Board is cohesive, well-balanced, agile and determined "to do the right things, for the right reasons, in the right way".

The Board has strong ethical values, combined with great depth of experience and skill covering leadership, strategy, manufacturing, operations, marketing, finance, M&A and business change.

The Board acts responsively and dynamically applying its experience, skill and knowledge whilst bringing constructive challenge to the table, ensuring the long-term sustainability of the Group. Driving the strategic plan in The Marshalls Way, whilst demonstrating its ability to be agile and alive to geo-political instability and face into short and medium term macro-economic challenges are key in maintaining the Group's market leading position.

Committee membership

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of the Committee
- I Independent Director

Links to strategic corporate objectives

- Shareholder value
- Sustainable profitability
- Relationship building
- Organic expansion
- Brand development
- Effective capital structure and control framework

Vanda Murray OBE
Chair
N R I

Date of appointment
9 May 2018. Re-elected in May 2022

Experience
Fellow of the Chartered Institute of Marketing with extensive experience of corporate leadership, strategy and manufacturing in both executive and non-executive roles with a wide range of UK and international businesses. Previous executive roles include Chief Executive of Blick plc from 2001 until its successful sale to Stanley Works Inc in 2004 and Managing Director of Ultraframe plc between 2004 and 2006.

Alignment with strategic corporate objectives

External appointments
Senior Independent Non-Executive Director and Chair of the Remuneration Committee of Bunzl plc, Non-Executive Director and Chair of the Remuneration and CSR Committees of Manchester Airports Group and Non-Executive Director and Chair of Yorkshire Water.

Martyn Coffey
Chief Executive

Date of appointment
9 September 2013. Re-elected in May 2022

Experience
Former Divisional Chief Executive Officer of BDR Thermea Group BV, a leading manufacturer and distributor of domestic and industrial heating and hot water systems operating in 70 countries with a turnover of €1.8 billion, formed in 2009 from the merger of Baxi and De Dietrich Remeha. Prior to the merger, Martyn was Chief Executive of the private equity-owned Baxi Group. He also held the position of Managing Director of Pirelli Cables where he spent 14 years in the UK, Australia and North America. Holds a BSc in Mathematics.

Alignment with strategic corporate objectives

External appointments
Director of the Mineral Products Association. Non-Executive Director and Chair of the Remuneration Committee of Eurocell plc.

Tim Pile
Non-Executive Director*
N R I

Date of appointment
5 October 2010. Re-elected in May 2022

Experience
Leadership roles in a number of different industries such as banking, retail, marketing and consumer goods, as well as in the charity and public sectors – for organisations big and small. Formerly Chair of Greater Birmingham and Solihull LEP, Chair of Cogent (the leading independent marketing agency), President of the Greater Birmingham Chambers of Commerce, CEO of Sainsbury's Bank and a member of the operating board and Non-Executive Director at Cancer Research UK.

Alignment with strategic corporate objectives

External appointments
Chair of the Royal Orthopaedic Hospital.
Council Member of Aston University.

* Tim Pile will retire as a Non-Executive Director and Board member at the Company's 2023 AGM.

Angela Bromfield
Non-Executive Director
A N R I

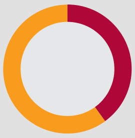
Date of appointment
1 October 2019. Re-elected in May 2022

Designated Non-Executive Director for employee engagement.

Experience
Broad based international career in manufacturing, distribution and construction and extensive commercial strategy, marketing and communications executive experience. Formerly, Strategic Marketing and Communications Director at Morgan Sindall plc until 2013 and prior to that held senior roles at the Tarmac Group, Premier Farnell plc and ICI plc.

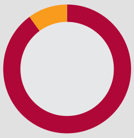
Alignment with strategic corporate objectives

External appointments
Senior Independent Non-Executive Director and Chair of the Remuneration and ESG Committees of Harworth Group PLC.



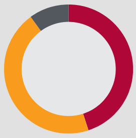
Gender composition

- Female – 4
- Male – 5



Ethnic diversity

- White – 8
- Mixed Asian and white – 1



Length of service

- 0–2 years – 4
- 3–4 years – 1
- 5+ years –4

Justin Lockwood
Chief Financial Officer

Date of appointment
26 July 2021. Re-elected in May 2022

Experience
Previously Chief Financial Officer of International Personal Finance plc, having held senior financial roles for seven years prior to his appointment as CFO in 2017. Justin spent four years at Associated British Ports in senior financial roles and worked in a variety of business and head office roles for Marshalls between 2002 and 2006. Chartered accountant having qualified and worked for PWC during the first ten years of his career.

Alignment with strategic corporate objectives

External appointments
None.

Simon Bourne
Chief Operating Officer

Date of appointment
1 April 2022

Experience
Experienced manufacturing, supply chain and operations director. Simon joined Marshalls in 2015 as Manufacturing Director and was appointed as Group Operations Director in 2017. Prior to joining the Company, Simon held senior operational and supply chain roles across various sectors. Before his appointment at Marshalls, Simon spent six years at Burtons Biscuits as Manufacturing Director and three years at Betts Group Holdings as Group Director of Manufacturing.

Alignment with strategic corporate objectives

External appointments
Chair of MPA British Precast.

Graham Prothero
Senior Independent Non-Executive Director

A N R I

Date of appointment
10 May 2017. Re-elected in May 2022

Experience
Chartered Accountant and Chief Executive Officer of MJ Gleeson plc. Previous roles include Chief Operating Officer of Vistry Group PLC and Chief Executive of Galliford Try plc. Also on the board of The Jigsaw Trust, a charitable trust committed to autism awareness. Extensive senior management experience in the sector, including with leading property developer Development Securities plc (now part of Land Securities plc), Taylor Woodrow, the listed contractor/developer, and Blue Circle Industries plc. Spent seven years as a partner in the Real Estate, Hospitality and Construction Group of Ernst & Young LLP.

Alignment with strategic corporate objectives

External appointments
Chief Executive Officer of MJ Gleeson plc.
Board Member of The Jigsaw Trust

Avis Darzins
Non-Executive Director

A N R I

Date of appointment
1 June 2021. Re-elected in May 2022

Experience
A management consultant with expertise in retail business change, digital channel expansions and transformation. Formerly a Partner at Accenture focusing on the retail and consumer products sector. Delivered successful profitable growth engagements with many well-known national and international brands. Previously worked as Director of Business Transformation at Sky in addition to leadership roles at Arcadia, BHS, Mothercare and Littlewoods. Most recently served as a Non-Executive Director at Moss Bros Group PLC.

Alignment with strategic corporate objectives

External appointments
Co-chair of the Ambassadors Group of retailTRUST, Senior Independent Non-Executive Director of Barnardo's, Non-Executive Director for Grafton Group PLC and Director of Avis Business Consulting, a provider of transformational change strategy and execution support.

Diana Houghton
Non-Executive Director

A N R I

Date of appointment
1 January 2023

Experience
Group Head of Strategy at Smiths Group plc. Previous roles include Corporate Development Director of Allied Domecq plc and Strategy Director roles with Bass plc. Extensive cross-sector experience from retail, leisure retail, consumer goods and industrial manufacturing industries covering M&A, turnarounds, organic business improvement and strategy. Diana was Senior Adviser to the National Audit Office between 2010 and 2015 and spent seven years on the board of Thornton's plc as Chair of Audit Committee and Senior Independent Director.

Alignment with strategic corporate objectives

External appointments
None

Shiv Sibal
Group General Counsel
and Company Secretary

Date of appointment
26 May 2020

Experience
Experienced corporate finance lawyer with nearly 20 years' experience, the last eight of which have been in industry at FTSE businesses. Extensive leadership and legal experience. Responsible for transforming the legal team's role in the business. Formerly a corporate partner with international law firm Womble Bond Dickinson LLP, focused on supporting public companies. Also spent more than eight years working for international law firm Pinsent Masons LLP and qualified with international law firm CMS.

Alignment with strategic corporate objectives

External appointments
None

Our commitment to responsible governance and The Marshalls Way creates strong alignment at Board level and throughout the business.

A transformational year, diversifying the business while delivering **record performance and ensuring the long-term resilience of the business**

Dear shareholder

Responsible governance is critical at all times, but is put to test when operating in volatile market conditions. Geo-political instability and macro-economic uncertainty make business planning extremely challenging. Against this backdrop, the Group has emerged from a transformational but challenging year, in a strong and stable position.

During the first half of 2022, the Group completed the transformational acquisition of Marley. Marley is a leading manufacturer and supplier of pitched roofing products and systems in the UK and is a strong addition to the Group, with a highly skilled and experienced management team. Throughout the acquisition process, the Board and senior management team worked closely together in evaluating the opportunity and engaged with relevant stakeholders, at all times respecting our legal obligations and the sensitive nature of the deal. A responsive, cohesive but forthright Board led our assessment and recommendation of the transaction to our shareholders, a significant step in the diversification and strategic progression of the Group. At the time, we received strong shareholder support for the transaction, but, in volatile market conditions, we recognise the importance of keeping an open dialogue with all our stakeholders. To this end, I met with shareholders towards the end of the year and, as a Board, we have reflected on their feedback, which we always welcome, and will revisit this as we progress through the current year.

Political and economic uncertainty characterised the second half of 2022 and presented the Group, and the sector, with significant challenges. Having completed a transformational acquisition, the Board's attention necessarily moved to more pressing short to medium-term strategic challenges, and in particular, managing our manufacturing capacity to reflect current inventory levels and what we anticipate will be a challenging year ahead, based on market indicators.

This ability to respond dynamically to opportunities and threats, requires decisiveness and a determination "to do the right things for the rights reasons, the right way". Our commitment to responsible governance and The Marshalls Way creates strong alignment at Board level and throughout the business. Our resilience, and impact of the Marley acquisition, ultimately resulted in another record year for the Group but we recognise the danger of complacency and the importance of continuous improvement.

During the year, we welcomed Simon Bourne to the Board, with his appointment as Chief Operating Officer deserved recognition for his transformation of our operations since joining the business. Simon and his team are now working closely with the Marley team to help maximise Marley's operational efficiency.

As planned, Tim Pile will retire from the Board at the end of our 2023 AGM. I would like to thank Tim for his incredible contribution to the Marshalls' Board over the last twelve years. He has challenged and supported in equal measure but always with the goal of helping Marshalls achieve its strategic ambitions in a way that balances the interests of all our stakeholders. I am delighted that Diana Houghton has joined the Board as Tim's successor.

We provide further detail on them in our Nomination Committee Report on pages 92 to 95, but these appointments mean the composition of our Board complies with the Listing Rules that require UK listed companies to disclose on a "comply or explain" basis against set diversity targets. Details of the current composition of the Board by gender, ethnic diversity and length of service are on page 77.

Balanced decision making and open communication, reflective of our culture and purpose, is what "good governance" means to Marshalls. This is central to our application of the UK Corporate Governance Code. Our commitment to The Marshalls Way – "to do the right things, for the right reasons, in the right way" – underpins everything we do.

This Corporate Governance Statement explains how Marshalls' governance framework supports the principles of integrity, strong ethical values and professionalism which are integral to our business.

The Board recognises that we are accountable to shareholders for good corporate governance. This report, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 92 to 130, seeks to demonstrate our commitment to high standards of governance that are recognised and understood by all.

Our governance framework

Board
- Audit Committee — Read more on **pages 96 to 99**
- Nomination Committee — Read more on **pages 92 to 95**
- Remuneration Committee — Read more on **pages 100 to 130**

Executive Committee
- Diversity and Equity Taskforce
- ESG Steering Committee — Read more on **page 46**
- Business Unit Management Teams
- Employee Voice Group — Read more on **page 55**

Programme of activities

Board →
- Board meetings
- AGM and GM
- Annual strategy day
- Business and stakeholder engagement
- Designated NED for employee engagement
- Shareholder engagement

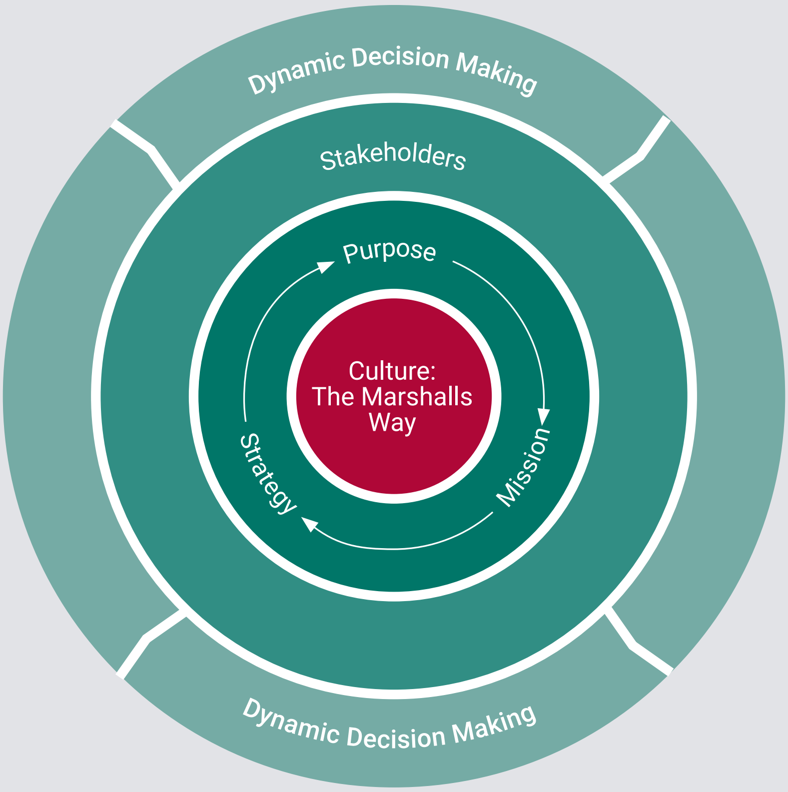
Committees →
- Committee meetings
- AGM
- Remuneration policy consultation

Executive Committee →
- Monthly meetings
- Weekly update calls
- Annual strategy review

Taskforce, committees, teams and group →
- Monthly business reviews
- Bi-monthly ESG Steering Committee meetings
- Regular EVG meetings

Governance at Marshalls

Our **Culture** is at the heart of everything we do: The Marshalls Way. Our **Purpose** drives our **Mission**, which in turn drives our **Strategy**. These operate as a virtuous circle with regular reflection by the Board and the business. The operation of our business and the decisions we make have regard to the interests of our **Stakeholders**. This approach to governance enables **Dynamic Decision Making** but ensures we never lose sight of the elements within that drive our long-term sustainability.



Achievements in 2022

- We've supported the business in another record year of performance, against a challenging macro-economic and geo-political backdrop with inflation, rising interest rates and the Ukraine crisis challenging us to ensure the business continues to operate from a stable base and as efficiently as possible. The Group's commitment to continuous improvement drives resilience and demonstrates its commitment to embracing change.
- The acquisition of Marley represents a transformational step in the delivery of our long-term strategy. At the outset, and throughout, the Board challenged and supported the senior management team's assessment of the opportunity and the structural aspects of the transaction. This included detailed due diligence and advisory support from a team of experienced professional advisers, culminating in overwhelming support for the deal from our shareholders. The result is a more diversified and resilient Group, well-positioned to achieve its strategic goal of becoming the UK's leading manufacturer of products for the built environment.
- We welcomed Simon Bourne to the Board as Chief Operating Officer, recognising Simon's contribution and performance, over a number of years, in driving so many of our growth pillars, including operational and logistics excellence, sustainable supply and new product innovation. Simon's promotion is richly deserved and has been supported by a comprehensive induction plan arranged by our General Counsel and Company Secretary.
- We've managed the succession of Tim Pile, who retires at this year's AGM, with the appointment of Diana Houghton to the Board as a Non-Executive Director. Tim is our most experienced Board member and has, on two occasions, agreed to extend his term to support the business through the unprecedented challenges of the last three years. We thank Tim for his contribution and commitment to the business. Diana's appointment further strengthens the Board by introducing new skills, experience and diversity, particularly in the development and execution of organisational strategy.
- Following the completion of the acquisition of Marley, we held a Capital Markets Day, setting out our vision for the Group in the short to medium term and, in particular, showcasing the Marley business model and operations and the opportunity these present to the Group.
- At our annual strategy review in November, we reflected on the Group's five-year Strategy with the senior management team, particularly in light of Marley joining the Group. Against challenging macro-economic and geo-political conditions, we also considered the short to medium-term resilience of the Group and the opportunities we have to maximise the efficiency of our operations. We also considered the longer-term sustainability of our business and our brand, reflecting particularly on our purpose, to create better spaces and futures for everyone: socially, environmentally and economically.
- The Board continued to leverage the benefits of technology adopted during the pandemic, to combine in person and virtual engagement with the business and stakeholders. Making the Board accessible to all stakeholders is an important element of meeting our obligations under Section 172 of the Companies Act.
- With the support of Lintstock, we completed an externally facilitated Board evaluation. This included reflection on the objectives we set during our last internal evaluation. The Board's composition, stakeholder and strategic oversight and the support the Board receives, were all rated extremely highly. The Board is collegiate and supportive but provides robust challenge to the senior management team on strategy, performance and governance. (See page 79 for further details.)
- We've built on our ESG commitments, whilst ensuring we're complying with our reporting obligations against the TCFD recommendations. We've listened to our stakeholders and reflected on how the Board oversees our ESG programme. See page 81 for further details. The Board have focused on ensuring our commitments drive competitive advantage and brand loyalty. These will make our business sustainable in the long term. We've refined the key measures we use to monitor our progress and incorporated some of these in our incentive schemes. (See page 102 for further details.)
- The Board and Audit Committee have considered the impact of proposed changes to the UK Corporate Governance Code and the measures being taken to ensure the Group is able to demonstrate compliance with these ahead of their formal adoption. (See page 91 for further details.)
- There has been Board representation at each of the Employee Voice Group ("EVG") meetings, with Angela Bromfield continuing as our designated Director for employee engagement. The EVG has broad representation and continues to evolve, with new representatives from across the business elected to a two-year term earlier this year. (See page 55 for further details.)
- In response to tough trading conditions and a marked softening of demand for Private Housing RMI in both the UK and International markets and destocking in the distribution channel, we approved a reduction in our manufacturing output to manage inventory levels. These actions reduced capacity and costs within our manufacturing network and trading function to ensure alignment with lower levels of demand. This is expected to reduce operating costs by around £10 million per annum from the start of 2023.

Priorities in 2023

- Supporting the senior management team in navigating the business through the key strategic issues and challenges we face, particularly in the short to medium term, including those driven by challenging macro-economic conditions. Ensuring we communicate our progress effectively.
- Overseeing and measuring progress against the Group's strategic plan following the transformational acquisition of Marley, with an appropriate balance between financial and non-financial KPIs. This will be critical to the long-term sustainability of the Group and will include reviewing progress against the commitments made at our annual strategy review in November 2022.
- Giving additional focus and time to understanding our stakeholders and how we engage with them, particularly customers, suppliers and shareholders. This will underpin their confidence in the Group's management, performance and long-term strategy. Maintaining our customer focus is key to maintaining our strong brand preference, which is a key differentiator for the Group.
- Building a deeper understanding of the Group's culture and how this is monitored and has evolved, including our approach to cultural integration with the Marley.
- Seeking opportunities to learn from the experience of other sectors as regards our cultural, people, technology and transformation journeys.
- Overseeing effective succession planning and talent retention, that are critical to ensuring the long-term success of the business.
- Effectively overseeing our ESG programme, ensuring this supports our commitment to operating the business sustainably and drives commercial and competitive advantage.
- Carefully monitoring the implementation and impact of the fundamental audit and corporate governance reforms proposed by the Government, which will have implications for the operation and expectations of the Board.
- To continue to ensure we do everything in The Marshalls Way: "the right things, for the right reasons, in the right way", and at all times with our stakeholders in mind.

ESG priorities

The Board views our approach to ESG as central to the achievement of our strategic objectives and the long-term sustainability of the business. Being a responsible business is how we've operated for over 130 years and, as we face current global challenges, it's never been so important to be a transparent corporate citizen. Our ESG commitments and credentials demonstrate this clearly.

- Environmental — we take our environmental impact seriously. We're recalibrating our commitment to net zero following the acquisition of Marley but this remains our goal.
- Social — we respect and value the dignity, well-being and rights of employees, their families and the wider community, as well as their safety.
- Governance — strong, responsible governance supported by effective leadership helps nurture our healthy corporate culture and our processes and controls enable us to operate ethically and responsibly.

For further details see our ESG report on **pages 42 to 59**

ESG oversight

Board

Ultimate responsibility for risk management and ESG, including climate change risks and opportunities

Executive Team

- The CEO is accountable for the delivery of the ESG strategy, including climate change
- The Executive Team members are individually responsible for reviewing and confirming risks in their own areas, including climate risks

ESG Steering Committee

- Attended by CEO, CFO, COO, Chief People and ESG Officer and General Counsel and Company Secretary
- Responsible for ensuring the ESG strategy remains fit for purpose, plans are in place and progress is measured and reported
- Advises the Board on ESG-related risks and opportunities

Group Risk Management

- Responsible for implementing the Group risk management framework and Risk Register
- See risk management framework and governance on pages 66 and 67

Operational teams

- Responsible for managing and resourcing approved activities
- Advise on operational feasibility of projects
- Collaborate on ESG projects

ESG & Sustainability Team

- Responsible for driving progress along our plans, including science-based targets
- Updates the ESG Steering Committee on progress against targets
- Ensures ESG strategy considerations are included within financial planning

Supported by

- ESG metrics
- ESG Board updates
- Shareholder engagement
- TCFD reporting

- Risk register
- Risks and opportunities

- Sustainability Report
- Science-based targets
- Metrics and targets

Coming out of COVID-19 restrictions

As Government guidance changed, the Group removed the restrictions we put in place, which were to protect the health and safety of our colleagues and other stakeholders, our number priority at all times.

Colleagues are now able to work from any of our facilities, although we maintain a booking and registration system in most of our office buildings so that we can monitor attendance levels and ensure the facilities can safely support those attending. The scale of our manufacturing and operational sites has meant that we can operate them safely without this additional process.

The COVID-19 pandemic fundamentally changed ways of working and, where feasible, we've retained the flexibility this allows and continue to make use of technology, particularly for large meetings, where attendees are in many different locations. This not only saves on travel costs and reduces our carbon footprint but also makes us more agile when circumstances demand. We see this as a real benefit of how we managed the business during the pandemic. For office-based roles, the ability to work flexibly has become an important element in attracting talent, in a candidate driven market.

Scheduled Board meetings during the year were all "in person", marking a welcome return, given that this generally facilitates more engaged and inclusive discussions of business opportunities and challenges. The Board have also continued to take advantage of technology, with virtual meetings supplementing their engagement with colleagues and shareholders in particular.

We remain vigilant given the emergence of new COVID-19 strains and the re-introduction of entry restrictions from certain countries. We are confident in our ability to respond to any other measures or restrictions re-introduced by the Government in response to any resurgence of the virus.

Dynamic decision making remains central to the way the Board and senior management team manage the business. The Board sets the culture for effective risk management and, together with the senior management team, ensures that we're having regard to our key stakeholders when making decisions.

Diversity

Improving diversity is an opportunity for the business but remains challenging in our sector, particularly in operational and site-based roles. As a Group, we actively promote diversity, equity, respect and inclusion ("DERI") and have a zero-tolerance approach to discrimination. See page 55 for details of how we promote DERI. We apply our policies to ensure there is equality of opportunity for every role we recruit. Our commitment is supported by our Code of Conduct and central to our People Strategy.

At Board level, we have maintained our gender and ethnic diversity during 2022. In addition to myself, a female Chair, we have 44 per cent female representation on our Board overall and one Director from an ethnic minority background. On Simon Bourne's appointment to the Board as Chief Operating Officer in April 2022, our female representation dropped to 38 per cent, by virtue of the Board's growth. Upon Tim Pile's retirement at this year's AGM, 50 per cent of the Board will be female.

Although we have a diverse Board, and have improved overall gender diversity in the business, our continuous improvement mindset and application of The Marshalls Way, are driving us to improve diversity at management levels and in our operations, to unlock the benefits this will bring.

We acknowledge that, although we've seen some improvement, this will take longer than we originally anticipated, particularly given the challenges in our sector, but we are now working more closely with others in the sector to address what is a structural challenge. Making our business accessible is critical to its long-term sustainability. The Board has approved the Group-wide Diversity and Inclusion Policy and continues to support the senior management team in the execution of the Group's longer-term DERI strategy. Our Diversity and Equity Taskforce, which has broad colleague representation from across the Group, including our General Counsel and Company Secretary, continues to "lead the charge" in this important area.

Board evaluation

As required by the UK Corporate Governance Code, the Chair and the Company Secretary conducted an externally facilitated evaluation during 2022 with the support of Lintstock. Pages 88 to 90 of this report give more detail on the conclusions of the review. The evaluation covered the Board and its Committees, as well as my performance as Chair. The review also considered the Board's performance against the objectives it set itself during its last internal evaluation in 2021.

In conducting the evaluation, we used Lintstock's evaluation tools, but these were reviewed by myself and the Company Secretary and tailored appropriately to reflect the needs of the Marshalls Board. The evaluation considered all critical aspects of the Board's performance against the principles and provisions of the Code.

Responsibility statement

In the opinion of the Directors, these Annual Financial Statements present a fair, balanced and understandable assessment of the Group's position and prospects and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The respective responsibilities of the Directors and the auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report on pages 133 and 134 and 135 to 142 respectively.

Vanda Murray OBE
Chair
15 March 2023

Compliance statement

This Corporate Governance Statement has been prepared in accordance with the principles of the UK Corporate Governance Code dated July 2018 (the "UK Code") which applies to the financial year 2022. We have complied with the principles and provisions of the UK Code throughout 2022.

Our Governance sections over the following pages explain how the Group has applied the principles throughout the year and up to the date of this Annual Report.

1 Board leadership and Company purpose

Read more on **pages 85 and 86**

- Led by an experienced female Chair who drives strategic focus and inclusive, robust debate
- Diverse, well-balanced Board with strong mix of knowledge and experience and a clear focus on long-term sustainability
- 2022 focus on strategic transformation, resilience and succession
- Our culture, The Marshalls Way, and purpose, "creating better spaces and futures for everyone: socially, environmentally and economically", are at the heart of all decision making

2 Division of responsibilities

Read more on **pages 86 to 88**

- Effective, transparent communication and information drive trust and support dynamic decision making
- Well-established relationship between Board and senior management team supported by regular engagement
- Robust challenge and support provided and well-received by management
- Clear, proportionate decision-making parameters balance Board control and operational flexibility

3 Composition, succession and evaluation

Read more on **pages 88 to 90**

- Diverse Board with breadth of experience, knowledge and skills
- Majority of independent Directors and experienced Committee Chairs
- Well-executed succession plan, with additional growth in the Board rewarding performance
- Externally facilitated review highlighting Board cohesion and effectiveness, achievement of previous objectives and opportunities for development
- Engagement with shareholders ensuring the Board evolves to reflect their priorities

4 Audit, risk and internal control

Read more on **page 91**

- Clear oversight of external and internal audit functions and planning, in a transformational year
- Effective oversight of internal control environment, and the programme of work supporting compliance with prospective governance changes
- Detailed consideration of development in reporting under TCFD
- Ensuring adequacy of the Group's risk management framework and process and participating in risk reviews
- Strengthening processes to ensure we act upon recommendations and monitor outcomes, allowing us to continuously improve
- Oversight of financial reporting, including judgements made in preparing this Annual Report and Accounts

5 Remuneration

Read more on **page 91**

- Overseeing the Remuneration Policy review and engagement with stakeholders, including our EVG
- Early engagement with shareholders on approach to implementation of current Remuneration Policy, which reflected transformational nature of the year
- Reviewing incentives scheme targets. Ensuring they support attraction and retention of talent, drive good behaviours and create alignment with stakeholder interests
- Appropriate and proportionate consideration of performance and reward outcomes

Role of the Board

The Board currently comprises an Independent Non-Executive Chair, five independent Non-Executive Directors and three Executive Directors. Their biographical details are on pages 76 and 77.

Our Schedule of Matters Reserved for the Board (set out below) is reviewed annually and is available on our website, It ensures we retain the right balance between Board oversight and operational flexibility.

Delegation to Board Committees

Audit Committee Report on pages 96 to 99 provides details of the Board's application of UK Code principles in relation to financial reporting, audit, risk management and internal controls.

Nomination Committee Report on pages 92 to 95 reports how Board and senior management composition (including diversity), succession and development are managed to reflect UK Code principles.

Remuneration Report on pages 100 to 130 sets out our proposed Remuneration Policy to be tabled with shareholders at this year's AGM. It shows how our current policy has been implemented for 2022, including details of Directors' remuneration. The Remuneration Report also provides gender pay and balance information.

Ad hoc Board Committees are established for particular purposes: for example, during 2022, Board Committees were established to finally approve the acquisition of Marley and the preliminary and half year results.

Delegation to the Executive and management

The day-to-day management of the business and the execution of the Group's strategy are delegated to the Executive Directors. The Group's reporting and governance structure (see page 79) and controls below Board level are designed so that decisions are made by the most appropriate people in an effective and timely manner. In deciding what is "appropriate" for these purposes, we consider the scale and complexity of our business and reflect how this has grown over time. Management teams report to members of the Executive Committee, which is comprised of the senior management team, including the three Executive Directors. The Executive Directors and other Executive Committee members give regular briefings to the Board in relation to strategic progress, specific business issues, developments. Clear and measurable KPIs are in place to enable the Board to monitor progress. This structure, our controls and open and transparent information and communication enable the Board to make informed decisions on key issues. These include our strategy, capital structure, internal control and risk frameworks and our risk appetite whilst having regard to the interests of all of our key stakeholders. The findings of the externally facilitated Board evaluation, supported this view of how our governance model operates in practice.

1
Board leadership and Company purpose

Leadership and purpose

Our culture and leadership, at Board and senior management team level, drive our approach to governance at Marshalls and underpinned the Group's resilient performance during the year and the successful completion of the transformational acquisition of Marley.

The Board invests time in understanding our business model and how the long-term success and viability of the business is dependent on implementing and evolving our strategy. This understanding comes from working collaboratively with the senior management team, engaging with the business and applying the Board's skills and experience to provide the robust challenge that helps shape that strategic evolution.

The Board has continued to engage regularly with shareholders and employees. Although all COVID-19 restrictions were removed by the Government during the year, the technology we used throughout the pandemic has continued to support and enhance engagement, making the Board even more responsive and agile, and providing additional visibility of our culture and how the business is managed and controlled.

Our Strategic Report on pages 1 to 75 explains how we seek to fulfil our purpose, how this is supported by our policies and procedures, and how we identify and manage our key risks. Transparency and openness between management and the Board have built trust and confidence in how the business is operated and controlled on a day-to-day basis. This has enabled the Board to steer our strategy and business model towards a sustainable future, as evidenced by the transformational acquisition of Marley and the Group's resilience in delivering record performance in an incredibly challenging macro-economic environment.

The reports of our Board Committees give further detail on how our policies and processes, and the principles of the UK Corporate Governance Code, have been applied during the year in particular areas and how this relates to our culture and strategy.

Dynamic decision making enabled us to take the opportunity to bring Marley into the Group and also respond to the extremely challenging market conditions later in the year by reducing our manufacturing capacity and our cost base. This ability to address not only longer-term strategic priorities but to respond to market conditions and focus on the more immediate short to medium-term issues, demonstrates the Board's flexibility and agility. Responsive governance has ensured that both business transformation and resilience can be prioritised together.

Our well-established sustainability programme is driven by our commitment to operate the business responsibly, having regard to the interests of our stakeholders. We're integrating Marley into our sustainability programme and, although this will take some time, we're confident we can align the businesses' approach in key areas such as minimising our environmental impact, respecting human rights and promoting diversity and inclusivity.

The significant investments we made in our operations, particularly the multi-million-investment in the installation of a dual block plant at our St. Ives site, will begin to deliver commercial benefit and competitive advantage to the business. The configuration of the new plant means we can switch production between ranges quickly providing additional manufacturing agility in our network.

Our strategy review in November addressed some of the strategic challenges we're facing in the short to medium term, in responding to market conditions and ensuring we build greater flexibility into our operating model. We also reflected on the acquisition of Marley, the opportunities it presents and the impetus this gives to our longer-term strategic vision for the Group.

That strategic plan remains well-balanced and considers the interests of all of our key stakeholders. Driving brand preference and customer loyalty, through innovation and responsible operation of the business, are core to all our commercial objectives. The environmental and social reports on pages 42 to 59 provide further information of our progress and commitments in operating the business responsibly.

The Board receives regular updates from the Executive Directors on the agreed KPIs set out on pages 40 and 41. The Group's CFO has significantly enhanced the quality of financial information the Board receives, making it easier to establish whether the Group's objectives are being met and to provide additional challenge and support where necessary.

2022 saw the introduction of a new HR system that underpins our ability to support and manage our people, who are the key to our long-term success. Our Chief People and ESG Officer has guided the Board and business through significant change projects throughout the year, both planned and unplanned, that have impacted our people. We've continued to implement our Group people strategy albeit the Marley acquisition required us to pause briefly to welcome our new colleagues and to understand how we can integrate Marley into our Group-wide programmes. This, inclusive approach, epitomises our commitment to The Marshalls Way, albeit we acknowledge that this will take some time.

Effective communication with colleagues was critical during 2022 given the significant changes the Group experienced, and the volatility in market conditions.

A real focus was the communication of our acquisition of Marley and ensuring we welcomed our new colleagues into the Group and the communication forums we use. This remains a work-in-progress as we look to harmonise the methods we use for communicating with our people across the business. Towards the end of the year, our focus moved to managing and communicating the impact of the capacity reduction programme across our operations. In difficult circumstances, we felt this was managed sensitively and compassionately.

Our Employee Voice Group, as an effective and representative colleague engagement forum, has continued to mature and we have recently completed elections for new EVG members as two-year terms came to an end. Making the EVG as representative as possible was a key priority, with a particular desire for more colleagues in operations to put themselves forward. During 2022, the EVG covered many topics including performance and talent management, pensions governance, learning and personal growth and our manufacturing capacity reduction project. Discussions are challenging and, on the whole, constructive with members growing in confidence throughout the year and recognising the legitimacy of this forum, particularly given the regular attendance by our designated Director for employee engagement, Angela Bromfield, and other members of the Board and senior management team.

The EVG serves as a useful gauge by which the Board can assess whether that the Group's purpose, values and strategy remain aligned with our culture. Further details of how we engage with employees are set out on pages 28 to 35.

We're continuing our work on culture and diversity, with the implementation of diversity and inclusion strategy remaining a priority. Giving the recruitment challenges in our sector, this is a long-term project. At its core is ensuring we're operating an inclusive business for those currently working for us, and we have this year gathered much better-quality information about representation across the business that highlights the challenge we have. Greater diversity in our manufacturing and production roles remains the most difficult challenge but we're now working with our sector peers to create a construction industry Inclusivity Pledge, as we all face the same issue. Our CEO and Talent Director are representing the Group in this initiative.

We have established a calendar of DERI based events supported by internal communications campaign to drive awareness. Our Diversity and Equity Taskforce is a major step. Greater diversity and becoming representative of the communities in which we operate are important components of our long-term success.

1

Board leadership and Company purpose continued

Leadership and purpose continued

Good governance is supported at Marshalls by robust systems and processes and a good understanding of risk and risk appetite. The Group's control and risk management frameworks are reviewed annually and have been critically reviewed during the year, with Marley now integrated into these processes. We review our Risk Register at least twice a year and our internal audit plan factors in the results of these reviews. The Board and the Audit Committee receive periodic reports from the internal auditor on a range of topics each year that are given careful consideration by the Audit Committee.

Further details of our approach to risk identification and management are set out in the Strategic Report on pages 1 to 75.

The Board remains confident the Group's application of the UK Code principles during 2022 will drive its long-term sustainable success by providing a platform to achieve its strategic goals.

Read more about diversity on **page 55**

Conflicts and concerns

The Board maintains a conflicts register that identifies situations in which conflicts may arise, which is reviewed regularly. In situations where an actual conflict is identified, the affected Director may be excluded from participating in relevant Board meetings or voting on decisions. There is no shareholder with a holding of sufficient significance to exercise undue influence over the Board or compromise independent judgement.

Concerns about the running of the Company or proposed action would be recorded in the Board minutes. On resignation, if a Non-Executive Director did have any such concerns, the Chair would invite the Non-Executive Director to provide a written statement for circulation to the Board.

Whistleblowing

The Group's Serious Concerns Policy sets out the principles under which employees can raise concerns in confidence. This is supported by an independent whistleblowing telephone and online reporting service, through which concerns may be reported anonymously if preferred. The Audit Committee receives reports on matters raised under this policy and the outcome of investigations. Any concerns raised are investigated appropriately by individuals whose judgement is independent and who are not directly involved with the matters raised.

Read more about sustainability, ethics and climate change on **pages 42 to 59**

2

Division of responsibilities

Roles and division of responsibilities

There is a clear division between Executive leadership and leadership of the Board expressed in the written Terms of Reference of the Chair and Chief Executive.

Chair	The Chair leads the Board and is responsible for its overall effectiveness. She was independent on appointment in 2018 and brings her judgement, experience and skills to the role. Our externally facilitated Board evaluation assessed all aspects of Board performance including Board dynamics, strategic and risk oversight, composition and succession and the support the Board receives from the business and the Company Secretary. The evaluation concluded that the Board continues to operate very effectively and cohesively with an appropriate balance of robust challenge and support.
CEO	The Chief Executive has responsibility for all operational matters which include the implementation of strategy and policies approved by the Board.
Senior Independent Director	The Senior Independent Director provides a sounding board for the Chair and also acts as an intermediary for other Directors and shareholders.
NED independence	The Board has determined each of the Non-Executive Directors to be independent in accordance with Section 2, Provision 10 of the UK Code. Although Tim Pile will retire from the Board at the end of the 2023 AGM, we are confident that he will remain independent until he steps down, even though he has more than twelve years' service on the Board. Further details of why we believe this to be the case are set out on page 87.
Evaluating performance	At least once a year the Chair meets the Non-Executive Directors without the Executive Directors being present. The Senior Independent Director meets the other Non-Executive Directors annually without the Chair to appraise the Chair's performance.
No over-boarding	On appointment, the expected time commitment for Board members is made clear. The Chair and other Non-Executive Directors disclosed their other commitments prior to appointment and agreed to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution. The current commitments of the Chair and other Directors are shown on pages 76 and 77.

Board meetings and attendance*

Key = ● Present ○ Absent

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Vanda Murray OBE (Non-Executive Chair)	●●●●●●●●●	–	●●●●●●●	●●●●●
Martyn Coffey	●●●●●●●●●	–	–	–
Justin Lockwood	●●●●●●●●●	–	–	–
Simon Bourne	●●○○●●	–	–	–
Graham Prothero (Non-Executive)	●●●●●●●●●	●●●●●	●●●●●●●	●●●●●
Tim Pile (Non-Executive)	●●●●●○●●●	–	●●●●●●●	●●●●●
Angela Bromfield (Non-Executive)	●●●●●●●●●	●●●●●	●●●●●●●	●●●●●
Avis Darzins (Non-Executive)	●●●●●●●●●	●●●●●	●●●●○●●	●●●●○
Diana Houghton (Non-Executive)	–	–	–	–

* The Board held seven scheduled meetings during the year. Additional Board meetings were held to conditionally approve the acquisition of Marley and to approve a reduction in the Group's manufacturing capacity.

The Chief Executive, Chief Financial Officer and Chief Operating Officer are not members of the Audit Committee but normally attend Audit Committee meetings by invitation. The Non-Executive Directors, excluding Tim Pile, also meet the auditor in private.

The Chief Executive attends Remuneration and Nomination Committee meetings by invitation. The Company Secretary attends Board and Committee meetings as Secretary. Board members also participate in the Group's annual strategy review with the senior management team, which during 2022 was held over two days in November. In addition, the Board participates in site visits, training sessions, the Employee Voice Group and other business activities where they have relevant expertise and experience. The Board also attended the Group's annual management conference on 2022.

Simon Bourne was appointed to the Board as Chief Operating Officer on 1 April 2022. Diana Houghton was appointed to the Board on 1 January 2023.

Tim Pile's independence

We continue to consider Tim Pile to be independent even though he has served more than twelve years as a Non-Executive Director.

Tim originally intended to step down during 2021 but agreed to continue to support us through the pandemic and then further extended his term to 2023, when his successor, Philip Rogerson, stepped down for health reasons shortly after his appointment. The Board recognised the value of Tim's skills and extensive knowledge and experience of the Group. Further details of these are set out in his biography on page 76.

We are mindful that the UK Code directs that this length of service is likely to impair or could appear to impair his judgement, but we strongly believe this not to be the case given Tim's track record with the business. Tim continues to bring invaluable support and experience to the business whilst, together with the Chair and the other Non-Executive Directors, effectively holding the Executive Directors and senior management team to account on behalf of shareholders.

He remains independent in thought and judgement and provides unique insight and challenge given his experience of how the business has evolved. He is a great advocate for the business but constantly challenges us across all areas of our operations with a particular focus on our brand, our customers and how we manage risk and communicate externally.

Aside from his length of service, there are no other relevant factors (as set out in UK Code Provision 10) that would affect his independence. He has no associations with management or otherwise that might compromise his ability to exercise independent judgement or act in the best interests of the Group.

As it committed to, the Nomination Committee planned for Tim's succession during 2022 and Diana Houghton was appointed to the Board at the start of 2023. On confirmation of Diana's appointment, Tim confirmed his intention to retire from the Board at the end of the Company's 2023 AGM.

The Chair conducted an individual performance evaluation of all the Directors, including Tim, and concluded that Tim's contribution remained extremely valuable, particularly given that his independence had been maintained.

Board meetings

There is an established format and programme for scheduled Board meetings, which were all held in person last year.

This programme is supported by a forward-looking planner that focuses on Board business for the year ahead and ensures an appropriate balance between the Board's consideration of strategy, operations and governance. The Board's agenda is flexible, enabling dynamic consideration of any urgent matters. The Board remains committed to ensuring it is always available to convene if urgent matters need to be addressed as evidenced by their meeting to conditionally approve the Marley acquisition and the reduction in the Group's manufacturing capacity.

The Chief Executive, the Chief Financial Officer and the Chief Operating Officer report on strategic, financial and operational performance respectively at each Board meeting. The Chief Executive also updates the Board, at each meeting, on wider industry, sector and competitor considerations that are relevant to ensuring that decision making has regard to all stakeholder interests.

The Chief Operating Officer reports to the Board on health and safety, which remains a top priority and is reported on and considered on a standalone basis at every scheduled Board meeting. The safe operation of our sites and our safety culture are constantly monitored to ensure they are aligned with The Marshalls Way, i.e. "we are doing the right things, for the right reasons, in the right way". Marley's health and safety reporting has now been integrated into the updates the Board receives and this will be developed and refined during the next year, reflecting particularly on some of the feedback received in the 2022 Board evaluation.

2

Division of responsibilities continued

Board meetings continued

The Board participated fully in the Group's annual strategy review which was held across two days in November 2022. This involved engagement with key members of the senior management team in considering the continuing relevance and appropriateness of the Group's strategy, particularly in light of the acquisition of Marley and some of the short to medium-term issues the Group is facing as a result of current macro-economic conditions.

In addition to the standing items on the Board's agenda, the principal areas of focus considered by the Board in 2022 were:

Strategy

- Group strategy
- People and culture, including succession, talent development and DERI
- Acquisition of Marley and Marley strategy
- "Right-sizing" manufacturing capacity
- Commercial: specification, commercial excellence and marketing
- ESG
- 2023 budget
- Capital structure and dividends
- Operations: dual block plant investment review
- IT/Digital: electronic trading, D365, cyber security and IT roadmap
- Market, sector and competitor updates and outlook
- Macro-economic update (HSBC)
- Market (Numis and Peel Hunt) and sector (Rothschild) updates

Operations

- Health and safety (including Marley)
- Marley integration
- Supply chain, procurement and logistics
- Technical innovation project updates
- Adoption of new people system, engagement and morale

Governance and risk

- Class 1 Marley acquisition: recommendation to shareholders
- Board composition: succession of Tim Pile and appointment of Simon Bourne and Diana Houghton
- Approval of changes to NED remuneration
- Externally facilitated Board and Committee performance evaluation
- Annual shareholder governance meetings
- Employee Voice Group feedback
- Policy review project
- Whistleblowing
- Cyber security and data protection
- Stakeholder engagement
- AGM voting and guidance

3

Composition, succession and evaluation

There is a transparent and formal process for appointments led by the Nomination Committee and supported by external specialist recruiters. Board succession planning is reviewed at least annually by the Nomination Committee, while succession planning at Executive level is reviewed by the Board.

The Board also reviews succession planning for senior management and is able to consider and challenge, as appropriate, the Group's recruitment policies and how they promote diversity and inclusion. During 2022, the Board received a detailed update on the Group's wider talent identification and development programmes. The policies and process are commented on further in the Nomination Committee Report on pages 92 to 95.

The Board recognises that organic development of future leaders is key to our people strategy and the long-term sustainability of the Group, and acknowledges that this is an area for further development.

Our Board is increasingly diverse and has a strong combination of skills, experience and knowledge with our Committees being chaired by suitably experienced colleagues with relevant expertise. During the year, Simon Bourne (Chief Operating Officer) and Diana Houghton (Non-Executive Director) were appointed to the Board. Tim Pile will retire from the Board at the end of the Company's 2023 AGM.

These appointments recognise and reward Simon for the operational transformation he has led and, in the case of Diana's appointment, demonstrates the Board's commitment to continuously assess its skills base and supplement these as part of good succession planning. Diana's extensive strategic experience was a key area in our search criteria for the role.

The Board is currently 44 per cent female, with a female Chair and one Director from an ethnic minority background. Board composition is reviewed annually, and we assess whether the current skills, experience and knowledge are aligned with the Group's strategy and expected future leadership needs, and the benefit greater diversity could bring to the Group. Further details of the Board and their skills are set out on pages 76 and 77.

Our succession plan is designed to ensure that Board members' terms expire or they retire over clearly defined periods, normally not exceeding nine years. All Directors stand for election or re-election (as appropriate) at every Annual General Meeting, and all current Directors, except Tim Pile, will stand for re-election or election at the 2023 Annual General Meeting. The Directors' biographical details on pages 76 and 77 show their roles, date of appointment and length of service on the Board.

During 2022, we conducted an externally facilitated Board effectiveness review led by the Chair and the Company Secretary, with the support of Lintstock. See page 90 for further details.

Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are complied with and, through the Chair, advises the Board on governance matters. The appointment or removal of the Company Secretary are matters for the whole Board.

How Board priorities were addressed during the year

Executing our strategic plan

- We acquired Marley, taking a major step towards our strategic goal of becoming the UK's leading manufacturer of products for the built environment.
- Given macro-economic conditions, our annual strategic review considered short to medium-term strategic issues, building these into the Board's agenda for 2023.
- We re-assessed our manufacturing capacity, taking action to ensure it reflects anticipated demand in the short to medium term.
- We reflected on feedback from our engagement with shareholders during our annual compliance meetings.

ESG

- We've restructured and also invested in our ESG team, which is now under the leadership of the Chief People and ESG Officer.
- Although we've decided not to create a separate ESG Board Committee, the Board has oversight on ESG matters, receives regular updates and considers ESG as part of all major strategic decisions. See pages 42 to 59 for further details.
- Details of the Group's progress on our ESG journey are set out on pages 42 to 59.
- We consulted with shareholders on our ESG programme as part of our annual shareholder compliance meetings.

Customers

- The Board received updates on our commercial strategy, including the implementation of our Commercial Excellence framework and the restructuring of our customer teams, which are the foundation for future activities.
- We've begun a programme of work to digitalise trading and make us easier to deal with.
- Our marketing team has been restructured and we've created a new Group Marketing Director role with the aim of optimising our marketing activities across the Group and driving brand preference and premium.

Succession planning

- Simon Bourne (Chief Operating Officer) and Diana Houghton (Non-Executive Director) were appointed to the Board. Diana is Tim Pile's successor.
- Executive succession is actively managed by the CEO and Chief People and ESG Officer with the Board's input.
- Recruitment and retention in a candidate led market remain extremely challenging and have highlighted the importance of development and career-progression for our high performing colleagues.
- Although some progress has been made, particularly in improving representation and diversity in some office-based roles, creating opportunity for development remains a key priority in the short term.

Focus areas and actions to enhance effectiveness in 2023

The 2022 externally facilitated Board evaluation was conducted by the Chair and Company Secretary, with the support of Lintstock. Following engagement with key stakeholders to set the context for the review, Lintstock's evaluation tools and questionnaires were tailored to reflect our business, and the objectives set as part of last year's internal evaluation. As in 2021, we carried out the review immediately after the Board's annual strategy review in November so the Board could reflect this in their feedback.

We also widened participation in the review to those members of the senior management team who regularly attend Committee meetings by invitation to ensure their views were captured.

As set out above, we made good progress against the priorities identified in 2021, in what was a transformational year for the Group. The acquisition of Marley marked a significant step in realising our overall strategical goal of become UK's leading manufacturer of products for the built environment. Our progress was reflected in the scoring in the review. A summary of the review is set out below,

Dynamic decision making remains critical to the effectiveness of our Board. Taking the opportunity to accelerate the achievement of our strategic goal in acquiring Marley is evidence of this. Responding to volatile market conditions later in the year and anticipated market demand for 2023, by responsibly managing our manufacturing capacity, is further evidence of the Board's agility in addressing short to medium-term strategic challenges whilst not losing sight of longer-term ambitions and the benefits of diversifying our business.

Board engagement and support have been critical during the last year and remain key strengths of our Board, which has strong leadership and is focused on responsibly governing to ensure the long-term sustainability of the business.

3
Composition, succession and evaluation continued

2022 Board evaluation

Marshalls engaged Lintstock to facilitate a review of Board and Committee performance during 2022. Lintstock is an independent advisory firm that specialises in Board reviews and had no pre-existing connections with Marshalls.

The first stage of the exercise involved Lintstock engaging with key stakeholders to set the context for the review, and to tailor the scope to the specific circumstances of Marshalls. All Board and Committee members, and certain members of the senior management team who regularly attend Committee meetings by invitation, then completed a tailored online survey addressing the performance of the Board, its Committees and the Chair.

As well as addressing core aspects of Board and Committee performance, the exercise had a particular focus on the following areas:

- **Marley acquisition:** the Board's oversight of the Marley acquisition, including the business case put forward and the quality of the Board's input during the process;
- **Strategy:** the clarity and achievability of the Company's strategy, the quality of the most recent Board strategy review meeting, and the key strategic issues facing the business in the coming years;
- **Culture:** the key ways in which Marshalls' corporate culture should evolve, in order to better support the execution of the Company's strategic goals;
- **Stakeholder engagement:** the Board's understanding of key stakeholder groups, and how best to evolve the mechanisms through which the Board engages with stakeholders and is informed of their views. There was a particular focus on customers and how we differentiate ourselves from competitors;
- **Technology:** the Board's grasp of technological opportunities and threats, and the effectiveness with which developments in the external environment are monitored; and
- **ESG integration:** the integration of environmental, social and governance factors into the Group's strategy and operations.

Lintstock's report was discussed at the January 2023 Board meeting. The review concluded that the Board and Committees are diverse, with great depth of knowledge, skills and relevant experience and are supported by a strong senior management team.

As a result of the review, the Board reflected on the prioritisation of its time, the quality of strategic discussions, and the mechanisms in place for succession planning, all of which will be considered in building the Board and Committee's forward agenda. There was a recognition that the Board is constantly evolving and therefore regular reflection on the Board's performance will ensure it can address the strategic challenges the Group faces, both in the short to medium and longer term.

4

Audit, risk and internal control

The Board has established written policies and procedures for external and internal audit functions designed to ensure that they remain independent and effective and these are regularly reviewed. Annual questionnaire-based evaluations are conducted of both our internal and external audit partners with the Board and members of the senior management team participating. The Board scrutinises financial and narrative statements in accordance with best practice supported by the advice of the auditor.

The Board has a well-established procedure to identify, monitor and manage risk, and has carried out reviews of the Group's risk management and internal control systems and the effectiveness of: all material controls, including financial, operational and compliance controls; and the mitigation of material risks.

The Strategic Report comments in detail (pages 66 to 75) on the principal risks facing the Group, in particular those that would threaten our business model, future performance, solvency or liquidity, and the controls in place to mitigate them. The Board conducts a rigorous assessment of these risks, particularly operational risks that might affect the Group's viability in the short term and emerging risks that might impact the medium to longer term.

The Board's risk and viability review incorporates stress testing, by envisaging scenarios that might arise during the financial year and/or the planning cycle, and considering, with financial impact modelling where appropriate, the likely effect on the business and its prospects. Additionally, the outcomes of our risk reviews drive our internal audit planning, ensuring our resources are being directed at the most appropriate areas.

The Audit Committee (on behalf of the Board) reviews the effectiveness of the Group's risk management system and the system of internal control annually. The Risk Register and our risk disclosures in this report were reviewed by the Audit Committee in December 2022 and March 2023 respectively.

The Non-Executive Directors carried out a standalone risk review in December 2022, the outcome of which has been incorporated into the Risk Register. In addition, our internal and external auditors participated in our most recent risk review meeting in November 2022. Our approach underpins our commitment to transparency in managing risk and internal controls and lends additional efficacy to our procedures.

The Audit Committee Report on pages 96 to 99 describes the Group's internal control system, how the Board assures itself of the independence and effectiveness of internal and external audit functions and how they are managed and monitored. Addressing the requirements set out in proposed changes to the UK corporate governance regime, as they relate to our internal control environment, is the subject of a major programme of work being overseen by the Committee. We are confident this will support the assurances the Board needs to provide in this regard.

The Board acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

Read the Audit Committee Report on **pages 96 to 99**

5

Remuneration

The current Remuneration Policy was last approved by shareholders in 2020 and a revised Policy, which is set out in the Directors' Remuneration Report on pages 100 to 130, will be submitted to shareholders for approval at this year's AGM. The revised Policy addresses the relevant requirements of the UK Code and was prepared in consultation with Company shareholders with a holding carrying at least 2 per cent of the Company's voting rights and external voting agencies.

The Remuneration Committee Report describes how the current Remuneration Policy has been implemented during 2022 and the outcomes achieved. It also describes how the Remuneration Committee has carried out its responsibilities during the year.

The Remuneration Committee continues to effectively discharge the duties delegated to it by the Board under the leadership of the Committee Chair, ensuring outcomes reflect performance and taking a holistic view of remuneration across the Group, having consulted employees appropriately, the importance of which is recognised by the Board.

Read the Remuneration Committee Report on **pages 100 to 130**

Vanda Murray OBE
Chair
15 March 2023

Nomination Committee Report

The focus during 2022 has been on evolving and strengthening the Board, supporting progression and diversifying our skill base.

Developing and growing our diverse Board **to support our strategic ambitions**

Members and attendance

	Meetings
Vanda Murray OBE – Chair	
Graham Prothero – SID	
Tim Pile	
Angela Bromfield	
Avis Darzins	
Diana Houghton*	–

* Diana Houghton joined the Board in January 2023.

Find our Terms of Reference and Nominations Policy at:
www.marshalls.co.uk/about-us/corporate-governance

Dear shareholder

I am pleased to report to shareholders on the main activities of the Committee and how it has performed its duties during 2022. I chair Nomination Committee meetings but would not do so where the Committee was dealing with my own reappointment or replacement as Chair.

2022 highlights

- In recognition of his contribution towards the development and achievement of the Group's strategy and for his transformation of our operations since joining the business, we recommended the promotion of Simon Bourne to the Board as Chief Operating Officer. On the instruction of the Committee, KornFerry, the global organisational consulting firm, conducted an independent assessment of Simon's suitability for this role and have subsequently supported him with his transition. Simon completed our Board induction programme with the support of our Company Secretary.
- As planned, and in anticipation of Tim Pile stepping down from the Board at the 2023 AGM after more than twelve years' service, the Committee conducted a comprehensive search for Tim's successor with the support of executive search firm, Russell Reynolds Associates (which is an independent executive search firm with no other connection to the Company). The search objective was to find an individual with significant experience in the listed company environment that would increase the cognitive and experiential diversity of the Board. The core search criteria included experience of transformational mergers and acquisitions, of formulating and implementing enterprise-wide business strategy and strong financial skills.

- Following the completion of our search and interviews with each member of the Committee, Diana Houghton was appointed to the Board as a Non-Executive Director with effect from 1 January 2023. Diana's biography is on page 77. Her appointment further strengthens the Board by introducing new skills, experience and diversity, particularly in the development and execution of organisational strategy.
- We reviewed the roles, performance and succession planning, both for the Board and senior management team. In addition to the appointment of Simon Bourne and Diana Houghton to the Board, the Committee supported the promotion of Louise Furness to Chief People and ESG Officer and Ian Dean to Managing Director of Marshalls Landscaping and Building Products Division. Louise's promotion, and the expansion of her role to include responsibility for ESG, are recognition of her tireless work in developing and driving the implementation of our Group-wide people strategy and her commitment to the Marshalls Way, which is at the heart of our culture. Ian Dean succeeds Peter Hallitt, who retired at the end of 2022. Ian joined Marshalls in 2020, as Managing Director for what was then our Emerging Businesses division and his promotion is recognition for the change Ian is driving that will establish a foundation for the future of Marshalls and our customer focus.
- We reviewed and approved the Group's Nominations Policy and reflected on how we have implemented it. This includes our commitment to introduce even greater diversity, at both a Board and senior management team level, which is something we acknowledge we must continuously work on as diversity remains a sector-wide challenge.
- In support of their re-election at the 2023 AGM, we reviewed individual Director performance identifying areas for development. We also completed an externally facilitated evaluation, which concluded the Committee was operating effectively and under strong leadership.
- We have reviewed the Group's DERI strategy, which was formally adopted this year, and the initial progress in implementing this. This remains a key area of focus for the Committee, but we recognise the challenge the Group faces given the relative lack of diversity in the sector, particularly in operational and manufacturing roles. The Committee is supporting the Group's participation in sector-wide initiatives to improve diversity.

2023 priorities

- Continue to actively manage our Board succession plan, particularly as it relates to the Executive Directors.
- Supporting the Group's people strategy which underpins and acts as an enabler to the Group's long-term strategy and includes the development of colleagues in our high-performing category, as well as our approach to recruitment for new, strategically significant, roles which will prioritise promoting colleagues from within.
- Focus on succession, development and progression below Board level, particularly given the importance of developing and building the leadership capabilities of those working directly for the Executive Directors and other members of the senior management team.
- Supporting the Group's initiatives that are seeking to improve diversity, particularly in management and operational roles. Greater gender, cultural and cognitive diversity are key opportunities the Group. The Board currently comprises 44 per cent women, which will rise to 50 per cent on Tim Pile's retirement. We have a female Chair and one Board member from a non-white ethnic minority background and comply with the revised Listing Rules that require us to publish an annual "comply or explain" statement regarding the achievement of the targets on Board diversity.

Marshalls' Nominations Policy

The table below summarises the key features of our Nominations Policy and how it is applied.

Policy principle	Supporting measures	How implemented in 2022
• Recruitment and succession reflect the strategic needs of the business. • Recruitment contributes to desired values and culture.	• Nomination Committee conducts an annual skills review aligned with three to five-year strategic plans. • New Directors agree commitment to strategic direction and Group policies.	• Appointment of Diana Houghton to the Board, as a Non-Executive Director bringing extensive listed company and strategic experience to the Board, the latter being critical to ensuring our strategy remains dynamic and relevant. • Promotion of Simon Bourne to the Board as Chief Operating Officer, recognising Simon's contribution and performance, over several years, in driving so many of our growth pillars, including operational and logistics excellence, sustainable supply and new product innovation. • Louise Furness promoted to the role of Chief People and ESG Officer recognising her creation of and contribution to our people agenda, which supports our strategic goals and underpins the long-term sustainability of the business. • Ian Dean promoted to the role of Managing Director of our Landscaping and Building Products Division.
• Recruitment to achieve diversity in widest sense.	• Policy sets direction and gives leadership. • Brief for search consultants for new Board and senior management appointments. • Diversity initiatives/ succession plans at Executive level reviewed and targets monitored.	• Reviewed progress with the development and execution of the Group's diversity and inclusion strategy including our approach to recruitment, development and progression. Becoming a founding signatory to a sector-wide diversity initiative. • Brief to Russell Reynolds Associates for our search for Tim Pile's successor emphasised the importance of increasing cognitive and experiential diversity. • Introduction of our new HR system facilitated the gathering of more granular and specific, Group-wide, diversity related data, through voluntary disclosure. • Carefully monitoring senior management team performance and succession. Carefully assessing any internal candidates and ensuring that, in the longer term, development opportunities for our high performers are identified and supported with investment.

Nomination Committee Report continued

Marshalls' Nominations Policy continued

Policy principle	Supporting measures	How implemented in 2021
• There should be a clear formal Board succession plan based on objective criteria.	• Annual review of terms of office. • Annual individual evaluation. • Use of independent external search advisers.	• Succession under continuous review. There were two Board changes during 2022. • Individual Director evaluations were conducted in January 2023. • We select external search advisers for Board appointments based on relevant expertise. Russell Reynolds Associates were retained the recruitment of Diana Houghton. Norman Broadbent are retained for senior management team recruitment and were appointed following a formal tender process.
• Directors must devote sufficient time to perform effectively and familiarise themselves with the business.	• Limit on other Board appointments. • Detailed induction, site visits, training and employee engagement programme.	• Recruitment process addresses existing commitments and risk of "over boarding." • Included in letters of appointment. • New director induction process now well-established and well-received by incoming Directors. See page 95. • Board training is included as part of Director induction together with site visits. • The Directors continued to engage: on risk; through attendance at Employee Voice Group and People Steering Group meetings; with our marketing team; through attendance at Lunch and Learn sessions; and by participating in our annual strategy review. Engagement has been through a combination of in-person and virtual meetings.
• Compliance/ good governance.	• Conflicts policy and register reviewed no less than six-monthly. • Annual re-election of Directors.	• Reviews in June and December 2022. • All Directors stood for election/re-election in May 2022, except for Diana Houghton who was appointed on 1 January 2023.

The performance of the Committee was evaluated as part of the externally facilitated Board evaluation process in 2022, described on page 90. The Committee Terms of Reference were reviewed in December 2022. No material changes were made, and the terms continue to reflect the requirements of the UK Corporate Governance Code published in July 2018 (the "UK Code"), which applies from 1 January 2019.

During the year, the Nomination Committee held five scheduled meetings, and there were additional ad hoc meetings and discussions between Committee members in connection with succession planning and recruitment held by telephone.

Evaluation and reappointment of Directors

Each Non-Executive Director was, on joining, provided with a detailed description of their role and responsibilities, and received a detailed business induction, which is managed by our Company Secretary. All Directors have an annual one-to-one development review meeting with the Chair to appraise performance, set personal objectives and discuss any development and training needs to enable them to continue to add value to the Board. The Chair is committed to regular reflection on individual Director performance and holds additional meetings with Directors on an ad hoc basis.

Before any Director is proposed for re-election, or has their appointment renewed, the Committee considers the outcome of the reviews to ensure that the Director continues to be effective and demonstrates commitment to the role. The Chair provides an explanation to shareholders as to why the Director should be re-elected and confirming that a formal performance evaluation has taken place when the Resolution to re-elect is circulated.

It is the Company's policy that Executive Directors can only hold one external listed company non-executive directorship. Voluntary service on the governing board of a social, trade or charitable organisation is also permitted. Details of the external appointments held by the Executive Directors are included in the biographical notes on pages 76 and 77.

Governance

The Committee has acted throughout 2022 in accordance with the principles of the UK Code. In addition, the Committee's effectiveness was assessed in 2022, with the support of an external facilitator, Lintstock, against the UK Code as part of the Board evaluation process. The evaluation concluded that the Committee has been successful in managing Board composition and succession, with a diverse range of skills and experience in the current Board. The framework for the refreshment of skills, experience and diversity to support the needs of the business and its stakeholders in the future is transparent and well understood.

Vanda Murray OBE
Chair of the Nomination Committee
15 March 2023

Director induction

Our induction process focuses on informing, engaging and supporting new Directors when they join the business to ensure they understand the Group's culture, business, strategy and stakeholders.

We feel this knowledge, combined with their skills and experience, provides the right foundation for them to make an effective contribution to the Group and to fulfil their statutory duties as Directors. This induction process is a key building block of effective governance and reflects The Marshalls Way – "we do the right things, for the right reasons, in the right way".

Our Director induction

The Marshalls Way

We do the **right things**, for the **right reasons**, in the **right way**

Inform

- Summary of the Group's history
- Introduction to the Group's Strategy
- Biographies of the senior management team
- Employee Engagement Survey
- Sustainability Report
- ESG update
- Latest Board evaluation
- Access to key corporate documents
- Market Indicators and Drivers Report

Engage

- Board one-to-ones
- Executive management one-to-ones
- Site visit programme
- Customer visits
- Introduction to our markets
- Introduction to investor relations
- Introduction to Remuneration Policy
- Employee Voice Group attendance

Support

- Core compliance training
- Appointment documentation support
- Company Secretary support
- Organograms
- Key contacts
- Details of key advisers
- Payroll and administration support

Marshalls maintained a strong focus on control, risk management and governance throughout the year. The Group's Process and Internal Financial Controls review, established in response to the BEIS White Paper, is a major project and good progress has been made during 2022.

Marshalls continues to maintain a strong focus on **control, risk management and governance**

Members and attendance

	Meetings
Graham Prothero – Chair	5
Angela Bromfield	5
Avis Darzins	5
Diana Houghton*	–

* Diana Houghton joined the Audit Committee on 1 January 2023.

Find our Terms of Reference at:
www.marshalls.co.uk/about-us/corporate-governance

Dear shareholder

This report, which is part of the Directors' Report, explains how the Audit Committee has discharged its responsibilities during 2022 and provided focus and governance in relation to risk management, financial control and financial reporting. In this report I also set out the Audit Committee's objectives for 2023.

2022 highlights

- Provided a recommendation to the Board on whether the 2022 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable. In addition, assessed the adequacy of new financial disclosures and enhanced reporting in relation to ESG matters, including the reporting of the Task Force on Climate-related Financial Disclosures.
- Assessed the results and effectiveness of the 2022 final audit.
- Assessed the accounting and financial implications of the acquisition of Marley and the adequacy of relevant disclosures in the 2022 Annual Report. Further consideration of the accounting disclosures in relation to operating segments and adjusting items.
- Reviewed the new capital structure, following the additional debt introduced to part-fund the acquisition of Marley, and the measures taken to maintain flexibility, liquidity and appropriate headroom against bank facilities and covenants.
- Reviewed the stress test financial modelling, forecasts and sensitivity analyses, including the scenario planning and assumptions used, to conclude on the Group's going concern assessment and Viability Statement.

- Reviewed and assessed the Group's risk management process and provided assurance to the Board in relation to the maintenance of appropriate financial control systems and procedures. During 2022 this has included the alignment of risk management procedures and a review and upgrade of the Group's self-certification controls process.
- During 2022, the Committee oversaw a continuing project to review the adequacy, completeness and effectiveness of the Group's control environment to ensure that it continues to be robust and suitably documented and any gaps have been identified and addressed. This was established in support of the objectives of the BEIS White Paper. KPMG was engaged to support the process and to provide assurance to the Committee and to facilitate the monitoring of progress during the year. The aim is to produce risk and control matrices ("RACMs") for all identified in-scope processes and to identify and remedy any control gaps identified. During 2022 RACMs were produced for the Purchase-to-Pay and Inventory processes and the remainder will be developed during 2023.
- Continued to monitor progress with the implementation of key projects for the Group, including the integration of Marley and the implementation of the D365 systems update, to ensure that the control environment surrounding these projects remains appropriate.
- Carried out a detailed review of the outcomes of cyber security audits undertaken by KPMG LLP in order to improve cyber security controls and to ensure that IT controls remain appropriate and robust. During 2022, the work programme included a cyber security audit of Marley.
- Commissioned a number of other internal audit reviews by KPMG LLP in relation to tendering, project delivery and inventory (both Marshalls and Marley).

2023 priorities

- To focus on transparency, the clarity of reporting and the consistency of messaging across all communication and regulatory channels and over all areas of the business.
- To review the delivery of the external and internal audit, to monitor progress and changes in external regulatory environment and best practice. The Committee will continue to oversee the disclosure of significant financial judgements made by management.
- To maintain our continual assessment and improvement of cyber security controls and ensure that IT controls remain appropriate and robust. This will involve further cyber security reviews.
- To review the findings from internal audit reviews to be undertaken by KPMG LLP and monitor the implementation of recommendations made in these reports and progress with actions from previous reviews. There are additional internal audit reviews planned for 2023, including projects covering ESG reporting, cyber security and IT general controls.
- To continue the Group's process and internal financial controls review that was established in response to the BEIS White Paper. This review process will be extended to the newly acquired Marley business during the project.
- To review and consider the process and the matters to be considered in order to set an Audit and Assurance Policy. The Committee will consider appropriate areas once the project to review the Group's control environment has been completed.

How the Audit Committee operates

During the year, the Audit Committee held four formal meetings and there were also meetings between the Audit Committee Chair, the Chief Financial Officer and the external auditor.

The Committee meets both the external and internal auditor independently of management, ensuring it has full visibility of matters that have been the subject of particular discussions. The Committee also reports to the Board in relation to the going concern statement and the Viability Statement and whether the accounts are fair, balanced and understandable

Effectiveness of the Audit Committee

During the year, an external evaluation of the Committee's performance was undertaken as part of the Board evaluation process. This is explained in detail in the Corporate Governance Statement on pages 78 to 91. The review found the Committee to be well-composed, effective and well-run. No areas of concern were highlighted during this review although a number of agreed actions were identified and discussed with the Auditor.

The Chair of the Committee is a Chartered Accountant and the Board is satisfied he is independent and has recent and relevant financial experience as required by the Code. Other members also have relevant sectoral and financial experience. Their biographical details are on pages 76 and 77.

External audit

Deloitte LLP was appointed in May 2015 as statutory auditor, following a tender process. The Committee has adopted policies to safeguard the independence of its external auditor, Deloitte LLP. It is the policy of the Company that the external auditor should not provide non-audit services, other than those that are "de minimis" in value, of less than £5,000 in aggregate in any financial year. Any other non-audit services require the specific approval of the Committee. Where the Committee perceives that the independence of the auditor could be compromised, the work will not be awarded to the external auditor. Details of amounts paid to the external auditor, and its entire network, for audit and non-audit services in 2022 are analysed in Note 3 on page 162. Other than the half-yearly review of Marshalls plc, for which a fee of £35,000 was charged (2021: £35,000), no amounts were paid for non-audit work during 2022. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £2,225,000 (2021: £236,000).

Effectiveness of the external audit

An annual review of external audit effectiveness was undertaken by the Committee in 2022. The conclusion of the review was that the external auditor had conducted a comprehensive, appropriate and effective audit. Communication, at all levels, had been open and constructive and areas where the external auditor could work more effectively, in respect of each phase of the audit, were identified.

Internal audit and internal controls

The internal audit process is carried out by KPMG LLP, and the annual internal audit programme uses a risk-based assessment that takes into account the Risk Register and management input. KPMG attends the Group's Risk Register review meeting on a regular basis. This risk-based assessment is reviewed and approved by the Audit Committee, and the process is overseen by the Chief Financial Officer. KPMG LLP is independent from the Company's external auditor and has no other connection with the Group.

The Company undertook a review and updated its internal self-certification control process to support the internal audit process throughout the year. This review included the establishment of a similar procedure for the Marley business. The internal audit programme includes both regular audit checks and assignments to look at areas of critical importance. Any areas of weakness that are identified through this process prompt a detailed action plan and a follow-up audit check to establish that actions have been completed. Instances of fraud or attempted fraud (if any) and preventative action plans are also reported to the Committee and recorded in a fraud register.

Internal audit and internal controls continued

During the year, in addition to the regular internal control process, KPMG LLP conducted specific reviews in a number of areas. The Committee is pleased to report that, although the wider risk of cyber fraud continues to increase, no significant failings or weaknesses were identified during the year and the Group's significant investments in enhanced cyber security measures and systems have improved its maturity in this area. Following the review, plans are now being formulated that will further improve our cyber response procedures and controls. Cyber security controls around Marley's IT environment are less mature than Marshalls with several improvement opportunities identified by the internal audit review. A plan of work is being put in place to address these improvement opportunities dealing with the highest risk areas first. A rolling programme of cyber security awareness training is undertaken.

There were no incidences of fraud that significantly affected the Group's business during 2022.

Responsibility area	Primary responsibilities	Activities undertaken during 2022

Financial reporting	• To review, with both management and the external auditor, the more significant judgements made and the quality and appropriateness of the Group's accounting policies.
	• To review the assumptions and disclosures made in the Financial Statements.
	• To assess the clarity of disclosures and compliance with stock exchange and regulatory requirements.
	• To provide assurance to support the long-term Viability Statement and the procedures for evaluating the Group's going concern assessment.
	• To review the integrity of formal announcements relating to the Group's financial performance, including the half year and full year Financial Statements.
		• Monitored the integrity of the full year and half year Financial Statements and assessed critical accounting policies and practices, and compliance with accounting standards.
		• Assessed key areas of judgement in relation to significant issues relating to the Financial Statements. The main areas of judgement were:
		  • the acquisition accounting in relation to the acquisition of Marley; including the procedures adopted in relation to the PPA exercise;
		  • key judgements made in relation to goodwill impairment testing;
		  • key judgements made in assessing the carrying value of inventory in the Financial Statements; and
		  • disclosure of adjusting items in the Financial Statements.
		• The Committee reviewed the findings of the external auditor and considered the assessments and conclusions made by management in relation to these issues.
		• Reviewed the trading updates issued during the year which provided regular communication to shareholders in relation to financial performance and the acquisition of Marley.
		• Approved the Viability Statement – and reviewed the assumptions and financial modelling underpinning the assessment, including the adequacy of scenario planning.
		• Reviewed the Group's capital structure together with both the capital allocation and dividend policies.
		• Approved the going concern statement – and advised the Board that the Group is able to continue in operation and meet its liabilities as they fall due for at least the next twelve months.
		• Reviewed ESG disclosures, including the Group's climate change strategy and objectives, commitment to science-based targets and Task Force on Climate-related Financial Disclosures.

Risk management	• To assess and review the effectiveness of the Group's risk management framework and procedures. • To advise the Board on current and emerging risks.	• Reviewed the operation of the Group's Risk Committee, which comprises the Executive Directors and members of senior management. The Risk Register process is set out in more detail on pages 66 to 75, and during 2022 the Marley business has been included and fully mapped into the Group process. • Played a central role in the Group's risk reviews during 2022. • Provided oversight into the risk process. Actions have been reported and detailed plans have been formulated to improve risk management, compliance and governance.
Internal control	• To review the internal control framework to ensure that the checks and balances in the processes effectively reduce risk and the likelihood of material error or fraud. • To review the effectiveness of the Group's internal control systems, covering financial, operational and compliance controls.	• Reviewed the underlying policies and procedures. • Assessed the risk of management override of controls including authorisation controls and segregation of duties. The Committee considered those areas where management applies judgement in determining the appropriate accounting and discussed this with the external auditor. The external auditor presented its findings and its use of data analytics. • Reviewed a detailed paper presented to the Committee covering the Group's internal control framework and the underlying controls environment across financial, operational and compliance functions. • Reviewed the Group's processes for the ongoing assessment of operational, financial and IT-based controls. A rolling programme of independent checking is undertaken focusing on key controls, reconciliations and access to, and changing permissions on, base data. • Reviewed the progress made in the Group's process and internal financial controls review – and, with KPMG providing independent assurance, reviewed the RACMs prepared in relation to the purchase-to-pay and inventory cycles.
External audit	• To make recommendations to the Board on the appointment, reappointment and removal of the external auditor. • To consider the independence and objectivity of the external auditor – and to approve the external auditor's fees. • To agree the nature and scope of the audit with Deloitte LLP. • To review the external auditor's findings and its key focus areas.	• The Group's current auditor, Deloitte LLP, has processes in place designed to maintain independence, including regular rotation of the audit partner. The Company has complied with the Competition and Markets Authority's Order for the financial year under review. • Provided focus and challenge in relation to materiality and effectiveness of planning. The Committee also challenged the sufficiency and appropriateness of audit evidence. • The Group's policy on the independence, selection and rotation of auditor was approved during the year. The policy is in line with current legal requirements.

Responsibility area	Primary responsibilities	Activities undertaken during 2022
Internal audit	• To review the effectiveness of the internal audit function and the work of KPMG, as internal auditor, and the internal audit programme. • To review the recommendations of KPMG and the responses and action plans of management.	• Reported on actions and detailed plans that have been formulated to improve financial control, compliance and governance. No significant weaknesses have been identified during the year. • KPMG reported on actions to support management and provide update reviews in relation to the Group's process and internal financial controls review and the preparation of RACMs for all key, identified in-scope processes.
Other matters	To oversee and review the effectiveness of the following policies: • Serious Concerns Policy and whistleblowing procedure; • Anti-Bribery Policy; and • Cyber Security Policy.	• Reviewed the Committee's Terms of Reference. • Ensured that the procedures in place in relation to each of these policies are appropriate. • Reviewed the effectiveness of procedures underlying the Serious Concerns helpline and for handling allegations from whistleblowers.

The Committee's roles and responsibilities

During 2022, the Committee focused on a range of significant issues and other accounting judgements relating to the Group's Financial Statements. The Committee also provided oversight over the external and internal audit functions as well as reviewing the Group's risk management and internal control systems and procedures.

Effectiveness of the internal audit

An annual review of internal audit effectiveness and of the performance of KPMG LLP as independent internal auditor was undertaken by the Committee in 2022.

The conclusion was very positive and was that the current internal audit process continues to be an efficient and effective means of managing the internal audit function. The Committee has considered, with KPMG LLP, how this process can be developed further and further improvements have been reflected in the 2023 plan.

The Department of Business, Energy & Industrial Strategy ("BEIS") White Paper

The proposed reforms set out how the Government plans to address the findings of a number of independent reviews, and include a range of new proposals in relation to Directors, auditors and audit firms, the audit regulator and shareholders. The period of consultation has been extended by the UK Government, but the Audit Committee remains supportive of the objectives of the White Paper and the benefits of strengthening the UK's internal controls framework. The Committee is overseeing a project to review the adequacy, completeness and effectiveness of the Group's control environment to ensure that it continues to be robust, suitably documented and any gaps have been identified and addressed. KPMG has been engaged to work with management on a fundamental review of our financial and operating controls framework, to ensure this is properly and consistently structured and codified in all areas, checking not only the underlying controls, but also the evidence and visibility available to management and to the Committee in evaluating and reporting on the effectiveness of the control structure. The review process will be extended to the Marley business. The aim will be to ensure that the Group has a better understanding of its control risks and will be well-placed to simplify, improve and automate controls and to align effectiveness with the IT D365 implementation project.

Fair, balanced and understandable

The Committee has considered whether, in its opinion, the 2022 Annual Report and Financial Statements is, taken as a whole, fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. As part of its review the Committee considered the disclosures in the Strategic Report together with the enhanced disclosures relating to the Group's ESG objectives, sustainability and climate change risks and opportunities and targets. The Committee also considered the adequacy of the disclosures made in relation to the measures undertaken by the Group to mitigate risk. In making this assessment, the Committee has advised the Board in relation to the statement required by the UK Corporate Governance Code.

The Committee has concluded that the disclosures, and the process and controls underlying their production, were appropriate to enable it to determine that the 2022 Annual Report and Financial Statements is fair, balanced and understandable.

Whistleblowing and bribery

The Audit Committee monitors, on behalf of the Board, reported incidents under the Serious Concerns Policy (our Whistleblowing Policy), which is available to all colleagues. A third party organisation, Safecall, provides an independent and confidential channel on behalf of the Group for any concerns to be reported.

These procedures are embedded into the Group's Code of Conduct and are relevant to all stakeholders including suppliers, partners and colleagues. The policy and the Safecall process are displayed on operating site noticeboards and on the Company's intranet, and set out the procedure for employees to raise legitimate concerns about any wrongdoing without fear of criticism, discrimination or reprisal.

The Committee, on behalf of the Board, receives regular updates from the Company Secretary regarding any matters of material concern and an annual summary of matters raised throughout the relevant year including the nature of matters reported, the outcome of any material investigations and details of any actions taken to address concerns raised. The Committee is satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Company is committed to a zero-tolerance position with regard to bribery, made explicit through its Anti-Bribery Code and supporting guidance on hospitality and gifts. The policy and procedures are published on the Company's website and displayed on operating site noticeboards. The Board reviews and approves any changes to the Anti-Bribery Code annually. Online training is available to all employees to reinforce the Anti-Bribery Code and procedures and is part of our core compliance training programme for relevant colleagues. There is a maintained record of gifts and hospitality with a requirement for these to be reported quarterly.

The Company is currently undertaking a review of all of Marley's policies, to ensure we adopt a unified approach across the Group. A single Anti-Bribery Code will be in operation across the Group by the end of June 2023.

I would like to thank our shareholders for their continued support during the year. I will be available at the Company's 2023 AGM to answer any questions in relation to this report.

The Audit Committee Report has been approved by the Board and signed on its behalf by:

Graham Prothero
Chair of the Audit Committee
15 March 2023

Remuneration Committee Report

Remuneration arrangements for Executive Directors provide an appropriate balance of fixed and variable remuneration with a focus on long-term growth.

Continuing with a remuneration policy which **aligns to the strategic goals**

Members and attendance

	Meetings
Angela Bromfield – Chair	
Vanda Murray OBE	
Tim Pile	
Graham Prothero	
Avis Darzins	
Diana Houghton*	–

* Diana Houghton was appointed to the Remuneration Committee on 1 January 2023.

The CEO attends the Committee meetings by invitation but may not participate in discussions about his own remuneration. The Company Secretary acts as Secretary to the Committee and attends Committee meetings, along with the Chief People and ESG Officer.

Find our Terms of Reference at:
www.marshalls.co.uk/about-us/corporate-governance

2022 highlights

- Undertook a comprehensive review of the Remuneration Policy including engagement with shareholders, in readiness for the Policy to be put to shareholders for approval at the Company's 2023 AGM.
- Agreed the remuneration package for Simon Bourne, the new Executive Director who was appointed to the Board on 1 April 2022.
- Undertook a detailed review of Executive Director and senior management remuneration in light of the significantly increased size and complexity of the Group following the acquisition of Marley and the change in responsibilities for the leadership team, and rebased the CEO and CFO's salaries at mid year to reflect the significantly greater responsibilities and complexities of their roles.
- Following the acquisition of Marley, the Committee reviewed the financial measures for the incentive schemes and made appropriate increases to the targets to ensure that performance was measured on a like-for-like basis given the increased size of the Group.
- Agreed that the percentage annual salary increases for Executive Directors for 2023 would be less than the total increase being awarded to the majority of employees within the Marshalls business over 2023.
- Agreed incentive plan targets for 2023, continuing to use the same robust financial and non-financial measures designed to align with strategic objectives and stakeholder interests. These measures take into account current expectations and the continuing market uncertainty.
- As part of the externally facilitated Board effectiveness review, we undertook a review of the Committee's effectiveness, with a positive outcome and areas for development built into the Committee's forward agenda.
- Continued engagement with the Employee Voice Group ("EVG") which operates as a forum for feedback and consultation on employee matters and wider business change. Board and Executive team members rotate attendance during the year to listen to and understand colleague viewpoints. Angela Bromfield is the Company's designated Non-Executive Director for employee engagement and attended all but one of the EVG meetings during 2022.

2023 priorities

- Determine incentive outcomes for 2023.
- Set and communicate incentive scheme targets for 2024.
- Keep wider workforce reward under review for all colleagues in the context of an increasingly competitive market for talent.
- Monitor alignment of Executive remuneration with pay policies and incentives for colleagues.
- Continue to monitor our engagement plan with employees, shareholders and other stakeholders on remuneration to ensure it remains effective.
- Continue to use the EVG, which has now been extended to include representatives from Marley, to listen to colleague feedback, ensure awareness of engagement levels, and to give oversight on how change programmes are implemented.

Dear shareholder

I am pleased to set out in this report how the Committee has carried out its objectives and responsibilities during 2022.

The content consists of:

- Annual statement from me as the Committee Chair;
- "At a glance" summary of remuneration setting out key remuneration information for our shareholders;
- Remuneration Policy which will be put forward to the 2023 AGM for voting; and
- Annual Report on Remuneration setting out additional detail on the remuneration for the Executive Directors, disclosures required by the remuneration reporting regulations, and considerations in respect of pay for colleagues.

Application of the policy in 2022 and 2023

For 2022, there was no change to the operation of the current Remuneration Policy, with two exceptions being the modification to the non-financial metrics for the incentive schemes which was described in last year's report (replacing customer service with carbon reduction) and the Committee decision to defer a greater proportion of the outcome of the MIP Element A award in respect of 2022.

In line with the proposal to continue with broadly the same policy, the operation of the Policy for 2023 remains the same, with the exception of reducing the pension benefit to align it with the majority of employees.

Remuneration Policy review

Shareholders approved the current Remuneration Policy at the 2020 AGM, by a majority of 93 per cent of the votes cast. This policy expires at the conclusion of the 2023 AGM.

During 2022, the Committee conducted a review of the policy and believes that it continues to meet its objectives to motivate and reward executives to perform in the long-term interests of the Group and its shareholders by aligning remuneration to the Group's strategic goals, through an appropriate blend of fixed and variable remuneration and short and long-term incentives.

Therefore, the Committee is proposing that the same Remuneration Policy, with one minor change to confirm that the pension provision for Executive Directors will be in line with the majority of employees which is currently five per cent, is put forward to shareholders for consideration at the 2023 AGM with the intention that this Policy will apply for up to three years from that date. The agreement to align pension provision was discussed in previous reports and is effective from 1 January 2023.

The Committee invited feedback from our largest shareholders on the proposal to continue with the current Policy and this was received positively.

Full details of the Policy and the approach taken are on pages 108 to 119.

Business performance and MIP outcomes for 2022

The Group's KPIs monitor progress towards the achievement of the Group's objectives. The Group's key strategic KPIs are shown on pages 40 and 41 of the Strategic Report.

The Company operates a single long-term incentive plan, the Management Incentive Plan ("MIP"), which focuses directly and indirectly on aligning the reward of Executive Directors and senior management with delivery of these KPIs. EPS, ratio of operating cashflow to EBITDA, carbon reduction and health and safety are the measures currently used to determine awards under the MIP.

MIP A outcomes for 2022

As a result of the Company's performance during the year, the performance conditions for MIP A were achieved in part and as such a contribution to MIP A will be made in respect of 2022, equivalent to 30.2 per cent of the maximum available. Further details are on pages 104 to 108.

MIP B awards allocated in respect of 2022

The performance conditions that determine the allocation of MIP B awards are the same as the performance conditions for MIP A. As a result of the Company's performance, there will be an allocation of awards under MIP B in respect of 2022, equivalent to 30.2 per cent of the maximum available. Further details are on pages 104 to 108.

2022 MIP performance conditions

Performance targets were set at the beginning of 2022 taking into account both internal budgets and external factors such as the market consensus for the full year 2022.

Following the acquisition of Marley, the targets were adjusted to reflect the increased size of the Group, ensuring that performance was being measured on a like-for-like basis and that the targets were no easier or more difficult to meet than they were before the acquisition. The table below shows the original targets and the updated targets together with the results for 2022 and the outcome of the MIP for the Executive Directors. For the COO, the amounts relate to the period of time he was appointed to the Board.

MIP Element A: 30.2 per cent of maximum (2021: 100 per cent of maximum) was awarded to the CEO, CFO and COO.

MIP Element B: 30.2 per cent of maximum (2021: 100 per cent of maximum) was awarded to the CEO, CFO and COO.

2022 MIP Performance Conditions

	Initial targets		Revised targets to reflect the Marley acquisition						
	Threshold (0% payable)	Maximum (100% payable)	Threshold (0% payable)	Maximum (100% payable)	Actual (2022)	Outcome (% total award)	CEO £	CFO £	COO £
EPS (75% of maximum)	29.6p	32.8p	31.4p	34.8p	31.6p	5.2%	80,936	53,922	35,959
Operating cash flow ("OCF") to EBITDA ratio (25% of maximum)	72%	81%	74%	84%	£124.7m	25%	388,183	258,618	172,465
Non-financial targets (carbon reduction/health and safety)						100%	No deduction	No deduction	No deduction
Aggregated total						30.2%	469,119	312,540	208,424

The 2022 EPS outcome for the purposes of the MIP was calculated taking into account certain exceptional items, in line with the rules.

No discretion was exercised in determining incentive outcomes.

Business performance and MIP outcomes for 2022 continued

2022 MIP performance conditions continued

Definitions
The EPS and OCF ratio for 2022 were measured using the audited results of the Group.

EPS
EPS relates to our strategic objective to grow profits.

Adjusted EPS was 31.6 pence in 2022 (2021: 29.2 pence; 2020: 8.6 pence).

OCF/EBITDA
OCF/EBITDA ratio relates to our strategic objective to convert earnings into cash flow and to use cash responsibly.

OCF before adjusting items paid was £124.7 million in 2022.

Non-financial targets
For 2022, the customer service target was replaced with a carbon reduction target, which aligns incentive measures to the Company's commitment to our Sustainability Strategy and ESG goals. For 2022, the target performance was that carbon consumption should be below 48,150 tonnes.

The Group continued to make good progress against its stated health and safety objective of keeping the number of days lost to accidents to a minimum. The measurement for the incentive schemes requires the lost time accident frequency rate for the year to be no worse than the average of the last three years.

For 2022, both non-financial targets were met and the Committee determined that no adjustment was necessary.

The non-financial targets do not include Marley for 2022. The Committee will work with management to agree the timeline for including Marley in the non-financial targets, ensuring that the measurement and process is both fair and appropriate.

Executive Director changes
Simon Bourne was appointed to the Board as Chief Operating Officer on 1 April 2022. The table below sets out a summary of his remuneration arrangements, which are in line with our Remuneration Policy:

Element of remuneration	Details
Base salary	£370,000
Benefits and pension	Benefits include car or car allowance, health insurance, life assurance and membership of the Group's employee share plans.
	Employer pension contribution was set at 5% of salary on appointment, in line with that of the majority of employees.
MIP Element A	Maximum opportunity 150% of base salary.
	The 2022 award was pro-rated for time before and after his promotion to the Board.
MIP Element B	Maximum opportunity 100% of base salary.
	The 2022 grant was pro-rated for time before and after his promotion to the Board.
Shareholding requirement	Minimum shareholding requirement of 200% of salary. Required to retain 50% of the post-tax number of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained.
	Post-cessation holding period of 200% of salary for the first year and 100% of salary for a further year.

Executive Director salary increases
In April 2022, Marshalls acquired Marley, the biggest acquisition in the Group's history. It was a transformational acquisition supporting the Group's strategic goal to become the UK's leading manufacturer of products for the built environment. It has created a diverse business with more growth opportunities, and significantly changed the size of the roles of the leadership team and increased their responsibilities.

The Committee undertook a benchmarking review of Executive Director and senior management roles where responsibilities increased substantially. The primary aim is that management be rewarded for the financial benefits which flow from successfully integrating Marley into the Group and capturing the value of the combined business. However, it was also felt appropriate to recognise the significantly greater responsibilities and complexities of their roles by adjusting their base salaries.The outcomes of the review were actioned straight away to recognise the significantly greater responsibilities of the Executive Directors and complexities of their roles.

This resulted in salary adjustments being made in July 2022 for the Executive Directors, effective April 2022, of 12.2 per cent for the CEO and 5.4 per cent for the CFO. The COO's salary was set on appointment to the Board in 2022 and was therefore not changed during the year given that it was set at a competitive rate at that point.

Having reached a reasonable market position, the Committee was keen to maintain it and therefore as part of our annual salary review process, the Committee has concluded that all Executive Directors will receive a 5 per cent salary increase, effective 1 January 2023. The Committee is conscious of the wider environment and cost of living sensitivities in this regard and these increases are lower than the average increase for the wider workforce in 2023. The majority of the workforce will receive a 4 per cent increase in salary from 1 January 2023 and a further 4 per cent increase in July 2023, meaning that salaries will be 8.16 per cent higher at the end of the year.

In reviewing the salary changes for 2023, the Committee noted that the total packages for the Executive Directors remain moderately positioned against market peers and that therefore, the levels of pay available are fair in the context of the changing shape of the business. The Committee also noted that the weighting of the total package to variable pay is high, and the linkage of MIP A and B to the share price, ensures that the whole value of the package is only realised by Executives if strong performance is delivered for our shareholders. The charts on page 115 illustrate the proportion of the remuneration package which is at risk. The impact can be seen in the single figure for 2022 which is lower than 2021, driven by both lower incentive outcomes and lower share price (see pages 104 and 105).

Chair and Non-Executive fees

A benchmarking review of the Chair and Non-Executive Director fees was undertaken at the same time as the review above, in light of the significant change in scope and responsibility for the Board members.

Following this review the Committee and the Board agreed increases to Chair and Non-Executive fees respectively, and agreed to pay fees which reflect the additional time commitment and responsibilities for the chair of the Nominations Committee and the designated employee engagement NED.

The changes were made at the same time as the changes to Executive Director salaries, and were effective April 2022:

- A 5 per cent increase to the NED base fee to £54.9k from £52.3k.
- Committee chair and SID fees increased to £10k from £8.3k and £7.3k respectively.
- Paying the committee chair fee to the Chair of the Nominations Committee, in line with the fee for chairing other committees.
- A fee of £10k for the designated employee engagement NED for additional time commitments and responsibilities.

For 2023, the Committee and the Board decided to award salary increases of 5 per cent to the Chair and Non-Executive Directors respectively.

Group-wide considerations

Marshalls is committed to creating an inclusive working environment and to continue to reward its employees in a fair way. In making decisions on Executive pay, the Remuneration Committee considers remuneration and terms and conditions for colleagues across the Group, which now includes Marley colleagues. This report includes information on our pay conditions, our CEO to employee pay ratio, our gender pay statistics and our diversity initiatives. The Committee's role in monitoring and reporting on these matters is key to the promotion and development of our values and culture.

The majority of Marshalls colleagues will receive a pay award for 2023 which consists of two parts, a pay rise of 4 per cent effective 1 January 2023 and a further increase of 4 per cent effective 1 July 2023. This means that from 1 July 2023, salaries will be 8.16 per cent higher. For senior colleagues, the pay award was performance based, within an overall budget which was limited to 5 per cent. Marley colleagues were in the second year of a 2-year pay deal, which was doubled from 2 per cent to 4 per cent due to the high inflation, together with a non-consolidated award for certain colleagues.

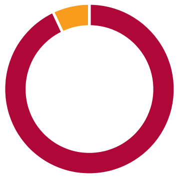
Marshalls continued to be a Living Wage employer and ensured that Marley became a Living Wage employer during 2022. As part of this commitment, we increased salaries, where needed, in November 2022, which is ahead of the Living Wage Foundation requirement.

During 2022:

- The continued focus on colleague wellbeing was recognised by Marshalls winning the Reward Gateway Engagement Excellence Awards for 'Best strategy for supporting employee wellbeing' also winning the "winner of winners" award. The Committee is proud of the team behind the commitment and passion for this area and is pleased that it has been recognised externally.
- Created fairness and consistency by aligning core terms and conditions for Marshalls colleagues, including benefits and policies such as absence, holiday entitlement, working hours and notice periods, with colleagues moving onto new standardised employment contracts. This took place before the Marley acquisition.
- Digitising the employee experience by launching new technology and self-service apps, including a new People system (Marshalls Connect), online share platform for all-employee share plans, and a new pensions app with our provider Aviva. These allow colleagues including those who aren't desk-based to access information more easily.
- As support for the Group's ongoing ESG commitments, the Group successfully increased the proportion of company cars which are electric vehicles through significantly reducing environmentally unfriendly cars for new orders and increasing the choice of electric and hybrid cars.

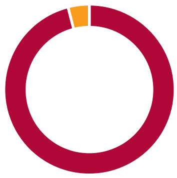
Shareholders

We are pleased by the continued support shown by our shareholders through the vote on the Annual Remuneration Report at the 2022 AGM, and the current Remuneration Policy at the 2020 AGM:



Remuneration Policy (2020 AGM)

- For – 93%
- Against – 7.0%
- Withheld –n/a



Remuneration Report (2022 AGM)

- For – 95.9%
- Against – 4.1%
- Withheld – n/a

Shareholder engagement

We engaged with shareholders on the renewal of the Remuneration Policy, confirming that we intend to make a minor change to align the pension benefit for Executive Directors with the majority of employees.

As part of our commitment to shareholder engagement we also engaged with shareholders in relation to the formulaic upward adjustment to the MIP targets following the Marley acquisition and the changes in Executive Director salaries implemented in April 2022.

In conclusion

2022 has been a year of transformational change for the Group with challenging market conditions. Taking into account the performance of Marley, we announced record profits, against the backdrop of significant external market factors and softening in the housing market. Rising interest rates, inflation and energy costs have had a significant impact on the business and we anticipate a challenging year ahead. Against these market conditions, we continued to deliver our service to customers throughout 2022 and we are positioned well for 2023. The reward strategy for all colleagues will continue to be a focus, with the goals of attracting and retaining talent, in the context of an increasingly competitive market. Having considered the outcomes of 2022 and the market context, the Committee feels the remuneration outcomes for 2022 are proportionate and appropriate.

I would like to thank our shareholders for their support during the year. I will be available at the Company's 2023 AGM to answer any questions in relation to this Remuneration Report.

Angela Bromfield
Chair of the Remuneration Committee
15 March 2023

Our Remuneration Report has been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It meets the requirements of the 2018 UK Corporate Governance Code (the "UK Code") and is also prepared in accordance with the UK Listing Authority's Listing Rules and Disclosure and Transparency Rules.

At a glance

Link to Company strategy

The following table sets out the Group's KPIs and how they are reflected in the operation of the MIP:

Strategic KPI	Revenue	Profit	ROCE	Net debt	Carbon reduction	Health and safety
Measure	EPS/OCF	EPS/OCF	EPS/OCF	OCF	Target KPI	Target KPI

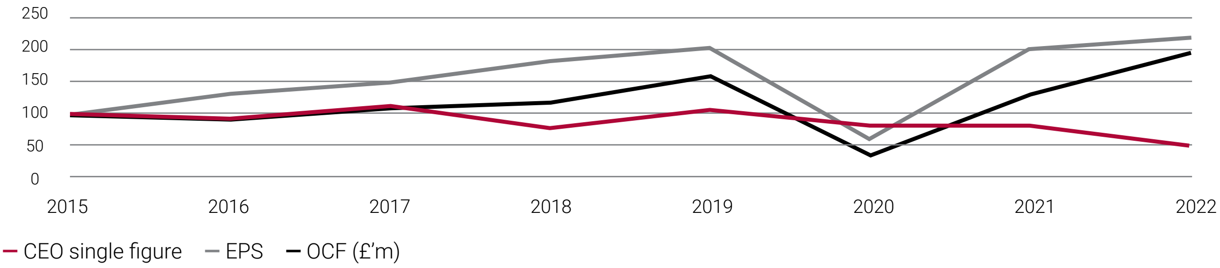
The use of EPS as the main MIP performance condition ensures that the Executive Directors are focused on driving profitable growth in accordance with the Company strategy. The OCF to EBITDA ratio ensures that this growth in profit is not at the expense of its quality and sustainability. The carbon reduction and health and safety performance conditions are one way we incorporate environmental, social and governance measures into our incentive framework and reflect our commitment to employee wellbeing. This ensures that growth and profitability are not achieved in a way that is detrimental to the Company's environmental commitments or employees nor in a way that promotes short-term, high-risk behaviour.

Full details of the Company's strategy are set out in the Strategic Report on pages 36 to 39.

2022 remuneration outcomes

Long-term performance

The following chart shows the single figure of remuneration for the CEO over the last seven financial years compared to the Company's EPS and OCF over the same period. The MIP outcome for 2022 has a significant impact on the CEO single figure which goes down from 2021, compared to the continued increases in EPS and OCF.

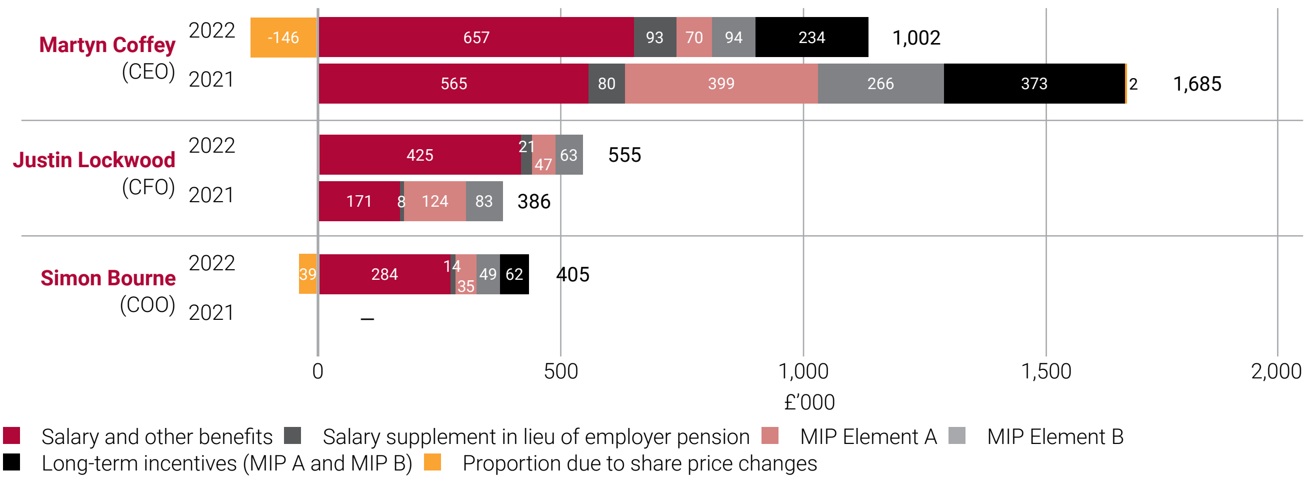


2022 single figure

The following charts summarise the single figure of remuneration for 2022 in comparison with 2021.

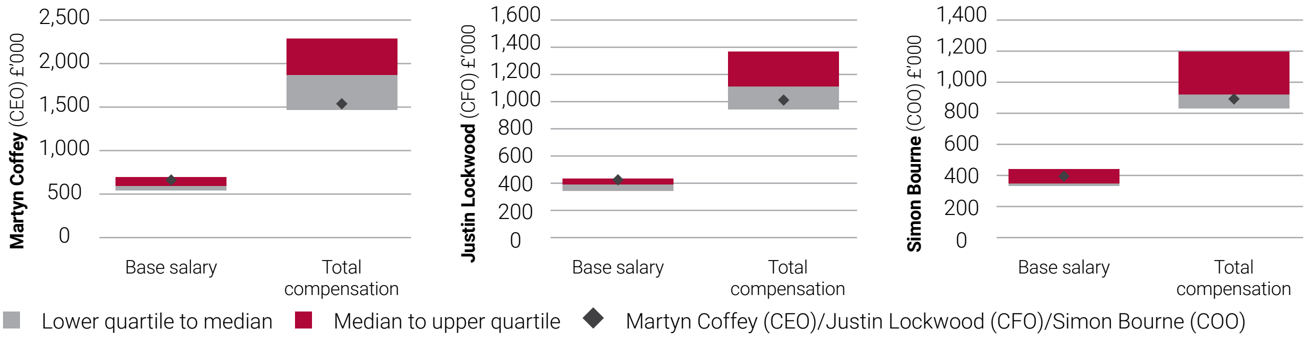
For those elements of remuneration provided in shares in 2021 and 2022, we have separated out their original value on grant and the additional value generated due to share price changes over the vesting period. It is the Committee's view that one of the key objectives of equity based remuneration is to align Executives' interests and those of shareholders. With such a high proportion of MIP awards expressed in or linked to shares, the impact of share price movement on overall Executive reward can be significant.

Explanatory notes on the single figure can be found in the Annual Remuneration Report (page 120).



Comparison to peers

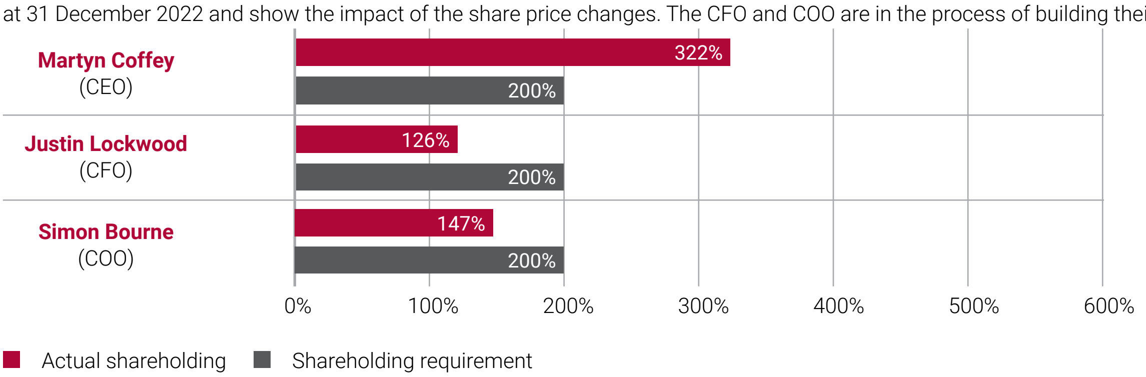
The following chart shows the relative position of base salary and total compensation for our Executive Directors compared to our peers.



The charts demonstrate the Committee's policy that salary and benefits should be set at market level, with stretching but achievable variable incentives appropriately rewarding good performance. The variable element assumes an "on-target" performance under relevant incentive schemes. Paying at a median level is also consistent with the pay policy for the rest of the organisation.

Shareholding requirement

The minimum shareholding requirement for Executive Directors and their actual holding are set out below. It must be built up over a five-year period and then subsequently held at an equivalent of 200 per cent of base salary. The value of shareholdings in the chart below were valued at 31 December 2022 and show the impact of the share price changes. The CFO and COO are in the process of building their shareholdings.



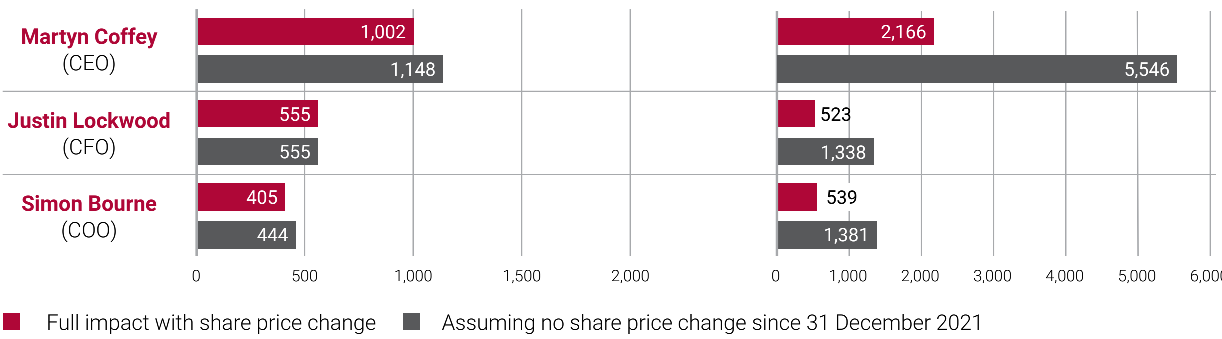
Under the 2020 Policy, the full shareholding requirement of 200 per cent of salary applies for one year post-cessation of employment and half of the requirement (being 100 per cent) for a further year. This will continue in the 2023 Policy.

Impact of share price change

It is the Committee's view that it is important when considering the remuneration paid in the year under the single figure, to take a holistic view of the Directors' total reward which is linked to the performance of the Company. In the Committee's opinion, the impact on the total reward of the Director is more important than the single figure in any one year. This approach encourages Directors to take a long-term view of the sustainable performance of the Company, which is critical in a cyclical business. The ability for the Directors to gain and lose, dependent on the share price performance of the Company, at a level which is material to their total remuneration, is a key facet of the Company's Remuneration Policy. The Committee has the ability to apply discretion to adjust remuneration as a result of share price appreciation or depreciation. The following charts set out the single figure for 2022 and the impact the movement in share price has had on the value, and the share interests held by the Executive Directors at the end of the financial year and the impact on the value of these share interests taking into consideration the share price movement over the year.

Impact of share price change on single figure remuneration

Impact of share price change on value of shares held



Under the MIP scheme, as previously noted, a large proportion of value is deferred into shares and therefore the impact of share price changes on the single figure is high. Share price changes impact all Executive Director shareholdings, and this impact is more pronounced for the CEO given his significant shareholding.

At a glance continued

Implementation of the Policy in 2022 and the proposed Policy for 2023 for Executive Directors
The table below sets out the following information:

- a summary of the Policy approved at the 13 May 2020 AGM. The full Policy can be found on pages 64 to 76 of the Company's 2019 Annual Report and Accounts (www.marshalls.co.uk/investor/results-reports-and-presentations);
- how the Company implemented the 2020 Remuneration Policy in 2022; and
- how the Company proposes to implement the proposed 2023 Remuneration Policy in 2023.

Element of pay	Summary of Policy	How we implemented the 2020 Policy in 2022	How we will implement the proposed 2023 Policy in 2023
Salary	An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • general salary rises for employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group; • the experience of the relevant Director; • the economic environment; and • whether a benchmarking exercise is appropriate (using salaries within the ranges paid by the companies in the comparator groups for remuneration benchmarking).	As above CEO and CFO salaries were adjusted by 12.2% and 5.4% respectively following the review carried out after the acquisition of Marley effective April 2022*. Executive Director annual salaries from April 2022 were as follows: • CEO – £644,000 • CFO – £421,000 • COO – £370,000 (from appointment)	Executive Director salaries effective 1 January 2023, after the 5% increase are as follows: • CEO – £676,200 • CFO – £442,050 • COO – £388,500
Benefits and pension	Benefits include car or car allowance, health insurance, life assurance and membership of the Group's employee share plans. Executive Directors are entitled to join the defined contribution scheme operated by Marshalls. The Company contributes at an agreed percentage of basic salary. Executive Directors may take a pension allowance in place of the Company's contribution to the scheme. Pension allowances are excluded for the purposes of calculating any other element of remuneration based on a percentage of salary. The maximum Company contribution was 15% of salary until the end of 2022, from 2023 this has been reduced to align with the majority of employees (currently 5%). For any new Executive Director appointments, the maximum employer pension contribution or allowance will be in line with the majority contribution to UK employees.	For 2022, the CEO's employer pension contribution was 15% of salary, having been reduced by 2.5% in 2021. The employer pension contribution for the CFO and COO was set at 5% of salary on appointment, in line with that of the majority of employees.	The CEO's employer pension contribution has been reduced from 15% to align with the contribution for the majority of colleagues across the Group at 5%. For the CFO and COO the pension contribution will remain at 5% of salary.

* Annual salaries for 1 January 2022 to 28 April 2022 were £574,113 and £399,000 for the CEO and CFO respectively.

Element of pay	Summary of Policy	How we implemented the 2020 Policy in 2022	How we will implement the proposed 2023 Policy in 2023
MIP Element A	Annual performance conditions and targets are set at the beginning of the Plan year by reference to financial, strategic and operational objectives by the Remuneration Committee. Upon assessment of performance by the Committee, a contribution will be made by the Company into the participant's Plan Account and up to 50% of the cumulative balance will be paid in cash for the first three years of the Plan. Any remaining balance will be converted into shares or share-linked units. 100% of the balance in the final year of the Plan (the fourth year) will normally be settled in the form of shares transferred or allotted to the participant. During the Plan period, 50% of the retained balance is at risk of forfeiture based on a minimum performance measure determined annually by the Committee. The Committee may award dividend equivalents on shares or share-linked units held under the Plan to Plan participants to the extent that they vest.	Maximum opportunity of 150% of salary. Outcome level in 2022 was as follows, based on the outcome of 30.2% of maximum: • CEO – 45.3% of base salary • CFO – 45.3% of base salary • COO – 45.3% of base salary, pro-rated for time in role. The performance measures were: • EPS (75%); and • ratio of OCF to EBITDA (25%). Non-financial performance conditions to reflect our focus on ESG commitments and employees: • carbon reduction: consumption must be below 48,150 tonnes in the year; and • health and safety incidence: the lost time accident frequency rate for the year to be no worse than the average of the last three years. If they are not met, there is a reduction of award value earned by the satisfaction of the financial performance conditions by 10% in relation to each of these additional conditions. See page 101 for details of the targets, their level of satisfaction and the corresponding bonus earned. The Committee agreed to defer a greater proportion of the outcome of the MIP Element A award in respect of 2022 (being 75%).	Maximum opportunity of 150% of salary with target set at 50% of opportunity and threshold at 0% of opportunity. The performance measures are: • EPS (75%); and • ratio of OCF to EBITDA (25%). Non-financial performance conditions to reflect our focus on ESG commitments and our colleagues will apply as follows: • annual carbon reduction targets must be achieved. The 2023 target is that carbon consumption must be below 45,719 tonnes in the year; and • health and safety incidence: the lost time accident frequency rate for the year to be no worse than the average of the last three years. If they are not met, there is a reduction of award value earned by 10% in relation to each of these additional conditions. Marley will not be included in the non-financial targets for 2023, the Committee will work with management to agree a timeline for incorporating Marley into the non-financial targets, ensuring that the measurement is fair, consistent and appropriate.

At a glance continued

Implementation of the Policy in 2022 and the proposed Policy for 2023 for Executive Directors continued

Element of pay	Summary of Policy	How we implemented the 2020 Policy in 2022	How we will implement the proposed 2023 Policy in 2023
MIP Element B	Annual performance conditions and targets are set by reference to financial, strategic and operational objectives by the Remuneration Committee. Awards are granted retrospectively in shares based on the achievement of performance targets for the relevant year. Awards vest (subject to continued employment) three years from grant. Sale restrictions apply to awards that have vested: normally vested awards may not be sold for a further two years after vesting or post-cessation of employment. There is a financial underpin which, if not achieved over the three-year vesting period, results in the loss of up to 50% of unvested awards.	Maximum opportunity of 100% of salary. Grants for 2022 were as follows, based on 30.2% of maximum: • CEO – 30.2% of base salary • CFO – 30.2% of base salary • COO – 30.2% of base salary, pro-rated for time in role. The performance measures were the same as for Element A.	Maximum opportunity of 100% of salary with target set at 50% of opportunity and threshold at 0% of opportunity. The performance measures are the same as for Element A.
Minimum shareholding requirement	Minimum shareholding requirement of 200% of salary. Executive Directors are required to retain 50% of the post-tax number of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained. Adherence to these guidelines is a condition of continued participation in the incentive arrangements. Post-cessation holding period of 200% of salary for the first year and 100% of salary for a further year. Where their actual shareholding at departure is below the minimum shareholding requirement, the Executive Director's actual shareholding is required to be retained on the same terms and for the same periods.		

Implementation of Non-Executive Directors' fees
No changes are proposed to the Non-Executive Director fee Policy in the proposed 2023 Policy.

As set out in further detail in the Chair's letter, in light of the significant change in scope and responsibility for the Board members following the successful Marley acquisition, the Board agreed increases to Chair and Non-Executive fees to reflect the additional time commitment and responsibilities for the chair of the Nominations Committee and the designated employee engagement NED.

The table below sets out these changes and the proposed fees for 2023. 2023 increases are in line with the majority of the workforce.

	From 1 January 2022 £'000:	From 29 April 2022 £'000	From 1 January 2023 £'000
Chair fee	177.5	210.0	231.5
Non-Executive Director base fee	52.3	54.9	57.6
Chair of a committee fee	8.3	10.0	10.0
Senior Independent Director fee	7.3	10.0	10.0
Employee Engagement Director fee	0.0	10.0	10.0

Remuneration Policy

Introduction
Our current Remuneration Policy (approved by shareholders at the 2020 AGM with 93 per cent of votes cast in favour) is due for reconsideration at our 2023 AGM. During the year the Committee have undertaken a review of the approach to executive remuneration to ensure that it remains supportive of the Group's long-term strategic ambitions and is competitively positioned to attract, motivate and retain the talent and experience the Group needs in our sector. It is intended that the new 2023 Policy will operate for a period of three years from the date of approval at the AGM on 10 May 2023 and shall apply to the Executive and Non-Executive Directors of the Group.

Committee process to determine new Remuneration Policy
The Committee conducted a detailed process, attending twelve meetings with shareholders as well as communicating with investment and voting institutions such as ISS and the IA. The Committee is grateful to those who participated and was pleased with the comments and feedback provided. No changes were therefore made to the proposals.

Throughout the Policy review, the Committee received advice from its independent remuneration consultant, taking into account the impact of the UK Corporate Governance Code, regulations and shareholder interests.

The Committee implemented steps to avoid any potential conflicts of interest through an open and transparent consultation process, seeking independent advice from its external advisers and by managing Executive attendance at Remuneration Committee meetings to ensure that no Executive Director nor employee participated in discussions or decisions relating to their own remuneration. The Committee kept Executive Directors informed during the review to ensure that the remuneration structures of Executive and colleagues across the Group were aligned. An overview of the Policy was also discussed with the EVG forum.

In determining the new Remuneration Policy, the Committee paid particular attention to Provision 40 of the UK Code. The following table summarises the Committee's views:

Factor	How our new Remuneration Policy aligns
Clarity	• The current approach to remuneration has been operated by the Company for a number of years and is well understood by participants and other stakeholders. • The Committee has consulted with shareholders on the current approach which has been strongly endorsed each time.
Simplicity	• The remuneration arrangements are simple, consisting of a combination of an annually benchmarked fixed salary and benefits package and a single incentive plan – the Management Incentive Plan ("MIP") originally approved by shareholders in 2014. • The rationale and operation of the MIP is easy to understand as it aligns with the Company's strategy.
Risk	The Remuneration Policy is designed to ensure that incentives do not encourage short-term risk taking at the expense of a long-term sustainable business. To this end, the key features of the MIP include: • setting defined limits on the maximum awards which can be earned; • requiring the deferral of a substantial proportion of awards in shares for a material period of time; • aligning the performance conditions with the strategy of the Company; • ensuring a focus on long-term sustainable performance through the MIP; • applying forfeiture thresholds so that awards remain at risk where there is subsequent underperformance; and • ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes. These elements mitigate the risk of target-based incentives by: • limiting the maximum value that can be earned; • deferring the value in shares over a period of up to five years, which helps ensure that the performance earning the award remains sustainable and thereby discourages short-term behaviours; • linking any reward to objectives that contribute to the agreed strategy of the Company; • reducing the awards or cancelling them if the behaviours giving rise to the awards are inappropriate; and • reducing the awards or cancelling them, if it appears that the criteria on which the award was based do not reflect the underlying performance of the Company.
Predictability	• Shareholders were given full information on the potential values which could be earned under the MIP at its inception, and the proposed renewal of the MIP retains the same limits, balances and phased reward structure. There is full and transparent retrospective annual reporting disclosure of targets and the degree to which they were achieved. • In addition, all the checks and balances set out above under Risk are disclosed as part of the Policy.
Proportionality	• The MIP clearly rewards the successful implementation of the strategy. Deferral and measurement of performance over a number of years, ensures that the Executive Directors have a strong incentive to ensure that good performance is sustainable over the long term. Poor performance cannot be rewarded due to the Committee's overriding discretion to depart from the formulaic outcomes under the MIP if they do not reflect underlying business performance.
Alignment to culture	• A key tenet of the Marshalls culture is a focus on long-term sustainable performance. This is reflected directly in the type of performance conditions used in the MIP which assess sustainable performance using a variety of non-financial and financial measures. • The focus on share ownership and long-term sustainable performance is also a key part of the Company's culture. In addition, the measures used in the MIP directly support the implementation of the strategy.

Remuneration Policy continued

Changes to the Policy

The 2023 Policy has not materially changed from the current Policy, other than a minor governance-led amendment to the pension wording to align the pension contributions for Executive Directors to the majority of employees. Further details of the proposed changes and a summary of the new 2023 Policy can be found on pages 106 to 108.

Compliance with the Code

The following table sets out the key remuneration elements of the UK Code and how the 2023 Remuneration Policy complies:

Key remuneration element of the 2018 UK Corporate Governance Code	Alignment with 2023 Remuneration Policy
Five-year period between the date of grant and realisation for equity incentive	MIP Element B meets this requirement
Phased release of equity awards	MIP Element A and B ensures the phased release of equity awards through the annual rolling vesting
Discretion to override formulaic outcomes	The Remuneration Policy and MIP rules contain the ability to override formulaic outcomes and apple discretion where deemed necessary
Post-cessation shareholding requirement	The two-year post-cessation shareholding period meets this requirement
Extended malus and clawback	Malus and clawback triggers align with the FRC's Guidance on Board Effectiveness

2023 Remuneration Policy table

Fixed Remuneration

Salary	
Purpose and how it supports the strategy	Base salary recognises the market value of the Executive's role, skills, responsibilities, performance and experience.
Operation	An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • general salary rises for employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group; • the experience of the relevant Director; • the economic environment; and • whether a benchmarking exercise is appropriate (using salaries within the ranges paid by the companies in the comparator groups for remuneration benchmarking). Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.
Maximum	Typically, the base salaries of Executive Directors in post at the start of the Policy period and who remain in the same role throughout the Policy period will be increased by a similar percentage to the average annual percentage increase in salaries of other UK employees in the Group. The exceptions to this rule may be where: • an individual's package is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or • there is a material increase in scope or responsibility in the individual's role. The Committee ensures that maximum salary levels are positioned in line with companies of a similar size and validated against industry/sector peers, so that they are competitive. The Committee intends to review the comparators periodically and may add or remove companies as it considers appropriate. Any changes to the comparator groups will be explained in the report on the implementation of the Remuneration Policy in the following financial year.
Change	No change from previous policy.

Pension	
Purpose and how it supports the strategy	To enable Executive Directors to make appropriate provision for retirement.
Operation	Executive Directors are entitled to join the defined contribution scheme operated by Marshalls. The Company contributes at an agreed percentage of basic salary. Executive Directors may take a pension allowance in place of the Company's contribution to the Scheme. Pension allowances are excluded for the purposes of calculating any other element of remuneration based on a percentage of salary.
Maximum	The maximum Company contribution or pension allowance for all Executive Directors is in line with that provided to the majority of employees; which is currently 5% of salary. For any new Executive Director appointments, the maximum employer pension contribution or allowance will be in line with that provided to the majority of employees.
Change	Previously the maximum contribution for incumbents as prescribed by the Policy was 20% of salary, although 5% will be implemented by the time of Policy renewal. Proposed changes align Policy with market best practice and UK Corporate Governance Code.

Benefits	
Purpose and how it supports the strategy	The Company is required to provide benefits in order to be competitive and to ensure it is able to recruit and retain Executive Directors.
Operation	Benefits include car or car allowance, health insurance, life assurance and membership of the Group's employee share plans (the Executive Directors will also be eligible to participate in any other all-employee plan operated by the Company from time to time). The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment.
Maximum	The maximum is the cost of providing the relevant benefits as described.
Change	No change from previous policy.

Remuneration Policy continued

2023 Remuneration Policy table continued
Variable performance-based remuneration

Management Incentive Plan ("MIP") Element A	
Purpose and how it supports the strategy	Enabling the successful implementation of Group strategy through setting relevant targets to measure Executive Director performance. Aligns the interests of Executives with shareholders and contributes to the retention of key individuals by ensuring that Executives take part of their annual bonus in shares or share-linked units rather than cash.
Operation	Annual performance conditions and targets are set at the beginning of the Plan year by reference to financial, strategic and operational objectives by the Remuneration Committee. As well as determining the performance conditions, targets and relative weighting, the Committee will also determine, within the approved range, the level of target bonus at the beginning of the Plan year. Upon assessment of performance by the Committee, a contribution will be made by the Company into the participant's Plan Account up to 50% of the cumulative balance will be paid in cash for the first three years of the Plan. Any remaining balance will be converted into shares or share-linked units. 100% of the balance in the final year (the fourth year) of the Plan will normally be settled in the form of shares transferred or allotted to the participant. During the Plan period, 50% of the retained balance is at risk of forfeiture based on a minimum performance measure determined annually by the Committee. Full details of the relevant targets and their weighting, and how they have been measured, will be reported in the Remuneration Report for the relevant financial year. The Committee may award dividend equivalents on shares or share-linked units held under the Plan to the extent that they vest.
Maximum	Maximum 150% of salary. • Threshold 0% of maximum • Target 50% of maximum • Maximum 100% of maximum
Performance Conditions	An award under the Plan is subject to satisfying relevant performance conditions and targets determined annually by the Remuneration Committee by reference to financial and non-financial objectives that are closely linked to the strategy of the business and may also contain individual performance objectives, measured over a period of one financial year. A minimum of 50% of the bonus is based on financial performance measures. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the bonus, disclosing precise targets for the Plan in advance would not be in shareholder interests. Targets, performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs under the Plan. The Committee retains the discretion to: • change the performance measures and targets and the weighting attached to the performance measures and targets part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and • make downward or upward adjustments to the amount of bonus contribution earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. The Plan contains malus and clawback provisions.
Change	No change from previous policy.

MIP Element B	
Purpose and how it supports the strategy	To link variable pay to achievement of annual financial and business objectives. To promote long-term shareholding in the Company and strengthen alignment between interests of Executive Directors and senior managers and those of shareholders.
Operation	Annual performance conditions and targets are set by reference to financial, strategic and operational objectives by the Remuneration Committee. Awards are granted retrospectively in shares based on the achievement of performance targets for the relevant year. Awards vest (subject to continued employment) three years from grant. Sale restrictions apply to Awards that have vested: normally vested awards may not be sold for a further two years after vesting or post-cessation of employment. There is a financial underpin which, if not achieved over the three-year vesting period, results in the loss of up to 50% of unvested awards. Details of the performance conditions, targets and their level of satisfaction for the year being reported on will be set out in the Remuneration Report for the relevant financial year. The Committee may award dividend equivalents on shares or share-linked units held under the Plan to the extent that they vest.
Maximum	Maximum 100% of salary. • Threshold 0% of maximum • Target 50% of maximum • Maximum 100% of maximum
Performance Conditions	An award under the Plan is subject to satisfying relevant performance conditions and targets determined annually by the Remuneration Committee by reference to financial and non-financial objectives that are closely linked to the strategy of the business and may also contain individual performance objectives, measured over a period of one financial year. The Committee takes the same view on commercial sensitivity as for Element A of the MIP. The discretions set out above for Element A also apply to Element B. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. The Plan contains malus and clawback provisions.
Change	No change from previous policy.

Minimum Shareholding Requirement

The minimum shareholding requirements for Executive Directors, is 200 per cent of base salary. Executive Directors are required to retain 50 per cent of the post-tax number of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained. Adherence to these guidelines is a condition of continued participation in the incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned.

The Committee retains the discretion to increase the minimum shareholding requirements.

On cessation of employment, Executive Directors are required to retain the minimum shareholding requirement of 200 per cent of base salary for one year post-cessation and 100 per cent of base salary for a further year. Where their actual shareholding at departure is below the minimum shareholding requirement, the Executive Director's actual shareholding is required to be retained on the same terms and for the same periods.

Malus and Clawback

Malus is the adjustment of Company Element A contributions or the balance in a participant's Element A Plan Account or unvested Element B awards because of the occurrence of one or more circumstances listed below. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments made under Element A of the MIP or vested Element B awards as a result of the occurrence of one or more circumstances listed below. Clawback may apply to all or part of a participant's payment under Element A of the MIP or an Element B award and may be affected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

Remuneration Policy continued

Malus and Clawback continued

The circumstances in which malus and clawback could apply are as follows:

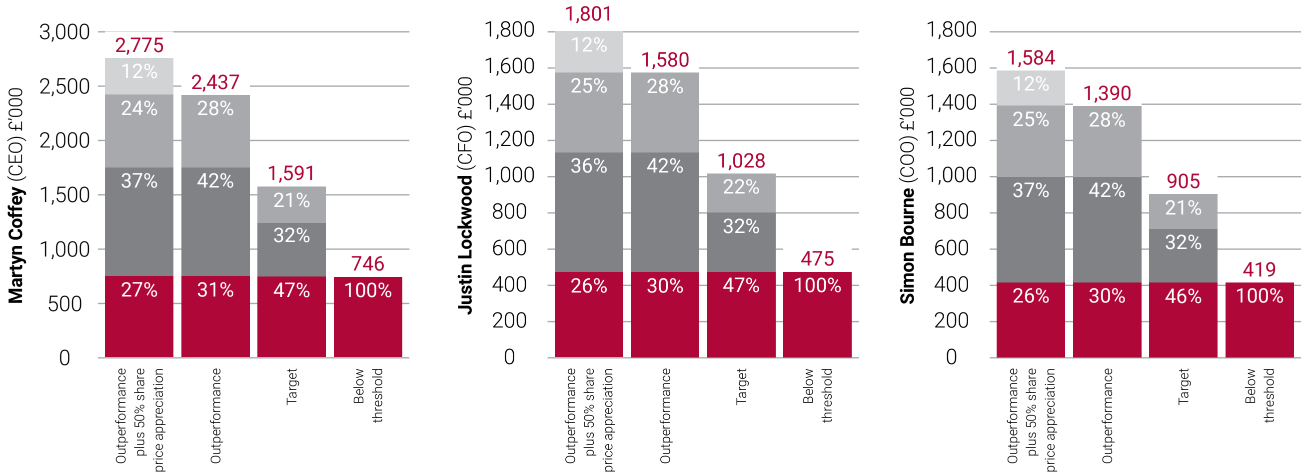
- discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- if the assessment of any performance condition or condition in respect of a Company Element A contribution or Element B award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the Company Element A contribution or Element B award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which amounts to fraud or gross misconduct;
- a material failure of risk management;
- corporate failure; or
- events or the behaviour of a participant have led to the censure of a Group company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

	Element A	Element B
Malus	Up to the date of a payment under the Plan	To the end of the three-year vesting period
Clawback	Two years post the date of any payment under the Plan	Two years post-vesting

The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required.

Total Remuneration Opportunity

In future years, the total remuneration opportunity under the Policy for each of the Executive Directors at four different levels of performance is shown below:



■ Salary, benefits and pension ■ MIP Element A ■ MIP Element B ■ Share price appreciation

Notes to the remuneration policy charts

Element of package	Assumptions used
Fixed pay	Base salary: effective 1 January 2023 Benefits: as disclosed in the single figure table of remuneration for 2022 Pension: 5% cash allowance
MIP Element A	Below threshold: no value earned Target: 50% of maximum earned Maximum: 100% of maximum earned
MIP Element B	Below threshold: no value earned Target: 50% of maximum earned Maximum: 100% of maximum earned
Share price appreciation	Impact of 50% share price appreciation on maximum remuneration
Dividend equivalents	Dividend equivalents are ignored for the purposes of this illustration

Pay at Risk

The charts below set out the single figure for each Executive Director based on whether the elements remain "at risk". For example:

- payment/vesting is subject to continuing employment for a period;
- performance conditions have to still be satisfied; and
- elements are subject to malus or clawback for a period, over which the Company can recover sums paid or withhold vesting.

Figures have been calculated based on target performance (fixed elements plus 50 per cent of the maximum MIP). The charts have been based on the same assumptions as set out for the illustrations of the application of the total remuneration opportunity under the new Policy.

Martyn Coffey (CEO)
- At risk – £845,000
- Salary – £676,000
- Pension and benefits –£70,000

Justin Lockwood (CFO)
- At risk – £553,000
- Salary – £442,000
- Pension and benefits –£33,000

Simon Bourne (COO)
- At risk – £486,000
- Salary – £389,000
- Pension and benefits –£30,000

Consideration of remuneration policy for other employees

The Committee takes into account pay and reward packages of the UK workforce as a whole and of other groups of employees in applying its Policy and determining the remuneration of the Executive Directors. At the time of the Policy review, Marley colleagues are on their separate remuneration arrangements, they are included in all reviews going forward.

Senior management participate in the MIP. The performance criteria for awards under the MIP and the holding and vesting periods follow the same approach for senior management as for the Executive Directors, with varying percentages of salary dependent on seniority and the strategic impact of the role, and with divisional performance measures where relevant to the role. For other tiers of management, the Company operates annual and long-term incentive arrangements using criteria that may be job specific and which also link with Company or individual performance. In general, salary increases for the Executive Directors will be in line with the average rise for UK employees.

The Committee has arrangements in place to receive and review the views of the Company's employees on Executive remuneration and the application of the Remuneration Policy by means of regular meetings with employee groups attended by the designated Non-Executive Director for employee engagement, periodic surveys and detailed reports and presentations from the Chief People and ESG Officer to the Committee. These are regularly and openly communicated to the Board. The Committee takes into consideration external benchmarking data for the relevant roles as one of the factors when considering pay levels and also considers the internal relativities of pay levels across the Group.

Recruitment Policy

The remuneration of any new Executive Director will be determined in accordance with the principles set out in the Remuneration Policy. The Committee is mindful of the need to avoid paying more than it considers necessary to secure a preferred candidate of the appropriate calibre and with the experience needed for the role. In setting the remuneration for new hires, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration to the appropriateness of any performance measures associated with an award.

The Company's detailed policy when setting remuneration for the appointment of new Executive Directors is summarised below:

Remuneration element	Recruitment policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors, including that the employer pension contributions for new appointments will be at the rate applicable to the majority of employees.
Maximum variable remuneration	The maximum variable remuneration which may be granted is 250% of salary in line with the Company's policy for existing Executive Directors.
"Buyout" of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justify the buyout of any elements of a previous employment package, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: • the proportion of the performance period completed on the date of the Executive Director's cessation of employment; • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • any other terms and conditions having a material effect on their value ("lapsed value"). The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plan. To the extent that it was not possible or practical to buy out the lapsed value within the terms of the Company's existing incentive plan, a bespoke arrangement would be used.
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences/housing allowance and schooling. No relocation allowances will apply for a period greater than two years.

Where an existing employee is promoted to the Board, the Policy set out above would apply from the date of promotion but there would be no retrospective application of the Policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the person concerned. These would be disclosed to shareholders in the Remuneration Report for the relevant financial year.

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to current Non-Executive Directors.

Remuneration Policy continued

Directors' Service Contracts

	Date of appointment	Notice by Company	Notice of Director
Martyn Coffey	September 2013	12 months	6 months
Justin Lockwood	July 2021	12 months	12 months
Simon Bourne	April 2022	12 months	12 months
Vanda Murray	May 2018	6 months	6 months
Tim Pile	October 2010	6 months	6 months
Graham Prothero	May 2017	6 months	6 months
Angela Bromfield	October 2019	6 months	6 months
Avis Darzins	June 2021	6 months	6 months
Diana Houghton	January 2023	6 months	6 months

In accordance with Policy, Executive Directors' service contracts do not contain liquidated damages clauses, nor any contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement or providing for compensation for loss of office or employment that occurs because of a takeover bid. The maximum notice period for an Executive Director is twelve months. Executive Director service contracts are not of a fixed duration and therefore have no unexpired terms.

Executive Directors are permitted to hold one external plc Board appointment and may retain any remuneration received in that capacity. Non-Executive Directors, including the Chair, are appointed under letters of appointment, usually for a term of three years. Either the Company or the Non-Executive Director may terminate the appointment before the end of the current term on six months' notice. If the unexpired term is less than six months, notice does not need to be served. No compensation is payable if a Non-Executive Director is required to stand down. All Directors are subject to annual re-election.

Policy on Termination Payments

When considering compensation for loss of office, the Committee will always seek to minimise the cost to the Company and apply mitigation to any payment. Compensation for loss of office can only be paid if consistent with the Policy or otherwise with shareholder approval by Ordinary Resolution.

Recruitment element	Treatment on cessation of employment
General	The Committee will honour Executive Directors' contractual entitlements. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. Service contracts do not contain liquidated damages clauses. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation), or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.
Salary, benefits and pension	These will be paid over the notice period. The Company has discretion to make a lump sum payment in lieu.

Incentive schemes	Good leaver reasons[1]	Other reason	Discretion
MIP Element A	**For the year of cessation**		
	Good leavers: Performance conditions will be measured at the normal measurement date. The Company bonus contribution will normally be pro-rated for the period worked during the financial year.	Other leavers: No Company bonus contribution payable for year of cessation.	The Remuneration Committee has the following elements of discretion: • to determine that an Executive is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; and • to determine whether to pro-rate the Company bonus contribution. The Remuneration Committee's normal policy is that a variable bonus will be pro-rated depending on the proportion of the measurement/vesting period in which the Executive remained in employment. It is the Remuneration Committee's intention to use discretion not to pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders.

1 A good leaver reason is defined as cessation by reason of death, ill health, injury or disability, redundancy, retirement, the employing company ceasing to be a Group company, the transfer of employment to a company which is not a Group company, or otherwise at the discretion of the Committee (as described above). Cessation of employment in circumstances other than those set out above is cessation for other reasons.

Incentive schemes	Good leaver reasons[1]	Other reason	Discretion
MIP Element A	**Deferred Balances in participant's Element A Plan Account**		
	Good leavers: The balance in the participant's Element A Plan Account will be payable on cessation of employment.	Other leavers: The balance in the participants' Element A Plan Account will be forfeited on cessation of employment.	The Remuneration Committee has the following elements of discretion: • to determine that an Executive is a good leaver (subject to the principles set out above); and • to determine whether to pro-rate the balance of the participant's Element A Plan Account payable on cessation. A participant's Element A Plan Account balance reflects prior year achievement, so, subject to any malus or clawback, the Remuneration Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of the Executive's departure.
MIP Element B	**For the year of cessation**		
	Good leavers: MIP B awards are normally subject to the Executive being on the payroll and not having an agreed leaving date as at the date of grant (as these awards relate to the previous year). The Remuneration Committee has discretion to make a MIP B award during the year of cessation, in which case performance conditions are measured at the normal measurement date and would normally be pro-rated.	Other leavers: No award for year of cessation.	The Remuneration Committee has the following elements of discretion: • to determine that an individual is a good leaver in accordance with the principles set out previously; and • to determine whether to make an award or to pro-rate the award by reference to the period during which the Executive remained in employment. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to use discretion to not pro-rate only in circumstances where there is an appropriate business case which will be explained in full to shareholders.
MIP Element B	**Subsisting Awards**		
	Good leavers: Pro-rated to time and performance in respect of each subsisting award and subject to the satisfaction of the financial underpin on vesting. Sale restrictions will normally continue to apply for 2 years post-cessation, or from vesting (if earlier).	Other leavers: Lapse of any unvested awards. Vested awards will continue to be subject to the sale restrictions.	The Remuneration Committee has the following elements of discretion: • to determine that an individual is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • to vest the award at the end of the original deferral period or at the date of cessation. The Remuneration Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and • to determine whether to pro-rate the maximum number of shares to the time from the date of grant to the date of cessation. The Remuneration Committee's normal policy is that it will pro-rate awards for time. It is the Remuneration Committee's intention to use discretion to not pro-rate only in circumstances where there is an appropriate business case which will be explained in full to shareholders. It should be noted that the performance targets for subsisting awards will already have been satisfied at the date of grant.
Other contractual obligations	There are no contractual obligations to participants in relation to the incentive schemes other than those set out above. The MIP is a discretionary incentive scheme.		

Remuneration Policy continued

Change of Control

<table>
<tr><th></th><th>Impact</th><th>Discretion</th></tr>
<tr><td>Element A of the MIP
For the year of the change of control</td><td>Performance conditions will be measured at the date of the change of control. The Company bonus contribution will normally be pro-rated to the date of the change of control.</td><td>The Remuneration Committee has discretion to determine whether to pro- rate the Company bonus contribution to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders.</td></tr>
<tr><td>Element A of the MIP
Deferred balances in participant's Element A Plan Account</td><td>The balance in the participant's Element A Plan Account will be payable on the change of control.</td><td>The Remuneration Committee has the following elements of discretion:
• to determine whether the payment of the balance of the participant's Element A Plan Account should be in cash or shares or a combination of both; and
• to determine whether to pro-rate the balance of the participant's Element A Plan Account payable on change of control. The Remuneration Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control.
It should be noted that the deferred balances in a participant's Element A Plan Account relate to bonuses earned based on the satisfaction of performance conditions in previous financial years.</td></tr>
<tr><td>Element B of the MIP
For the year of the change of control</td><td>Performance conditions will be measured at the date of the change of control.
The award will normally be pro-rated to the date of the change of control and will vest on grant. The sale restrictions will not apply.</td><td>The Remuneration Committee has the following elements of discretion:
• to determine whether to pro-rate the award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention only to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and
• to determine to pay cash in lieu of shares.</td></tr>
<tr><td>Element B of the MIP
Subsisting awards on a change of control</td><td>Awards will vest on a change of control subject to the satisfaction of the financial underpin on vesting. Sale restrictions will not apply.</td><td>The Remuneration Committee has the following elements of discretion:
• to determine whether to pro-rate the maximum number of shares to the time from the date of grant to the date of the change of control. The Remuneration Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control; and
• to determine to pay cash in lieu of shares.
It should be noted that the Element B awards that are outstanding would have been made following satisfaction of performance targets for previous years.</td></tr>
</table>

Discretion
The Committee has discretion in several areas of Policy. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

Consideration of shareholder views
The Committee regularly consults with shareholders on Executive remuneration. The Remuneration Committee gave shareholders the opportunity to comment on the 2023 Policy before its finalisation. The Committee is committed to consulting in advance with shareholders before making any material changes to any element of Executive remuneration.

Chair and Non-Executive Directors' Remuneration Policy

Fees	
Purpose and how it supports the strategy	Annual fee to attract and retain experienced and skilled Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company. Fees reflect the time commitment and responsibilities of the roles.
Operation	The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chair's fees. Non-Executive Directors are paid an annual fee. There are additional fees for the SID role, chairing Committees and the designated employee engagement NED. The Company retains the flexibility to pay fees for the membership of Committees. The Chair does not receive any additional fees for membership of Committees. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. Non-Executive Directors and the Chair do not participate in any variable remuneration or benefits arrangements.
Maximum	The fees for Non-Executive Directors and the Chair are broadly set at a competitive level against the comparator group. In general, the level of fee increase for the Non-Executive Directors and the Chair will be set taking account of any change in responsibility and salary increases for UK employees generally. The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chair in the performance of their duties and may settle any tax incurred in relation to these.
Change	No change from previous policy.

Annual Remuneration Report

This report covers the reporting period from 1 January 2022 to 31 December 2022 and explains how the 2020 Remuneration Policy has been implemented. Comparative figures for the 2021 financial year have also been provided.

Single total figure of remuneration in 2022 – Executive Directors (audited)

	Fixed £'000						Performance related £'000													
							Annual bonus				Long-term incentives									
	Salary		Other benefits		Salary supplement in lieu of pension		MIP Element A		MIP Element B		MIP Element A and B		Total		Total fixed		Total variable			
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000		
Martyn Coffey	**621**	532	**36**	33	**93**	80	**70**	399	**94**	266	**88**	375	**1,002**	1,685	**750**	645	**252**	1,040		
Justin Lockwood (Note e)	**414**	166	**11**	5	**21**	8	**47**	124	**63**	83	**–**	–	**555**	386	**446**	179	**109**	207		
Simon Bourne (Note f)	**276**	–	**8**	–	**14**	–	**35**	–	**49**	–	**23**	–	**405**	–	**298**	–	**107**	–		
Total	**1,311**	698	**55**	38	**128**	88	**152**	523	**206**	349	**111**	375	**1,963**	2,071	**1,494**	824	**468**	1,247		
			Note a		Note b		Note c				Note d									

Notes:

a) Benefits are car/car allowance, fuel/fuel allowance, private medical insurance and travel and accommodation expenses.

b) The Executive Directors each received a salary supplement in lieu of contributions into the Group's pension scheme throughout the year. No Director had any entitlement under the defined benefit section of the pension scheme and no additional benefit was received as a result of early retirement.

c) The outcome the 2022 MIP was 30.2% of maximum. MIP Element A reflects the amount released at the start of 2023 in relation to 2022 performance. 25% of the 2022 award was paid in cash and 75% of the award was deferred into the Plan Account and converted into notional shares which are included in the Share Interests table on page 122. MIP Element B reflects the 50% of the MIP Element B granted at the start of 2023 in relation to 2022 performance which is not subject to an underpin.

d) The long-term incentives column shows the aggregate value of sums released from MIP account balances from earlier years that are no longer subject to deferral and forfeiture risk. The decrease in the MIP account balances is because of because of the 2022 award paying out at 30.2% of maximum.

e) Justin Lockwood joined the Board as Chief Financial Officer in July 2021.

f) Simon Bourne joined the Board as Chief Operating Officer on 1 April 2022. His fixed remuneration elements reflect his time on the Board since the date of appointment.

Setting pay in context

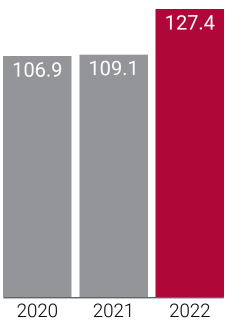
The following graphs illustrate the relationship between total expenditure on remuneration and other disbursements from profit over the past three years.

The four elements represent the most significant outgoings for the Company during the financial year. In addition to colleague pay and shareholder distributions, capital investment and taxation are shown for the following reasons:

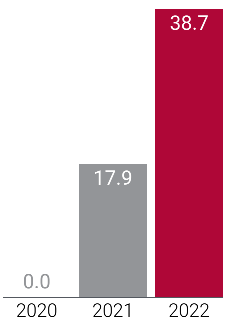
- investment – the Company's strategy is to invest in organic growth opportunities in order to ensure that the business grows in a sustainable manner with a corresponding long-term benefit for all stakeholders; and
- tax – the Company is a UK taxpayer and feels that it is beneficial to demonstrate to all its stakeholders its total UK tax contribution. The most significant elements of the Company's UK tax contribution are VAT, employer's NI, corporation tax, fuel duty and aggregates levy. As profitability increases, corporation tax will also increase. In 2022 the Group was re-accredited with the Fair Tax Mark.

Relative importance of spend on pay (percentage change)

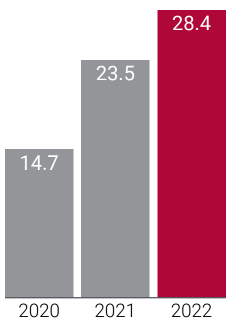
Staff pay
(£'m)
£127.4m
+16.8%



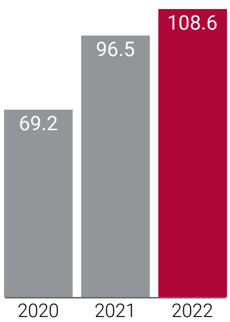
Distributions to shareholders (£'m)
£38.7m
+115.7%



Capital investment
(£'m)
£28.4m
+20.9%



Tax
(£'m)
£108.6m
+12.5%



Outcomes of incentive schemes in 2022 (audited)

See page 101 for details of the satisfaction of the performance conditions under the MIP for 2022.

MIP awards 2022

Element A

Plan accounts	Martyn Coffey	Justin Lockwood	Simon Bourne
Value of deferred notional shares in plan account at 31 December 2021 (Note a)	£167,963	£52,336	£38,447
Contribution in respect of 2022 performance (% of salary earned)	45.3%	45.3%	45.3%
Value	£281,472	£187,524	£139,943
Element released at the start of 2023 in relation to 2022 (Note b)	£70,368	£46,881	£34,986
Closing balance (deferred into notional shares)	£379,067	£192,979	£143,404
Number of notional shares represented by closing balance (Note c)	136,159	69,317	51,510

Element B (2020 award in respect of 2019 performance)

The EPS forfeiture threshold applicable to the 2020 award was 18.95p. The actual average EPS performance was 23.03p and therefore the forfeiture threshold was met and 100% of the award will vest. Note that the 2020 MIP B awards were granted before Justin Lockwood joined the Company and before Simon Bourne was appointed to the Board.

	Martyn Coffey	Justin Lockwood	Simon Bourne
Number of shares awarded	55,759	–	–
Value of shares vesting	£168,780	–	–
Value of dividends accrued over vesting period	£23,751	–	–
Value included in single figure table (Note d)	£88,771	–	–

Element B (2022 award in respect of 2021 performance)

	Martyn Coffey	Justin Lockwood	Simon Bourne
Number of Ordinary Shares under MIP B	76,251	23,759	–
Face Value at 30 day average share price at the performance year end	£531,586	£165,641	–
30 day average share price at the performance year end	£6.972	£6.972	–
Number of Ordinary Shares under MIP B including dividend equivalent earned	79,436	24,751	–

Element B (2023 award in respect of 2022 performance)

	Martyn Coffey	Justin Lockwood	Simon Bourne
Number of shares awarded	67,402	44,905	35,294
Percentage of salary	30.2%	30.2%	30.2%
Face Value at 30 day average share price at the performance year end	£187,648	£125,016	£98,259
30 day average share price at the performance year end	£2.784	£2.784	£2.784
EPS forfeiture threshold (Note e)	29.36	29.36	29.36

Notes:

a) Usually 50 per cent of the earned Element A award is released to the participant on an annual basis, the remaining 50 per cent is deferred into the participants MIP account and converted into shares. Dividends paid during the year are also added to the carried-forward plan account. In the final year, subject to any forfeiture provisions, 100 per cent of any balance in the MIP account is released.

b) 25 per cent of the Element MIP A award earned for 2022 has been released to the participant as an annual bonus and the remaining 75 per cent has been deferred into the participant's MIP account and converted into notional shares.

c) The carried-forward balance is converted back into shares by reference to the mid-market average value for the 30-day period ended 31 December 2022 (278.4 pence).

d) In accordance with the regulations, 50 per cent of the Element B award is included in the single figure table on grant. The remaining 50 per cent plus any dividends accrued are included on vesting.

e) If the actual EPS falls below the forfeiture threshold over three years before vesting, 50 per cent of the MIP A Plan Account balance and 50 per cent of the MIP B options are forfeited. Once Element B shares have vested, they must normally be held for a further two years. Element B shares lapse on cessation of employment except in "good leaver" circumstances, in which case they vest on leaving and must be held for two years from the date of leaving.

f) In line with normal practice the Committee will monitor the outcomes at vesting to ensure they are appropriate.

g) MIP B options are nil cost options and the exercise price is nil.

Annual Remuneration Report continued

Single total figure of remuneration: Non-Executive Directors (audited)

Non-Executive Directors do not participate in any of the Company's incentive arrangements. Their fees are reviewed periodically and were last reviewed in July 2022 and backdated to April 2022. The Chair's fees are set by the Committee; other Non-Executive Directors' fees are set by the Board as a whole. The Non-Executive Directors reclaim travel and accommodation expenses incurred in the performance of their duties, and where this is a taxable benefit it is shown below as a grossed-up taxable amount.

	Board fee £'000		Committee fees £'000		Expenses[a] £'000		Total £'000	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
Vanda Murray Chair, Chair of Nomination Committee and member of Remuneration Committee	**219**	177	**5**	–	**2**	2	**226**	179
Graham Prothero Senior Independent Director, Chair of Audit Committee and member of Remuneration and Nomination Committees	**55**	50	**18**	13	**–**	1	**73**	64
Tim Pile Member of Audit, Remuneration and Nomination Committees	**54**	50	**–**	–	**–**	1	**54**	51
Angela Bromfield Chair of Remuneration Committee and member of Audit and Nomination Committees	**54**	50	**16**	5	**–**	1	**70**	56
Avis Darzins Member of Audit, Remuneration and Nomination Committees	**54**	29	**–**	–	**–**	1	**54**	30
Total	**436**	356	**39**	18	**2**	6	**477**	398

Notes:

a) Travel and accommodation expenses.

Directors' shareholdings and share interests

The following table sets out, in respect of each of the Directors:

- the number of shares the Director holds unconditionally; and
- the number of shares subject to unvested incentive awards as at 31 December 2022.

	Shareholding requirement (Note a)		Beneficially owned (Note b)	Shares that will vest following 2022 results (Note c)	Deferred shares (Note d)	Deferred and contingent share interests (Note e)	Total interests in shares (including contingent interests)
Director	% of salary	Number of shares required	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Executive							
Martyn Coffey	200	454,680	388,575	60,625	73,419	209,578	732,197
Justin Lockwood	200	303,652	21,522	–	34,828	134,913	191,263
Simon Bourne	200	247,105	51,090	16,144	31,283	82,793	181,310
Non-Executive							
Vanda Murray	–	–	28,350	–	–	–	28,350
Tim Pile	–	–	43,979	–	–	–	43,979
Graham Prothero	–	–	2,602	–	–	–	2,602
Avis Darzins	–	–	6,738	–	–	–	6,738
Angela Bromfield	–	–	9,091	–	–	–	9,091

Notes:

a) The closing price on 31 December 2022 of 273.2 pence per share has been used to measure the number of shares required.

b) As at the date of this report the number of shares beneficially owned by Martyn Coffey was 388,725, by Justin Lockwood was 21,522 and by Simon Bourne was 51,090.

c) This comprises Element B awards granted in March 2020 (based on 2019 performance) that will vest three years from grant (i.e. March 2023) before deduction of any tax and NIC. This must be held for a minimum of two further years.

d) This column includes the 50 per cent proportion of share interests awarded in 2021 and 2022 under Element B of the MIP in the form of nil-cost options or conditional shares that may be exercised after the three-year deferral period but where vesting is only dependent on continuing employment throughout the three-year deferral period with no other performance conditions. No awards were made under Element B in 2021.

e) This column comprises share interests awarded under the MIP (Element A deferred shares and Element B deferred shares) that remain subject to a financial performance condition as well as to continued employment over the relevant deferral period. 50 per cent of Element A awards and 50 per cent of Element B awards shown in this column may be forfeited if the financial condition is not satisfied.

f) Share interests under Element A and Element B of the MIP are calculated by reference to the mid-market average value for the 30-day period ended 31 December 2022 (278.4 pence).

g) The table above includes the interests of "persons closely associated" as defined under the Financial Services and Markets Act (Market Abuse) Regulations 2016.

h) There are no vested unexercised options.

Martyn Coffey has met his minimum shareholding requirement. Justin Lockwood and Simon Bourne are building their shareholdings after appointment to the Board in July 2021 and April 2022 respectively.

Statement of implementation of Remuneration Policy in the following financial year (2023)

See pages 106 to 108.

Payments to past Directors/payments for loss of office

As described in the 2021 annual report the former Group Finance Director, Jack Clarke, stepped down from the Board on 1 April 2021 though remained with the Group until 31 March 2022 to ensure a smooth and orderly handover, and was classified as a "good leaver". Salary payments made to him as an employee, after he stepped down from the Board are not included in this report.

Philip Rogerson stepped down as a Non-Executive Director of the Board on 14 December 2021 due to ill health. It was agreed that he would receive payments in relation to half his notice period (three months) which was a total of £12k paid January, February and March 2022. The remainder of his notice period (three months) was waived.

There were no other payments to Directors or former Directors for loss of office.

Annual Remuneration Report

The following table sets out the part of the report where the relevant information can be found:

Element	Reference
Payment for loss of office or payments to past Directors	Page 123
Performance graph and table	Page 104
Percentage change in remuneration of the Director undertaking the role of CEO	Page 126
Relative importance of pay	Page 127
Statement of implementation of the Policy in the following financial year	Pages 106 to 108
Consideration by the Directors of matters relating to Directors' remuneration	Pages 101 to 103
Statement of voting at Annual General Meeting	Page 103

Fairness, diversity and wider workforce considerations

Introduction
This section of the Remuneration Report deals with the following:

- the Committee's approach to the review of wider workforce pay policies and how it has taken these into consideration in setting remuneration;
- the alignment of the incentives operated by the Company with its culture and strategy;
- general pay and conditions in the Company;
- gender and diversity; and
- comparison metrics relating to Executive and employee remuneration.

As mentioned previously, colleagues within the Marley business are part of Marley remuneration arrangements which are currently separate to the Marshalls arrangements. Plans are being developed, and no changes have been made at the time of writing this report. Going forward Marley will be part of any review of wider remuneration, though for this report, the arrangements are separate and therefore not considered within this section of the report.

Process
The Committee obtains oversight and review of wider Marshalls workforce pay, policies and incentives through an annual process which includes:

- A review of all elements of remuneration for all members of the workforce (excluding temporary and agency staff and consultants), and includes data on:
  - salary and salary increases;
  - general positioning of remuneration packages (benchmarking);
  - bonus (total eligible population, target and maximum range, performance conditions, payment method, and scope for discretion/recovery under malus and clawback provisions);
  - sales and commission plans;
  - long-term incentive plans (total eligible population, target and maximum range, performance conditions, payment method, scope for discretion/recovery under malus and clawback provisions, and vesting and holding periods); and
  - pension schemes and other benefits (defined contribution plan, total eligible population, Company contribution and employee contribution, health and wellbeing benefits).
- As Chair of the Remuneration Committee and designated Non-Executive Director for employee engagement, Angela Bromfield attends the Employee Voice Group ("EVG"). The EVG meets six times a year and, amongst other things, provides valuable input into a range of topics including reward and remuneration policy. The meetings are chaired by the Chief People & ESG Officer and attended by a mixed group of employees from across the different parts of the Group. We are pleased to confirm that from February 2023, colleagues from Marley have joined the EVG. Other Non-Executive Directors and members of the Marshalls Executive team also attend EVG meetings on a rotational basis. The attendees of the meeting are elected by their colleagues to be their representatives. A summary of the EVG's activities is set out in the Strategic Report on page 55.
- The Committee also receives feedback from regular employee surveys and from site visits made by the Executive Directors and senior management.
- The Committee has the authority to ask for additional information from the Company in order to carry out its responsibilities.
- The levels of remuneration and the packages offered vary across the Company depending on the employee's level of seniority and role. The Committee, when conducting its review of Executive Director and senior management remuneration, pays particular attention to:
  - whether the element of remuneration is consistent with the Company's remuneration principles;
  - whether incentive structures are designed in a way that promotes the Company's strategy, values and culture;
  - if there are differences in remuneration, whether they are objectively justifiable; and
  - whether the approach seems fair and equitable in the context of other employee packages.

The Committee uses its annual review of the wider workforce remuneration and incentives to inform the approach applied to the remuneration of the Executive Directors and senior management. In particular, the Committee is focused on whether, within the framework set out above, the approach to the remuneration of the Executive Directors and senior management is consistent with that applied to the wider workforce.

Overview of findings for 2022

In summary, the Committee's review for 2022 showed that substantial progress has been made against the People Strategy agreed in 2020. The strategy will continue into 2023. Key achievements during 2022 are highlighted within this section.

- The majority of Marshalls colleagues will receive a pay award for 2023 which consists of two parts, a pay rise of 4% effective 1 January 2023 and a further increase of 4% effective 1 July 2023. This means that from 1 July 2023, salaries will be 8.16% higher. For senior colleagues, the pay award was performance based, within an overall budget which was limited to 5%. Marley colleagues were in the second year of a 2-year pay deal, which was doubled from 2% to 4% due to the high inflation, together with a non-consolidated award for certain colleagues.
- Marshalls continued to be a Living Wage employer and ensured that Marley became a Living Wage employer during 2022. As part of this commitment, we increased salaries, where needed, in November 2022, which is ahead of the Living Wage Foundation requirement.
- Created fairness and consistency by aligning core terms and conditions for Marshalls colleagues, including benefits, and policies such as absence, holiday entitlement, working hours and notice periods, with colleagues moving onto new standardised employment contracts. This took place before the Marley acquisition.
- The continued focus on colleague wellbeing was recognised by winning the Reward Gateway Engagement Excellence Awards for 'Best strategy for supporting employee wellbeing' as well as winning the "Winner of Winners" award. This is a great achievement and shows the commitment to colleague wellbeing. Further information on this is included in the People section on pages 54 to 57.
- Competency-driven pay models are now embedded in various parts of the Company and support a fair and transparent way of managing pay for skills and capability.
- Continued the journey of digital transformation of the employee experience by launching new HR platform, Marshalls Connect, which will be expanded to other areas of the employee lifecycle during 2023. Further information on this is included in the People section on pages 54 to 57.
- With the support of the pension governance committee, the Company continued the focus on pensions communication and awareness, with new content being created and support made available for colleagues approaching retirement and launched a dedicated app for pension planning through our pension provider Aviva.

Summary of incentive schemes

- Dependent on role and level of seniority, employees are able to share in the success of the Company through incentive compensation. In line with market practice, the level of incentive compensation and whether it is paid solely in cash or in a mixture of cash and deferred shares depends on the level of seniority of the employee. The incentive approach applied to the Executive Directors aligns with the wider Company policy on incentives, which is to associate a higher percentage of at-risk performance pay with the seniority of the role, and to increase the amount of incentive deferred, provided in equity and/or measured over the longer term for roles with greater seniority.
- The following table shows the cascade of incentives throughout the Company:

Level (number)	Participation in Element A of the MIP (percentage range)	Participation in Element B of the MIP (percentage range)	Participation in other bonus or commission plans	Participation in all-employee equity plans (Sharesave/SPP)
Executive Directors (3)	150% of salary	100% of salary	No	Yes
Executive Committee (7)	55% to 100% of salary	35% to 60% of salary	No	Yes
Senior management (14)	60% of salary	30% of salary	No	Yes
Employees in BSP (74)			15% to 45% of salary +5% bonus shares	Yes
Employees in other job related bonus or commission schemes (336)			Sales bonuses	Yes

In summary, the Committee is satisfied that the approach to remuneration across the wider workforce is consistent with the Company's Remuneration Policy and the wider principles of fairness and sustainability that are fundamental to the Group's culture. Further, in the Committee's opinion the approach to Executive remuneration aligns with the approach taken in the wider Company pay policy.

Widening employee share ownership

Employees can become shareholders through employee share plans including:

Bonus Share Plan ("BSP")

The BSP approved in 2015 provides the opportunity for participants to earn "free" bonus shares of up to 5 per cent of salary, which vest after three years subject to performance conditions and continued employment; performance conditions are usually aligned with those set for the MIP.

Sharesave Scheme/Share Purchase Plan

The Marshalls Sharesave Scheme was launched again in 2021 to encourage wider ownership of Marshalls plc shares across the entire workforce, so that the employees are able to participate in the Group's success in a way that aligns their interests with those of shareholders.

The Share Purchase Plan is an "evergreen" scheme under which employees may purchase shares in the market on a monthly basis out of gross salary.

Living Wage employer

Marshalls is proud to be a Living Wage employer, underscoring its commitment to its employees. Marshalls achieved Living Wage accreditation in 2018, has maintained its status throughout 2022 and has ensured that Marley also became a Living Wage employer during 2022 following the acquisition.

Fairness, diversity and wider workforce considerations continued

Pay comparisons
CEO ratio

The ratio of CEO pay (based on the single total figure of remuneration) to that of UK employees for the last three years is shown in the table below. The calculation has been performed using the methodology in Option A of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) in line with best practice and is based on the total single figure of remuneration.

Financial year	CEO pay ratio 25th percentile	CEO pay ratio 50th percentile	CEO pay ratio 75th percentile	CEO salary £'000	Employee salary 25th percentile £'000	Employee salary 50th percentile £'000	Employee salary 75th percentile £'000	CEO total pay and benefits £'000	Employee total pay and benefits 25th percentile £'000	Employee total pay and benefits 50th percentile £'000	Employee total pay and benefits 75th percentile £'000
2022	**35.4:1**	**27.2:1**	**21.7:1**	**621**	**31**	**40**	**51**	**1,002**	**33**	**43**	**53**
2021	55.0:1	42.6:1	35.5:1	532	29	40	45	1,685	31	40	45
2020	70.6:1	46.3:1	38.2:1	485	23	35	42	1,695	24	37	44
2019	77.6:1	60.6:1	51.0:1	460	22	36	40	2,213	28	36	43

The 25th, 50th and 75th percentiles have been calculated using actual pay for the year ended 31 December 2022, increased where appropriate to give full time equivalent remuneration for part time workers or those working only part of the year.

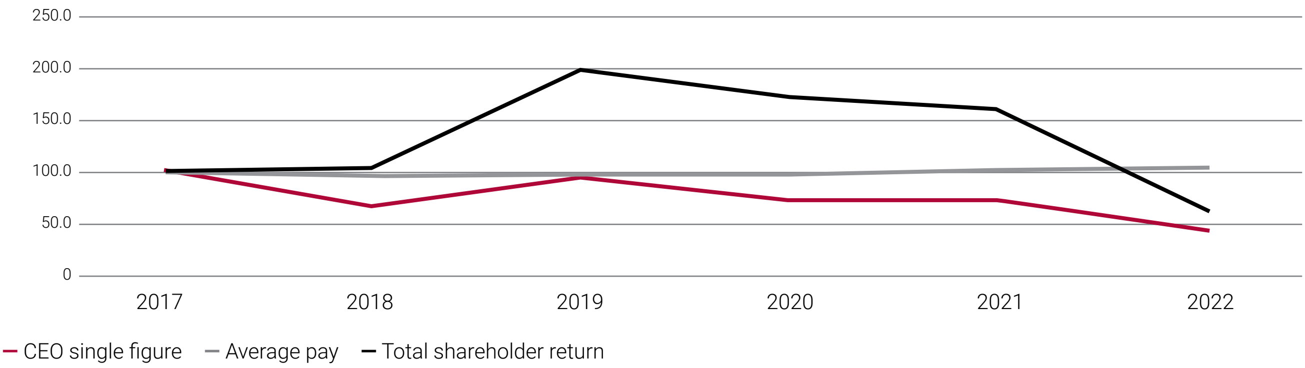
To give context to this ratio, we have included below a chart tracking CEO pay and average employee pay since Martyn Coffey's appointment alongside Marshalls' TSR performance over the same period. The Remuneration Committee has always been committed to ensuring that CEO reward is commensurate with performance. The chart shows a clear alignment between shareholder returns and CEO single figure pay.

Shareholders expect the CEO to have a significant proportion of pay based on performance and paid in shares. It is this element of the package which provides the volatility in CEO remuneration and the variations in the ratio. The Committee is satisfied that the underlying picture does not show a divergence trend between the CEO remuneration and employees generally, i.e. excluding share price volatility, the relationship with employee pay is consistent. This is supported by the percentage change in CEO remuneration table in the next section.

	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Ratio of single figure total remuneration to average employee	25.2x	50.1x	37.5x	48.9x	31.9x	41.2x	35.9x	34.5x	**20.6x**

- Our CEO pay is made up of a higher proportion of performance related incentives than that of our employees, in line with the expectations of our shareholders. This introduces a higher degree of variability in CEO pay each year which affects the ratio.
- The value of long-term incentives which measure performance over three years is disclosed in pay in the year it vests; this affects historical years up to 2018.
- Long-term incentives are provided in shares, and therefore a change in price during any deferral or vesting period impacts the value of a long-term incentive award in the year in which it vests.
- We recognise that the ratio is driven by the different structure of the pay of our CEO versus that of our employees, as well as the make-up of our workforce. This ratio varies between businesses even in the same sector. What is important from our perspective is that this ratio is influenced only by the differences in structure, and not by divergence in fixed pay between the CEO and wider workforce.
- Where the base structure of remuneration is similar, for example on comparison between the Executive Committee pay and that of the CEO, the ratio is much more stable over time.

CEO/average pay against TSR



Percentage change in Directors' remuneration

In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, the table below shows the percentage change in Executive Director and Non-Executive Director total remuneration compared to the change for the average of UK-based employees of the Group excluding Executive Directors and Non-Executive Directors.

	Salary/fees				Taxable benefits				Short-term variable pay			
	2022	2021	2020	2019	**2022**	2021	2020	2019	**2022**	2021	2020	2019
Martyn Coffey (CEO)	**16.8%**	6.0%	5.4%	3.30%	**6.3%**	n/a	0%	3.10%	**(75.3)%**	n/a	n/a	n/a
Justin Lockwood (CFO)	**8.1%**	n/a	n/a	n/a	**0.0%**	n/a	n/a	n/a	**(47.2)%**	n/a	n/a	n/a
Simon Bourne (COO)	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Vanda Murray OBE (Chair)	**26.3%**	1.4%	(0.7)%	3.30%	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Angela Bromfield (NED)	**25.0%**	1.4%	(0.7)%	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Tim Pile (NED)	**5.9%**	1.4%	(0.7)%	3.30%	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Graham Prothero (NED)	**14.1%**	1.4%	(0.7)%	3.30%	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Avis Darzins (NED)	**80.0%**	1.4%	n/a	n/a	**n/a**	n/a	n/a	n/a	**n/a**	n/a	n/a	n/a
Employees	**3.6%**	0.3%	5.4%	3.30%	**(26.4)%**	7.3%	(8.8)%	23.80%	**27.1%**	81.0%	(85.1)%	22.20%

Notes:

a) For employees, the change is based on total pay and the average number of employees during the year.

b) The bonus is the non-deferred amount earned for the relevant year taken from the single figure remuneration table on page 120.

c) A 5 per cent increase was awarded to the workforce on 1 January 2022.

d) UK employees have been used as the number of overseas employees is not significant (77) and pay conditions in the non-UK locations (Belgium, China, USA and Netherlands) are different from those prevailing in the UK. These numbers include Marley colleagues.

e) Simon Bourne was appointed to the Board as Chief Operating Officer on 1 April 2022.

f) Avis Darzins joined the Board in June 2021 and therefore her single figure for 2021 (£29,000) reflected part of the year. During 2022, fees were paid to Vanda Murray in relation to her role as the Chair of the Nomination Committee and to Angela Bromfield in relation to her role as the designated employee engagement NED.

CEO pay in the last ten years

This table shows how pay for the CEO role has changed in the last ten years:

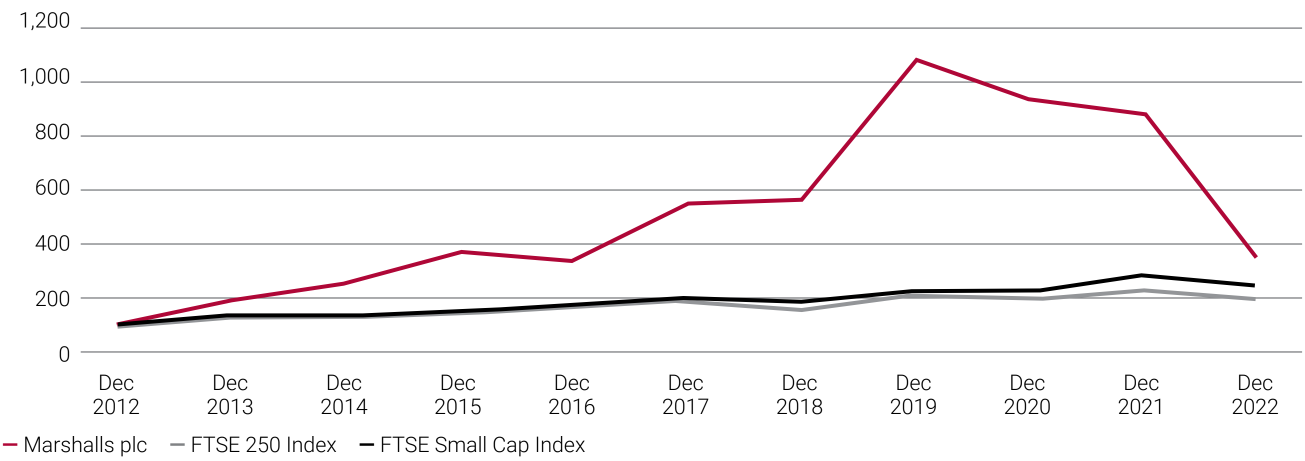
Year	2013[a, b] £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	**2022 £'000**
Single figure remuneration	3,143	1,101	2,064	1,913	2,383	1,602	2,213	1,695	1,685	**1,002**
% of maximum annual bonus earned	63.6%	99.3%	100.0%	96.9%	100.0%	98.0%	99.6%	0%	100.0%	**30.2%**
% of maximum LTIP/MIP awards vesting	63.0%	–	100.0%	100.0%	100.0%	98.0%	99.6%	0%	100.0%	**100.0%**

Notes:

a) 2013 show the previous CEO's (Graham Holden's) remuneration.

b) The 2013 single figure is made up of the previous CEO's base salary and benefits up to 10 October 2013 and Martyn Coffey's proportionate entitlement to salary, benefits and annual bonus for his period of service in 2013. It also includes the various incentive payments that crystallised as a result of Graham Holden being a "good leaver" by reason of retirement in 2013 (see 2013 Remuneration Report for full details).

Total shareholder return



This chart shows the Group's total shareholder return ("TSR") performance compared to: (i) the FTSE Small Cap Index; and (ii) the FTSE 250. TSR is defined as share price growth plus reinvested dividends. Marshalls plc was a constituent of the FTSE Small Cap Index for the period from January 2010 to August 2015 and became a constituent of the FTSE 250 in August 2015. This chart shows the value at 31 December 2022 of £100 invested in Marshalls plc on 1 January 2012 compared with the value of £100 invested in: (i) the FTSE Small Cap Index; and (ii) the FTSE 250. The other plotted points are the intervening financial year ends.

Fairness, diversity and wider workforce considerations continued

Gender pay gap

For 2022, the gender pay gap reporting does not include Marley as the acquisition took place after the snapshot date. Going forward, Marley will be included in the gender pay gap reporting.

At Marshalls, we are wholly committed to promoting equality and preventing discrimination at work. This is especially important when it comes to pay. It is also our business duty to report on the gender pay gap, which looks at differences between the average hourly pay of women compared to the average hourly pay of men.

It is important to highlight that gender pay and equal pay are not the same:

- Gender pay is the difference between the gross hourly earnings for all men and the gross hourly earnings for all women, irrespective of their role or seniority. It is expressed as a percentage of men's earnings. It captures any pay differences between men and women on an organisational level.
- Equal pay is ensuring that men and women are not paid differently for doing the same or like-for-like work.

While both measures share the same broad objective of eliminating sex discrimination in relation to pay, the two are frequently confused. The intention behind equal pay is to ensure that men and women are not paid differently for doing the same or similar work, but this on its own does not prevent a gender pay gap. Gender pay gaps generally exist where the majority of men are in higher paid roles and the majority of women are in lower paid roles.

Gender balance and pay

On the snapshot date of 5 April 2022 the Group's total UK workforce comprised 2,692 employees with the following gender balance:

	Male	Female
Total workforce	2,231	461
Directors and senior managers*	9	4

* Includes NEDs, Executive Directors and senior management.

Our gender pay gap disclosure is based on amounts paid in the April 2022 payroll for UK employees. The gender bonus gap includes incentives paid in the year to 31 March 2022.

Our disclosures are made pursuant to UK Government Equalities legislation. The two main employing entities were Marshalls Group Limited and Marshalls plc.

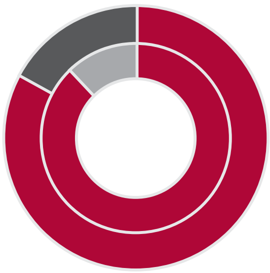
We believe in transparency. Therefore, we publish pay analysis results for all colleagues employed in the Group. This is particularly relevant as one employing entity – Marshalls plc – employs less than 250 colleagues, currently the threshold for mandatory reporting.

Marley was not part of the Group on the snapshot date of 5 April 2022 and therefore the Marley gender pay gap data is not included in this report. The Marley data will be included in the 2023 report.

	Mean gender pay gap	Median gender pay gap	Mean bonus gender pay gap	Median bonus gender pay gap
2022 results				
Marshalls Group Limited	10.6%	16.1%	8.8%	12.9%
Marshalls plc	25.6%	35.9%	29.3%	38.8%
Consolidated (Marshalls plc and Marshalls Group Limited)	(5.5)%	13.5%	(5.8)%	12.2%
2021 results				
Marshalls Group Limited	8.8%	12.9%	60.7%	40.7%
Marshalls plc	29.3%	38.8%	90.7%	31.8%
Consolidated (Marshalls plc and Marshalls Group Limited)	(5.8)%	12.2%	78.9%	29.8%
2020 results				
Marshalls Group Limited	15.9%	22.7%	65.2%	25.1%
CPM Group Limited	18.3%	17.4%	39.2%	51.3%
Edenhall Holdings Limited	(4.5)%	(13.1)%	(45.3)%	8.2%
Consolidated (Marshalls plc and Marshalls Group Limited)	3.2%	20.1%	54.0%	21.8%
2019 results				
Marshalls Group Limited	14.6%	18.7%	63.7%	48.6%
CPM Group Limited	11.3%	14.1%	52.4%	54.8%
Consolidated (Marshalls plc and Marshalls Group Limited)	4.3%	17.0%	71.4%	67.0%
2018 results				
Marshalls Group Limited	15.2%	21.2%	85.0%	20.0%
CPM Group Limited	20.6%	23.1%	69.3%	69.7%
Consolidated (Marshalls plc and Marshalls Group Limited)	15.7%	21.8%	79.1%	73.9%

At a Group level the overall percentage gender split of male and female employees has increased from 14 per cent females in 2021 to 17 per cent in 2022, which is an indication of the Company's continue commitment to attracting and retaining more women. The overall mean GPG has marginally narrowed from -5.8 per cent in 2021 to -5.5 per cent in 2022. The overall median GPG widened by 1.3 per cent from 12.2 per cent in 2021 to 13.5 per cent in 2022. The main contributory factor was a pay award that was applied to HGV Drivers in 2021/22. The standard annual pay award in 2021/22 that applied to the vast majority of colleagues was 5 per cent, and Marshalls applied a 21 per cent pay award to the rates for HGV Drivers. As currently almost all drivers at Marshalls are male, this resulted in the gender pay gap for roles at this level increasing from 11 per cent to 21.5 per cent and impacted the overall figure.

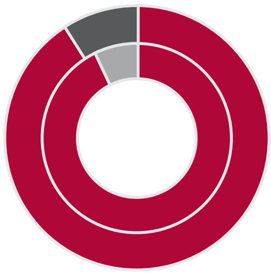
Upper quartile



Consolidated
Male 83% Female 17%

Marshalls Group Limited
Male 88% Female 12%

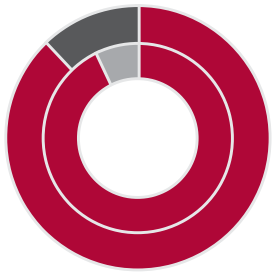
Upper middle quartile



Consolidated
Male 91% Female 9%

Marshalls Group Limited
Male 93% Female 7%

Lower middle quartile



Consolidated
Male 88% Female 12%

Marshalls Group Limited
Male 93% Female 7%

Lower quartile

Consolidated
Male 72% Female 28%

Marshalls Group Limited
Male 67% Female 33%

Bonus gender pay gap

	Male	Female
Percentage receiving bonus		
Consolidated	90.4%	89.6%
Marshalls Group Limited	90.2%	89.9%

	Mean bonus gender pay gap	Median bonus gender pay gap
Consolidated	(57.6)%	0%
Marshalls Group Limited	(131)%	0%

The gender bonus gap includes bonuses paid in the twelve months to 31 March 2022. The mean bonus gap has changed from 78.9 per cent in 2020/21 in favour of men to -57.6 per cent in favour of women. Contributing to this change is a small number of one-off exceptional share awards maturing. The median bonus gap has been reduced to zero as a result of a 'Thank You' bonus which was a one-off payment of the same value paid to all colleagues regardless of their role, seniority, or gender.

Fairness, diversity and wider workforce considerations continued

Equity and diversity initiatives

The Group has policies that promote equity and diversity in the workforce as well as prohibiting discrimination in any form. We are committed to promoting equality and preventing discrimination at work. We recognise that everyone is different, and we are passionate about creating an inclusive environment, where everyone can contribute their best work and develop to their full potential. The Group's Code of Conduct clearly states its commitment to these principles and requires a similar commitment from its business partners.

Our Diversity, Equity, Respect and Inclusion strategy is discussed in the People section on page 55. The Committee supports the valuable progress made against this strategy and the future plans.

External advisers

The Remuneration Committee was advised during the year by external remuneration adviser PricewaterhouseCoopers LLP ("PwC"). PwC attends meetings of the Committee by invitation.

PwC's fees are agreed by the Remuneration Committee according to the work performed. PwC was appointed after a tender process by the Committee in 2017, and its terms of engagement are available on request from the Company Secretary. The Committee is satisfied that the remuneration advice from PwC is objective and independent based on the separation of the team advising the Committee from any other work undertaken by PwC for the Group and the fact that PwC is a signatory to the Remuneration Consultants Group's Code of Conduct. During 2022, PwC provided advice to the Company in relation to the acquisition of Marley and in order to maintain complete independence PwC resigned as remuneration advisers before the work commenced and were reappointed once the work was complete. PwC's work relating to Executive remuneration during 2022 included guidance and support on the review of the Remuneration Policy; assistance with the Remuneration Committee Report; total remuneration benchmarking of Executive Directors; and general advice on remuneration trends, regulations and best practice. The amount paid to PwC in respect of remuneration advice received during 2022 was £104,610 (2021: £38,000).

Angela Bromfield
Chair of the Remuneration Committee
15 March 2023

Directors' Report – Other Regulatory Information

The information required by the Listing Rules (DTR 4.1.8R) is contained in the Strategic Report and the Directors' Report. Marshalls plc is registered with company number 5100353.

The Directors of the Company are listed on pages 76 and 77.

Political donations: The Group made no donations during the year to any political party or political organisation or to any independent election candidate, whether in the UK or elsewhere (2021: £nil).

Risk management: The Group's risk management objectives, its approach to managing risk generally and its use of financial instruments are described in the Strategic Report on pages 66 to 75. Further details of the Group's risk management in relation to financial risks and its use of financial instruments to mitigate such risks are set out in Note 19 on pages 172 to 176.

Greenhouse gas emissions: The Group's disclosure in respect of the Streamlined Energy and Carbon Reporting requirements can be found in the Strategic Report on page 53.

Employees: Details of how the Directors have engaged with employees are set out on page 31. Further information is provided in relation to the engagement channels used and the outcomes from the engagement. The Company's policies in relation to diversity and inclusion and employee involvement and communication are explained in the Strategic Report on pages 54 to 57.

Stakeholders: Details of how the senior management team and the Directors have engaged with shareholders, customers, suppliers and other stakeholder groups are set out on pages 30 to 33, along with engagement channels used. Details of the Group's stakeholder engagement strategy are explained on pages 28 to 35. The statement by the Directors in relation to their statutory duties under S172(1) Companies Act 2006 is found on pages 26 and 27.

Corporate governance: Details of how the Group complies with and applies the UK Corporate Governance Code are set out on pages 78 to 91.

Post-balance sheet events of importance since 31 December 2022: There have been no important events affecting the Group since the end of the financial year.

Research and development: Activity and likely future developments for the business are described in the Strategic Report on pages 1 to 75.

Dividends

The Board is recommending a final dividend of 9.9 pence (2021: 9.6 pence) per share, which, together with the interim dividend of 5.7 pence (2021: 4.7 pence) per share, makes a combined dividend of 15.6 pence (2021: 14.3 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 3 July 2023 to shareholders registered at the close of business on 2 June 2023. The ex-dividend date will be 1 June 2023.

The dividend paid in the year to 31 December 2022 and disclosed in the Consolidated Income Statement was 15.3 pence (2021: 14.3 pence) per share, being the previous year's final dividend of 9.6 pence and the interim dividend of 5.7 pence per share in respect of the year ended 31 December 2022.

Share capital and authority to purchase shares

The Company's share capital at 1 January 2023 was 252,968,728 Ordinary Shares of 25 pence each. 52,916,571 new Ordinary Shares were issued during the year ended 31 December 2022. Details of the share capital are set out in Note 23 on page 181.

The Ordinary Shares of the Company carry equal rights to dividends, voting and return of capital on the winding up of the Company, as set out in the Company's Articles of Association. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any arrangement between holders of its shares which may result in restrictions on the transfer of securities or voting rights, nor any arrangement whereby a shareholder has waived or agreed to waive dividends (other than the EBT – see below).

The Marshalls plc Employee Benefit Trust ("EBT") generally holds shares for the purposes of satisfying future awards that may vest under the Company's share-based incentive schemes. The EBT may purchase shares in the Company from time to time to satisfy awards granted to Directors and senior Executives (subject to the achievement of performance targets under the Company's incentive schemes) or to facilitate the satisfaction by employees of their tax liabilities arising from any rewards. Details of outstanding incentive awards are set out in Note 20 on page 179.

In addition to its general purpose, as part of the acquisition of Marley the manager sellers agreed to the legal title to their consideration shares being held on trust by the EBT for a period of twelve months following completion of the acquisition. Arrangements were put in place as part of the acquisition to enable the EBT to support this arrangement.

Where shares are acquired by the EBT these are accounted for by the Company as a purchase of own shares. During the year ended 31 December 2022 the EBT acquired 172,961 shares for a total consideration of £1,074,584.

At 31 December 2022 the EBT held 2,501,511 Ordinary Shares in the Company (2021: 865,154 shares), 602,303 in respect of future incentive awards under the Company's employee share schemes and 1,899,208 on trust for the Marley manager sellers.

The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The Trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

UK-based employees of the Group with more than six months' service may participate in the Marshalls plc Share Purchase Plan during any offer period. Employees purchase Ordinary Shares in the Company with their pre-tax salary. The shares are purchased in the market and then held in trust by Computershare plc. Employees receive dividends on these shares and may give voting instructions to the Trustee.

Share capital and authority to purchase shares continued

At the Annual General Meeting in May 2022 shareholders gave authority to the Directors to purchase up to 29,987,818 shares, representing approximately 14.99 per cent of the Company's issued share capital in the Company, in the market during the period expiring at the next Annual General Meeting at a price to be determined within certain limits. No Ordinary Shares in the Company were purchased during the year or between 31 December 2022 and 15 March 2023 under this authority, which will expire at the 2023 Annual General Meeting. The Directors will seek to renew the authority at that meeting.

Contracts of significance and related parties

There were no contracts of significance between any member of the Group and (a) any undertaking in which a Director has a material interest, or (b) a controlling shareholder (other than between members of the Group). There have been no related party transactions between any member of the Group and a related party since the publication of the last Annual Report.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Group. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole.

Articles of Association

The Company's Articles of Association give powers to the Board to appoint Directors. Newly appointed Directors are required to retire and submit themselves for re-election by shareholders at the first Annual General Meeting following their appointment.

The Board of Directors may exercise all the powers of the Company, subject to the provisions of relevant laws and the Company's Memorandum and Articles of Association. These include specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing and buying back of shares are included in the Articles of Association and such authorities are renewed by shareholders each year at the Annual General Meeting.

The Articles of Association may be amended by Special Resolution of the shareholders.

The Group has granted indemnities to its Directors to the extent permitted by law (which are qualifying indemnity provisions under Section 236 of the Companies Act 2006) and these remained in force during the year in relation to certain losses and liabilities that the Directors may incur to third parties in the course of action as Directors or employees of the Company, any subsidiary or associated company, or a Director of the pension scheme trustee board. Neither the liability insurance nor the indemnities provide cover in the event of proven fraudulent or dishonest activity. The Group has not indemnified any Director under the indemnities currently in place.

Directors' interests

Details of Directors' remuneration, their interests in the share capital of the Company and the share-based payment awards are contained in the Remuneration Committee Report on pages 100 to 130.

Listing Rule requirements

The applicable requirements of Listing Rule 9.8.4R in respect of long-term incentive schemes (page 179) and contracts of significance (page 132) are included in this Annual Report.

Substantial shareholdings

The Company has no controlling shareholder. As at 15 March 2023, the Company had been notified, in accordance with DTR 5, of the following disclosable interests of 3 per cent or more in its voting rights:

	As at 28 February 2023 %	As at 31 December 2022 %
abrdn	**16.06**	13.65
Inflexion Private Equity Partners	**8.72**	8.72
Montanaro asset Management	**6.29**	6.19
Royal London Asset Management	**5.01**	4.90
Legal and General Investment Management	**4.66**	4.68
Vanguard Group	**4.39**	4.32
BlackRock	**4.04**	4.05
AXA Framlington Investment Managers	**3.69**	3.82
Janus Henderson Investors	**2.86**	2.29
NFU Mutual	**2.42**	2.46

The Directors' Report, comprising the Strategic Report, the Corporate Governance Statement and the Reports of the Audit, Remuneration and Nomination Committees, has been approved by the Board and signed on its behalf by:

Shiv Sibal
Group Company Secretary
15 March 2023

Statement of Directors' Responsibilities
in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with United Kingdom adopted International Accounting Standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The Directors have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards, 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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

In preparing the Group Financial Statements, IAS 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

Responsibility statement of the Directors on the Annual Report and Accounts

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on pages 76 and 77 confirm that, to the best of each of their knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Statement of Directors' Responsibilities continued
in respect of the Annual Report and the Financial Statements

Going concern
The Directors have adopted the going concern basis in preparing these Financial Statements in accordance with the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting", issued in September 2014. The Directors considered that it was appropriate to do so, having reviewed any uncertainties that may affect the Company's ability to continue as a going concern for at least the next twelve months from the date these Financial Statements were approved.

Cautionary statement and Directors' liability
This Annual Report 2022 has been prepared for, and only for, the members of the Company, as a body, and no other persons. Neither the Company nor the Directors accept or assume any liability to any person to whom this Annual Report is shown or into whose hands it may come except to the extent that such liability arises and may not be excluded under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

This Annual Report contains certain forward-looking statements with respect to the Group's financial condition, results, strategy, plans and objectives. These statements are not forecasts or guarantees of future performance and involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future.

There are a number of factors that could cause actual results or developments to differ materially from those expressed, implied or forecast by these forward-looking statements. All forward-looking statements in this Annual Report are based on information known to the Group as at the date of this Annual Report and the Group has no obligation publicly to update or revise any forward-looking statements, whether as a result of new information or future events. Nothing in this Annual Report should be construed as a profit forecast.

Annual General Meeting
The Notice convening the Annual General Meeting to be held at the offices of Walker Morris, 33 Wellington Street, Leeds, West Yorkshire LS1 4DL, together with explanatory notes on the resolutions to be proposed, is contained in a circular to be sent to shareholders with this Annual Report.

By Order of the Board:

Shiv Sibal
Group Company Secretary
15 March 2023

Independent Auditor's Report
to the members of Marshalls plc

Report on the audit of the Financial Statements

1. Opinion
In our opinion:

- the Financial Statements of Marshalls plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB");
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 *"Reduced Disclosure Framework"*; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related Notes 1 to 45.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. 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 FRS 101 *"Reduced Disclosure Framework"* (United Kingdom Generally Accepted Accounting Practice).

2. 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 Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Acquisition accounting, in particular the identification and valuation of intangible assets and fair value of other assets and liabilities acquired as part of the Marley Group acquisition. Within this report, key audit matters are identified as follows: ! Newly identified
Materiality	The materiality that we used for the Group Financial Statements was £4.3 million which was determined on the basis of 5 per cent of adjusted profit before tax.
Scoping	Full scope audits were performed on all UK components. This accounts for 97 per cent of Group revenue, over 99 per cent of Group net assets and over 99 per cent of profit before tax.
Significant changes in our approach	The Group acquired the Marley Group Limited during the year and we have identified a key audit matter for the current year relating to the acquisition accounting for this transaction, in particular the identification and valuation of intangible assets and fair values of other assets and liabilities acquired. We have also extended our scope of the audit to include full scope audits on the businesses within the Marley Group. This results in two full scope components that are both tested by the Group engagement team. "Marshalls UK" compromises the Landscape Products and Building Supplies business and "Marley Group" reflects the Roofing division. We no longer have a key audit matter in relation to the valuation of inventory provisions. As a result of the increased size of the Group, and on consideration of our overall audit strategy, this no longer represents a significant relevant share of audit effort. There have been no other significant changes to our approach since the prior year.

Report on the audit of the Financial Statements continued

4. Conclusions relating to going concern

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 evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the level of borrowing including consideration of undrawn facilities and compliance with covenants;
- Considering the existence and future periods of availability for borrowings and the extent of headroom available to the Group;
- Assessing the assumptions used in the forecasts, including performing sensitivity analysis and considering the current macro-economic environment and climate change;
- Assessing the historical accuracy of the model used to prepare the forecasts; and
- Assessing the appropriateness of the disclosures in the Financial Statements.

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 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 relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' Statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Acquisition Accounting !

Key audit matter description	The Group completed the acquisition of the entire share capital of the Marley group on 29 April 2022. The acquisition is accounted for in accordance with IFRS 3 *"Business Combinations"* and this requires judgement to be applied in the identification and valuation of intangible assets, calculated on an income based approach and the determination of other fair value adjustments to the net assets within the acquired business. This process is inherently complex and a risk exists that intangible assets and other fair value adjustments may be incorrectly identified and valued. Key fair value adjustments have been made to the assets and liabilities acquired in relation to property, tax and intangible assets. Management have engaged experts to inform their valuations in these areas. As described in Note 25 to the Financial Statements, the provisional fair value of the net assets acquired has been estimated at £23.9 million,including intangible assets identified and valued at £228.2 million. This matter is discussed in the Report of the Audit Committee on pages 96 to 99.
How the scope of our audit responded to the key audit matter	We have: • Obtained an understanding of key relevant controls relating to management's process for identification and valuation of intangible assets; • Evaluated the accounting entries recorded by agreeing to management's acquisition accounting paper and workings and the sale and purchase agreement ("SPA"); • Agreed cash paid in respect of consideration to bank statements and assessed total consideration by reference to the SPA; • Assessed forecasts for the Marley Group and performed sensitivity analysis to assess the valuation basis for income based valuation models for intangible assets; • Assessed due-diligence reports obtained as part of the acquisition to check for any matters that may give rise to future liabilities or other accounting consequences; • Evaluated the SPA for any unusual clauses that may have accounting consequences and assessed the completeness of acquisition adjustments; • Tested the significant fair value adjustments recorded in respect of the business acquired by reference to supporting evidence and industry data; • Involved our valuation specialists to evaluate the process applied by management for determining the separate intangible assets and the appropriateness of the assumptions made in the calculation; • Involved our real estate specialists to independently assess the fair value of the properties acquired as part of the acquisition; • Involved our tax specialists to assess corporation tax related adjustments; and • Evaluated the competence, capability and objectivity of experts engaged by management
Key observations	Based on our procedures we conclude that the judgements made by management in identifying and valuing the net assets within the acquired business are reasonable.

Report on the audit of the Financial Statements continued

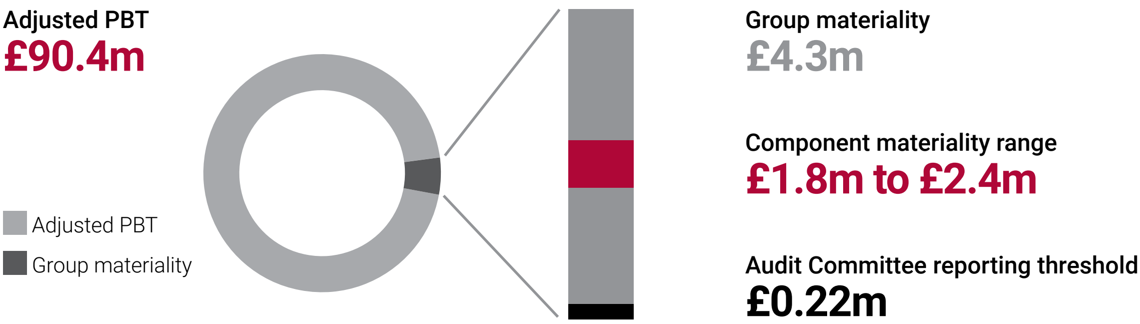
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
Materiality	£4.3 million (2021: £3.5 million)	£2.2 million (2021: £1.7 million)
Basis for determining materiality	5 per cent of adjusted pre-tax profit (2021: 50 per cent of pre-tax profit) The reconciliation of adjusted pre-tax profit has been presented and reconciled within Note 4. Materiality in the prior year was determined using statutory profit before tax without any adjustments, however given the significance of adjusting items in the current year, we have considered the adjusted measure as the most relevant for users of the Financial Statements.	Parent Company materiality has been capped at 50 per cent of net assets (2021: 0.5 per cent of net assets).
Rationale for the benchmark applied	In our professional judgement, adjusted profit before tax is the principal benchmark within the Financial Statements that is relevant to the users of the Financial Statements when assessing the performance of the Group.	As a holding company, net assets are considered to be the primary benchmark.



Report on the audit of the Financial Statements continued

6. Our application of materiality continued

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole.

	Group Financial Statements	Parent Company Financial Statements
Performance materiality	70 per cent (2021: 70 per cent) of Group materiality	70 per cent (2021: 70 per cent) of Parent Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. Our risk assessment, including our assessment of the quality of the control environment and that we were able to rely on controls in Marshalls UK over the general IT environment, rebates and revenue; b. The impact of the current macro-economic environment and climate change on the business and its operating environment; and c. The history of there being no qualitatively or qualitatively significant corrected or uncorrected misstatements in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £215,000 (2021: £175,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

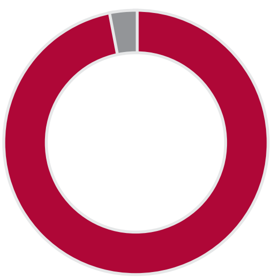
Our group audit was scoped by obtaining an understanding of the group and it's environment, including group-wide controls, and assessing the risks of material misstatement both at the Group and component level.

Full scope audits were performed on all UK components, including the Marley Group. This accounts for 97 per cent (2021: 95 per cent) of group revenue, over 99 per cent (2021: 100 per cent) of group net assets and over 99 per cent (2021: 94 per cent) of profit before tax generated by profit making entities.

This results in 2 full scope components that are both tested by the Group engagement team. "Marshalls UK" compromises the Landscape Products and Building Supplies business and "Marley Group" which reflects the Roofing division. At the Group level we also tested the consolidation process.

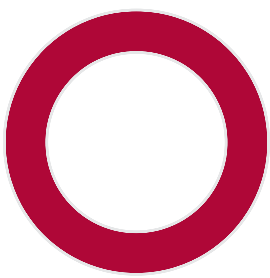
The group audit team carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining component not subject to audit.

Revenue



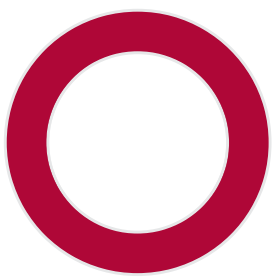
Full audit scope 97%
Review at Group level 3%

Profit before tax



Full audit scope 100%
Review at Group level 0%

Net assets



Full audit scope 100%
Review at Group level 0%

Report on the audit of the Financial Statements continued

7. An overview of the scope of our audit continued

7.2. Our consideration of the control environment

IT systems

To support the audit testing performed we have involved our IT specialists to consider the relevant IT systems used by the Group to generate information which supports the amounts recognised in the Financial Statements. In order to evaluate the IT environment of the Group we have obtained an understanding of relevant IT systems and the automated controls within these systems.

In evaluating the Marshalls UK component IT environment, we have:

- understood the IT system within the finance IT environment, Microsoft AX. This system is used for the entity's financial reporting process and covers all finance, payroll and HR modules;
- understood the Data Warehouse system which houses the inventory database;
- tested the following General IT Controls for Microsoft AX and Data Warehouse: Access Security (Joiners, Movers, Leavers ("JML"), Passwords, Privileged Access and User Access Reviews ("UARs")), Change Management (Change Process and Segregation of Duties) and Batch Jobs (Access to Amend, and Monitoring of Batch Jobs);
- performed sample testing, where applicable, in order to determine operating effectiveness of key automated controls (JML, UARs, Change Management and Batch Job Monitoring); and
- taken reliance on all relevant IT controls associated with these systems.

In evaluating the Marley Group IT environment, we have:

- understood the key IT systems within the finance IT environment, being SAP and Sage. These systems are used for the component's financial reporting process for monitoring their individual entities and reporting to Marshalls plc Group and evaluated the key general IT controls.

Controls reliance

During our audit we obtained an understanding and tested the relevant controls within the key business cycles for the Group. We have taken controls reliance over the revenue and customer rebates business cycles within Marshalls UK, as these are key accounts that impact the Group's profits. We did not plan to rely on the controls over the Marley Group component, given that this was our first year auditing the entity.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the group's business and its Financial Statements.

The Group are focused on responding to the threats and opportunities presented by climate change with a developed strategy in how this is to be achieved. The Directors have considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the Company. This is set out in the Strategic Report on pages 1 to 75, the principal risks set out on pages 66 to 75. The Directors have concluded that the key risk of climate change for the business is the reduced business from customers choosing lower carbon products. Furthermore they have acknowledged the increasing risk of climate change and as such have put more focus into climate risk assessment and developing appropriate strategies to respond to those risks, both on a short term basis and on consideration of the longer-term outlook.

We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transaction and did not identify any reasonably possible risks of material misstatement. Our procedures were performed with the involvement of climate change and sustainability specialists and included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the Financial Statements and our knowledge obtained in the audit and evaluating whether appropriate disclosures have been made in the Financial Statements.

8. Other information

The other information comprises the information included in the Annual Report, other than the Financial Statements and our Auditor's Report thereon. The Directors are responsible for the other information contained within the Annual Report.

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.

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 course of 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 this gives rise to a material misstatement in the Financial Statements themselves. 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.

9. Responsibilities of Directors

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.

Report on the audit of the Financial Statements continued

10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

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

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Acquisition accounting, in particular the identification and valuation of intangible assets and fair value of other assets and liabilities acquired as part of the Marley Group acquisition.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's environmental regulations and health and safety regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified acquisition accounting as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with 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.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Corporate Governance Statement
The Listing Rules require us to review the Directors' Statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements and our knowledge obtained during the audit:

- the Directors' Statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified (set out on page 134);
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate (set out on page 134);
- the Directors' Statement on fair, balanced and understandable (set out on page 99);
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks (set out on page 69);
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems (set out on page 83); and
- the section describing the work of the Audit Committee (set out on pages 96 to 99).

14. Matters on which we are required to report by exception
14.1. Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Report on other legal and regulatory requirements continued

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders on 20 May 2015 to audit the Financial Statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is eight years, covering the years ending 31 December 2015 to 31 December 2022.

15.2. Consistency of the Audit Report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. 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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these Financial Statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This Auditor's Report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

David Johnson FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
15 March 2023

Consolidated Income Statement
for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Revenue	2	**719,373**	589,264
Net operating costs	3	**(671,461)**	(513,041)
Operating profit	2	**47,912**	76,223
Financial expenses	6	**(10,716)**	(6,903)
Financial income	6	**1**	2
Profit before tax	2	**37,197**	69,322
Income tax expense	7	**(10,656)**	(14,424)
Profit for the financial year		**26,541**	54,898
Profit for the year			
Attributable to:			
Equity shareholders of the Parent		**26,791**	54,806
Non-controlling interests		**(250)**	92
Profit for the financial year		**26,541**	54,898
Earnings per share			
Basic	8	**11.4p**	27.5p
Diluted	8	**11.3p**	27.4p
Dividend			
Pence per share	9	**15.6p**	14.3p
Dividends declared in the period	9	**39,427**	28,484

All results relate to continuing operations.

	Notes	2022 £'000	2021 (as restated) £'000
Operating profit before adjusting items			
Operating profit		**47,912**	76,223
Adjusting items	4	**53,220**	1,148
Adjusted operating profit		**101,132**	77,371
Profit before tax and adjusting items			
Profit before tax		**37,197**	69,322
Adjusting items	4	**53,220**	3,961
Adjusted profit before tax		**90,417**	73,283
Profit after tax and adjusting items			
Profit for the financial year		**26,541**	54,898
Adjusting items (net of tax)	4	**46,815**	3,355
Adjusted profit after tax		**73,356**	58,253
Earnings per share after adding back adjusting items			
Basic	8	**31.3p**	29.2p
Diluted	8	**31.1p**	29.0p

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2022

	Notes	2022 £'000	2021 (as restated) £'000
Profit for the financial year		**26,541**	54,898
Other comprehensive income/(expense)			
Items that will not be reclassified to the Income Statement:			
Remeasurements of the net defined benefit surplus	20	**(3,126)**	26,383
Deferred tax arising	22	**781**	(6,600)
Impact of the change in rate of deferred tax on defined benefit plan actuarial gain		**–**	17
Total items that will not be reclassified to the Income Statement		**(2,345)**	19,800
Items that are or may in the future be reclassified to the Income Statement:			
Effective portion of changes in fair value of cash flow hedges		**5,660**	1,403
Fair value of cash flow hedges transferred to the Income Statement		**(2,847)**	(922)
Deferred tax arising	22	**(680)**	36
Exchange difference on retranslation of foreign currency net investment		**610**	(232)
Exchange movements associated with borrowings designated as a hedge against net investment		**(282)**	640
Foreign currency translation differences – non-controlling interests		**45**	(55)
Total items that are or may be reclassified to the Income Statement		**2,506**	870
Other comprehensive income for the year, net of income tax		**161**	20,670
Total comprehensive income for the year		**26,702**	75,568
Attributable to:			
Equity shareholders of the Parent		**26,907**	75,531
Non-controlling interests	24	**(205)**	37
		26,702	75,568

Consolidated Balance Sheet
at 31 December 2022

	Notes	2022 £'000	2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**266,451**	173,931
Right-of-use assets	11	**36,997**	36,445
Intangible assets	12	**559,743**	95,004
Employee benefits	20	**22,434**	25,757
Deferred taxation assets	22	**1,270**	1,605
		886,895	332,742
Current assets			
Inventories	13	**138,765**	107,436
Trade and other receivables	14	**123,281**	111,909
Cash and cash equivalents	15	**56,264**	41,212
Assets classified as held for sale	10	**—**	1,860
Derivative financial instruments	19	**3,661**	813
		321,971	263,230
Total assets		**1,208,866**	595,972
Liabilities			
Current liabilities			
Trade and other payables	16	**152,440**	138,218
Corporation tax		**2,128**	2,198
Lease liabilities	18	**9,764**	8,545
Interest-bearing loans and borrowings	17	**—**	1,673
Provisions	21	**3,000**	—
		167,332	150,634
Non-current liabilities			
Lease liabilities	18	**36,070**	32,776
Interest-bearing loans and borrowings	17	**247,035**	39,341
Provisions	21	**6,699**	839
Deferred taxation liabilities	22	**90,661**	28,065
		380,465	101,021
Total liabilities		**547,797**	251,655
Net assets		**661,069**	344,317
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital	23	**63,242**	50,013
Share premium account	23	**199,927**	24,482
Merger reserve	23	**141,605**	—
Own shares		**(1,325)**	(646)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**2,963**	830
Foreign exchange reserve		**375**	47
Retained earnings		**391,173**	406,277
Equity attributable to equity shareholders of the Parent		**660,287**	343,330
Non-controlling interests	24	**782**	987
Total equity		**661,069**	344,317

Approved at a Directors' meeting on 15 March 2023.

On behalf of the Board:

Martyn Coffey
Chief Executive

Justin Lockwood
Chief Financial Officer

The Notes on pages 149 to 185 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2022

	Notes	2022 £'000	2021 (as restated) £'000
Profit for the financial year		**26,541**	54,898
Income tax expense on continuing operations	7	**17,061**	15,030
Income tax credit on adjusting items	7	**(6,405)**	(606)
Profit before tax		**37,197**	69,322
Adjustments for:			
Depreciation of property, plant and equipment	10	**21,817**	16,423
Asset impairments		**14,042**	233
Depreciation of right-of-use assets	11	**11,328**	11,315
Amortisation	12	**1,765**	1,965
Adjusting items		**39,177**	1,213
Gain on sale of property, plant and equipment		**(1,207)**	(9,194)
Equity settled share-based payments		**1,254**	2,303
Financial income and expenses (net)	6	**10,715**	6,901
Operating cash flow before changes in working capital		**136,088**	100,481
Decrease/(increase) in trade and other receivables		**22,900**	(16,696)
Increase in inventories		**(13,997)**	(18,108)
(Decrease)/increase in trade and other payables		**(20,737)**	19,740
Adjusting items paid		**(17,410)**	(2,820)
Cash generated from operations		**106,844**	82,597
Financial expenses paid		**(9,909)**	(3,534)
Income tax paid		**(11,592)**	(13,527)
Net cash flow from operating activities		**85,343**	65,536
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1,408**	14,892
Financial income received		**1**	2
Acquisition of subsidiary undertaking		**(86,193)**	—
Acquisition of property, plant and equipment		**(27,840)**	(19,037)
Acquisition of intangible assets		**(2,310)**	(2,885)
Net cash flow from investing activities		**(114,934)**	(7,028)
Cash flows from financing activities			
Net proceeds from issue of share capital		**182,651**	—
Payments to acquire own shares		**(1,075)**	(3,567)
Payment in respect of share-based payment award		**(1,252)**	—
Repayment of debt on acquisition of subsidiaries		**(291,956)**	—
Repayment of borrowings		**(97,729)**	(121,286)
New loans		**303,467**	32,658
Cash payment for the principal portion of lease liabilities		**(11,090)**	(10,828)
Equity dividends paid		**(38,669)**	(17,924)
Net cash flow from financing activities		**44,347**	(120,947)
Net increase/(decrease) in cash and cash equivalents		**14,756**	(62,439)
Cash and cash equivalents at the beginning of the year		**41,212**	103,707
Effect of exchange rate fluctuations		**296**	(56)
Cash and cash equivalents at the end of the year		**56,264**	41,212

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

	Attributable to equity holders of the Company											
	Share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Current year												
At 1 January 2022	50,013	24,482	–	(646)	75,394	(213,067)	830	47	406,277	343,330	987	344,317
Total comprehensive income/(expense) for the year												
Profit for the financial year	–	–	–	–	–	–	–	–	26,791	26,791	(250)	26,541
Other comprehensive income/(expense)												
Foreign currency translation differences	–	–	–	–	–	–	–	328	–	328	45	373
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	–	5,660	–	–	5,660	–	5,660
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	–	(2,847)	–	–	(2,847)	–	(2,847)
Deferred tax arising	–	–	–	–	–	–	(680)	–	–	(680)	–	(680)
Defined benefit plan actuarial loss	–	–	–	–	–	–	–	–	(3,126)	(3,126)	–	(3,126)
Deferred tax arising	–	–	–	–	–	–	–	–	781	781	–	781
Total other comprehensive income/(expense)	–	–	–	–	–	–	2,133	328	(2,345)	116	45	161
Total comprehensive income/(expense) for the year	–	–	–	–	–	–	2,133	328	24,446	26,907	(205)	26,702
Shares issued	13,229	180,151	141,605	–	–	–	–	–	–	334,985	–	334,985
Share issue costs	–	(4,706)	–	–	–	–	–	–	–	(4,706)	–	(4,706)
Share-based payments	–	–	–	–	–	–	–	–	2	2	–	2
Deferred tax on share-based payments	–	–	–	–	–	–	–	–	(608)	(608)	–	(608)
Corporation tax on share-based payments	–	–	–	–	–	–	–	–	121	121	–	121
Dividends to equity shareholders	–	–	–	–	–	–	–	–	(38,669)	(38,669)	–	(38,669)
Purchase of own shares	–	–	–	(1,075)	–	–	–	–	–	(1,075)	–	(1,075)
Own shares issued under share scheme	–	–	–	396	–	–	–	–	(396)	–	–	–
Total contributions by and distributions to owners	13,229	175,445	141,605	(679)	–	–	–	–	(39,550)	290,050	–	290,050
Total transactions with owners of the Company	13,229	175,445	141,605	(679)	–	–	2,133	328	(15,104)	316,957	(205)	316,752
At 31 December 2022	63,242	199,927	141,605	(1,325)	75,394	(213,067)	2,963	375	391,173	660,287	782	661,069

Consolidated Statement of Changes in Equity continued

for the year ended 31 December 2022

	Share capital £'000	Attributable to equity holders of the Company								Non-controlling interests £'000	Total equity £'000
		Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total £'000		
Current year											
At 1 January 2021	50,013	24,482	(806)	75,394	(213,067)	313	(361)	350,930	286,898	950	287,848
Total comprehensive income/(expense) for the year											
Profit for the financial year	–	–	–	–	–	–	–	54,806	54,806	92	54,898
Other comprehensive income/(expense)											
Foreign currency translation differences	–	–	–	–	–	–	408	–	408	(55)	353
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	1,403	–	–	1,403	–	1,403
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	(922)	–	–	(922)	–	(922)
Deferred tax arising	–	–	–	–	–	36	–	–	36	–	36
Defined benefit plan actuarial gain	–	–	–	–	–	–	–	26,383	26,383	–	26,383
Deferred tax arising	–	–	–	–	–	–	–	(6,600)	(6,600)	–	(6,600)
Impact of the change in rate of deferred tax on defined benefit plan actuarial gain	–	–	–	–	–	–	–	17	17	–	17
Total other comprehensive income/(expense)	–	–	–	–	–	517	408	19,800	20,725	(55)	20,670
Total comprehensive income/(expense) for the year	–	–	–	–	–	517	408	74,606	75,531	37	75,568
Share-based payments	–	–	–	–	–	–	–	2,303	2,303	–	2,303
Deferred tax on share-based payments	–	–	–	–	–	–	–	(256)	(256)	–	(256)
Corporation tax on share-based payments	–	–	–	–	–	–	–	345	345	–	345
Dividends to equity shareholders	–	–	–	–	–	–	–	(17,924)	(17,924)	–	(17,924)
Purchase of own shares	–	–	(3,567)	–	–	–	–	–	(3,567)	–	(3,567)
Own shares issued under share scheme	–	–	3,727	–	–	–	–	(3,727)	–	–	–
Total contributions by and distributions to owners	–	–	160	–	–	–	–	(19,259)	(19,099)	–	(19,099)
Total transactions with owners of the Company	–	–	160	–	–	517	408	55,347	56,432	37	56,469
At 31 December 2021	50,013	24,482	(646)	75,394	(213,067)	830	47	406,277	343,330	987	344,317

1 Accounting policies

Significant accounting policies

Marshalls plc (the "Company") is a public company limited by shares, incorporated in the United Kingdom under the Companies Act 2006, and is registered in England and Wales. The Consolidated Financial Statements of the Company for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 15 March 2023.

The Company's registered address is Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT.

The following paragraphs summarise the significant accounting policies of the Group, which have been applied in dealing with items which are considered material in relation to the Group's Consolidated Financial Statements.

The Group has applied all accounting standards and interpretations issued by the IASB and International Financial Reporting Committee relevant to its operations and which are effective in respect of these Financial Statements.

Adoption of new standards in 2022

The accounting policies have been applied consistently throughout the Group for the purposes of these Consolidated Financial Statements and are also set out on the Company's website (www.marshalls.co.uk/investor/financial-performance). Adjusting items have been disclosed separately because of their size, nature or incidence to enable a full understanding of the Group's underlying results.

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the Consolidated Financial Statements.

At the date of authorisation of these Consolidated Financial Statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IAS 16 *"Property, plant and equipment – proceeds before intended use"*
- Annual improvements to IFRS Standards 2018-2020 Cycle – Amendments to IFRS1 First-time Adoption of International Financial Reporting Standards, IFRS 9 and Financial Instruments, IFRS 16 *"Leases"* and IAS 41 *"Agriculture"*
- Amendments to IFRS 3 *"Reference to the conceptual framework"*
- Amendments to IAS 37 *"Onerous contracts – costs of fulfilling a contract"*
- Amendment to IFRS 16 *"COVID-19 related rent concessions beyond 30 June 2021"*
- IFRS 17 *"Insurance Contracts"*
- Amendment to IAS 1 *"Classification of liabilities as current or non-current"*
- Amendments to IAS 1 and IFRS Practice Statement 2 – *"Disclosure of accounting policies"*
- Amendments to IAS 12 *"Deferred tax related to assets and liabilities arising from a single transaction"*
- Amendments to IAS 8 *"Definition of accounting estimates"*
- Amendments to IFRS 16 *"Lease liability in a sale and leaseback"*
- Amendment to IAS 1 *"Non-current liabilities with covenants"*

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Consolidated Financial Statements of the Group in future periods.

(a) Statement of compliance

The Group Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Accounting Standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB")". The Parent Company has elected to prepare its Financial Statements in accordance with FRS 101 "Reduced Disclosure Framework" and these are presented on pages 186 to 193.

(b) Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 75. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also set out in the Strategic Report. In addition, Note 19 includes the Group's policies and procedures for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

On 3 May 2022, the Group drew down on a new four-year bank loan of £210 million to support the acquisition of Marley Group plc. In addition to the term loan, the Group has entered into a new committed revolving credit facility of £160 million with a maturity date of four years. Net debt to adjusted EBITDA was 1.35 times at 31 December 2022 on a pro forma (pre-IFRS 16) twelve-month basis.

In assessing the appropriateness of adopting the going concern basis in the Consolidated Financial Statements, the Board reviewed a range of severe downside scenarios to stress test the potential impact of emerging and longer-term risks on covenant, compliance and liquidity.

The stress tests reviewed do not impact the Directors' opinion that there is sufficient headroom against both the Group's bank facility and the associated covenants and that there are sufficient unutilised facilities held which mature after twelve months.

The Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. However, the potential impact of wider political and economic uncertainties has been considered, including issues or delays as a consequence of continuing issues relating to the wider supply chain and the impact of cost inflation. The deteriorating macro-economic environment is the key underlying risk. The financial impact of climate change risk continues to be assessed along with market changes driven by advances in technology. Based on current expectations, the Group's latest cash forecasts continue to meet half year and year-end bank covenants and there is adequate headroom that is not dependent on facility renewals. At 31 December 2022, on an adjusted proforma pre-IFRS 16 test basis, the relevant ratios were comfortably achieved and were as follows:

- EBITA: interest charge – 16 times (covenant test requirement – to be greater than 3.0 times).
- Net debt: adjusted EBITDA – 1.35 times (covenant test requirement – to be less than 3.0 times).

1 Accounting policies continued
Significant accounting policies continued
(b) Basis of preparation continued
In performing an assessment of the Group's going concern, the Directors have considered the Group's capital allocation policy and priorities for capital as set out on page 64 and the possible future cash requirements arising from each of these priorities for capital.

After considering these capital allocation priorities and the risks associated with other relevant uncertainties (including the impact on markets and supply chains of geographical risks such as the current crisis in Ukraine, the risk of further COVID-19 uncertainty and continuing macro-economic factors and inflation), the Directors believe that the Group is well-placed to manage its business risks successfully. The Board considers that the facilities now available to the Group are sufficient to meet significant downside liquidity scenarios over a prolonged period and that there are sufficient unutilised facilities held which mature after twelve months. Accordingly, the Directors continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

The Consolidated Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and liabilities for cash settled share-based payments.

The Consolidated Financial Statements are presented in Sterling, rounded to the nearest thousand. Sterling is the currency of the primary economic environment in which the Group operates.

The preparation of Financial Statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These are set out in Note 30 on page 185. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of adopted IFRSs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 30.

(c) Basis of consolidation
(i) Subsidiaries
Subsidiaries (which are set out in detail in Note 34 on pages 190 and 191) are entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

(ii) Transactions eliminated on consolidation
Intra-Group balances, and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the Consolidated Financial Statements.

(iii) Non-controlling interests
Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests, entitling their holders to a proportionate share of the acquiree's net assets, are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at the initial recognition plus the non-controlling interests' proportionate share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

1 Accounting policies continued

Significant accounting policies continued

(d) Foreign currency transactions
Transactions in foreign currencies are translated to Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve (attributed to non controlling interests as appropriate).

(e) Financial instruments
The Group uses derivative financial instruments to hedge its exposure to foreign exchange and fuel pricing risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised at fair value and transaction costs are recognised in the Income Statement when incurred. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (f)).

Classification and measurement
The classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost; (ii) fair value through other comprehensive income ("FVTOCI"); and (iii) fair value through profit or loss ("FVTPL"). Under IFRS 9, derivatives embedded in financial assets are not bifurcated but instead the whole hybrid contract is assessed for classification.

Under IFRS 9, financial assets can be designated as at FVTPL to mitigate an accounting mismatch.

In respect to classification and measurement of financial liabilities, changes in the fair value of a financial liability designated as at FVTPL due to credit risk are presented in other comprehensive income unless such presentation would create or enlarge an accounting mismatch in profit or loss.

Impairment
Credit losses and expected credit losses are recognised in accordance with IFRS 9. The amount of expected credit losses is updated at each reporting date.

The IFRS 9 impairment model has been applied to the Group's financial assets that are debt instruments measured at amortised cost or FVTOCI.

The Group has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables, as required or permitted by IFRS 9.

(f) Hedging
The Group has elected to apply the IFRS 9 hedge accounting requirements because they align more closely with the Group's risk management policies. An alignment of the accounting policy applied by Marley has been made following its acquisition on 29 April 2022. From this date, the Marley business has adopted IFRS 9 for hedge accounting and is now fully aligned with the Group's accounting policy.

(i) Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the Consolidated Statement of Comprehensive Income. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset. For cash flow hedges, other than those covered by the preceding policy statement, the associated cumulative gain or loss is removed from equity and recognised in the Consolidated Income Statement in the same period or periods during which the hedged forecast transaction affects the income or expense. The ineffective part of any gain or loss is recognised immediately in the Consolidated Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, it no longer meets the criteria 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 the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Consolidated Income Statement and cash flow hedge accounting is discontinued prospectively.

(ii) Economic hedges
Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the Consolidated Income Statement.

1 Accounting policies continued
Significant accounting policies continued
(g) Property, plant and equipment
(i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation (see (iii) below) and impairment losses (see accounting policy (m)). The cost of self-constructed assets includes the cost of materials and direct labour and an appropriate proportion of directly attributable production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 January 2004, the date of transition to adopted IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

(ii) Subsequent costs
The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Consolidated Income Statement as an expense as incurred.

(iii) Depreciation
Depreciation is charged to the Consolidated Income Statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation on quarries is based on estimated rates of extraction. This is based on a comparison between the volume of relevant material extracted in any given period and the volume of relevant material available for extraction. Depreciation on leased assets is charged over the shorter of the lease term and their useful economic life. Freehold land is not depreciated. The rates are as follows:

Freehold buildings	–	2.5 per cent to 5 per cent per annum
Fixed plant and equipment	–	3.3 per cent to 25 per cent per annum
Mobile plant and vehicles	–	14 per cent to 30 per cent per annum
Quarries	–	based on rates of extraction

The residual values, useful economic lives and depreciation methods are reassessed annually. Assets under construction are not depreciated until they are ready for use.

Site preparation costs associated with the development of new stone reserves are capitalised. These costs would include:

- costs of clearing the site (including internal and outsourced labour in relation to site workers);
- professional fees (including fees relating to obtaining planning consent);
- purchase, installation and assembly of any necessary extraction equipment; and
- costs of testing whether the extraction process is functioning properly (net of any sales of test products).

Depreciation commences when commercial extraction commences and is based on the rate of extraction.

In accordance with IAS 37, provision is made for quarry restoration where a legal or constructive obligation exists, it is probable that an outflow of economic benefits will occur and the financial cost of restoration work can be reliably measured. The lives of quarries are almost always long and it is difficult to estimate the length with any precision. The majority of quarry restoration work is undertaken while extracting minerals from new areas (backfilling) and therefore work can be completed without additional cost. As a result of the particular characteristics of the Group's quarries, the IAS 37 criteria have not been met to date based on the assets so far acquired and, therefore, provisions are typically not recognised.

(h) Intangible assets
(i) Goodwill
All business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2004, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the Consolidated Income Statement.

Costs relating to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. In respect of acquisitions where there is a contingent consideration element, an accrual is created for the estimated amount payable if it is probable that an outflow of economic benefits will be required to settle the obligation and this can be measured reliably.

1 Accounting policies continued
Significant accounting policies continued
(h) Intangible assets continued
(i) Goodwill continued
On a transaction-by-transaction basis, the Group measures non-controlling interests either at their fair value or at their proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under the Group's previous accounting framework. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 were not adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is subsequently stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (see accounting policy (m)). In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

(ii) Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Consolidated Income Statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process meets the recognition criteria for development expenditure as set out in IAS 38 *"Intangible Assets"*. The expenditure capitalised includes all directly attributable costs, from the date which the intangible asset meets the recognition criteria, necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Other development expenditure is recognised in the Consolidated Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see (v) and impairment losses (see accounting policy (m)).

(iii) Other intangible assets
Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see (v) and impairment losses (see accounting policy (m)).

Expenditure on internally generated goodwill and brands is recognised in the Consolidated Income Statement as an expense as incurred.

(iv) Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation
Amortisation is charged to the Consolidated Income Statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The rates applied are as follows:

Brands	–	20 to 25 years
Customer and supplier relationships	–	5 to 20 years
Patents, trademarks and know-how	–	2 to 20 years
Development costs	–	10 to 20 years
Software	–	5 to 10 years

(vi) Software-as-a-service ("SaaS")
Software-as-a service ("SaaS") arrangements are service contracts providing the Company with access to the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received. Some of the costs incurred relate to the development of software code that enhances or modifies existing on-premise systems and meets the definition of, and recognition criteria for, an intangible asset.

(i) Trade and other receivables
Trade and other receivables are stated at initial recognition, at their transaction price (as defined in IFRS 15) if the trade receivables do not contain a significant financial component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15). Subsequent to initial recognition they are accounted for at amortised cost.

(j) Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and of selling expenses.

The cost of inventories is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity, which were incurred in bringing the inventories to their present location and condition.

(k) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Consolidated Cash Flow Statement.

1 Accounting policies continued

Significant accounting policies continued

(l) Assets classified as held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from the date of classification, and the asset is available for immediate sale in its present condition.

(m) Impairment

(i) Impairment review

The carrying amounts of the Group's assets, other than inventories (see accounting policy (j)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Income Statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash generating unit is the group of assets identified on acquisition that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of assets or cash generating units is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) Reversals of impairments

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Share capital

(i) Share capital

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or if it is redeemable but only at the Company's option. Dividends on share capital classified as equity are recognised as distributions within equity. Non-equity share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the Consolidated Income Statement as a financial expense.

(ii) Dividends

Dividends on non-equity shares are recognised as a liability and accounted for on an accruals basis. Equity dividends are recognised as a liability in the period in which they are declared (appropriately authorised and no longer at the discretion of the Company).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis.

(p) Leases

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. A right-of-use asset and a corresponding liability are recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as for the impact of lease modifications, amongst others. Lease liabilities are discounted at an incremental borrowing rate calculated as the rate of interest which the Group would have been able to borrow for a similar term with a similar security of funds necessary to obtain a similar asset in a similar market.

The Group's leases principally comprise commercial vehicles and trailers, forklift trucks, motor vehicles, certain property assets and fixed plant.

Short-term leases, with a duration of less than twelve months, are accounted for in accordance with the recognition exemption in IFRS 16 and hence related payments are expensed as incurred. The Group also utilises the option to apply the recognition exemption for low-value assets (with a value of less than the equivalent of $5,000), which means that related payments have been expensed as incurred.

In relation to sale and leaseback transactions, sale proceeds, lease payments and any retained right-of-use asset are measured at fair value with any gain or loss arising on disposal recognised in the Income Statement. The fair value of rights that have been retained are included in the carrying amount of any right-of-use asset and recognised at the commencement of the lease.

1 Accounting policies continued

Significant accounting policies continued

(q) Pension schemes

(i) Defined benefit schemes

The net obligation in respect of the Group's defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA credit-rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

If the calculation results in a surplus, the resulting asset is measured at the present value of any economic benefits available in the form of refunds from the plan, or reductions in future contributions to the plan. The present value of these economic benefits is discounted by reference to market yields at the balance sheet date on high-quality corporate bonds.

When the benefits of the scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement in the period of the scheme amendment.

Actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan are recognised immediately within the Consolidated Statement of Comprehensive Income.

(ii) Defined contribution schemes

Obligations for contributions to defined contribution schemes are recognised as an expense in the Income Statement as incurred.

(r) Share-based payment transactions

The Group enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's Management Incentive Plan ("MIP").

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Where appropriate, the fair value of the options granted is measured using the Black-Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Current tax relief is available as shares vest based on the value at the date of vesting. A deferred tax asset is recognised at grant date based on the number of shares expected to be issued, at the value at which they are expected to be issued, proportioned in line with the vesting period.

(s) Own shares held by the Employee Benefit Trust

Transactions of the Group-sponsored Employee Benefit Trust are included in the Group Financial Statements. The Trust's purchases of shares in the Company are debited directly to equity and disclosed separately in the balance sheet as "own shares".

(t) Provisions

A provision is recognised in the Consolidated Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, it can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(u) Trade and other payables

Trade and other payables are stated at initial recognition, at their fair value and subsequently at amortised cost.

(v) Revenue

Revenue from the sale of goods is recognised in the Consolidated Income Statement when the performance obligations to customers have been satisfied. Revenue represents the invoiced value of sales to customers less returns, allowances, rebates and value added tax.

Revenue is recorded typically on despatch of the Group's products, when performance obligations to customers are satisfied. Products are usually delivered using the Group's fleet of delivery vehicles on the same day. Amounts due from customers are payable by customers on standard credit terms and there is no significant financing component or variable consideration within amounts due from customers. There are no significant obligations arising in relation to returns, refunds, warranties or similar obligations.

Revenue earned from any contractually distinct installation process is recognised when the Group has fulfilled all its obligations under the installation contract.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or the possible return of goods or continuing management involvement with the goods.

(w) Financial expenses

Net financial expenses comprise interest on obligations under the defined benefit pension scheme, the expected return on scheme assets under the defined benefit pension scheme, interest payable on borrowings calculated using the effective interest rate method, dividends on non-equity shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the Consolidated Income Statement (see accounting policy (f)).

1 Accounting policies continued
Significant accounting policies continued

(x) Income tax
Income tax on the profit or loss for the year comprises current and deferred taxation. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in other comprehensive income or in equity, in which case it is recognised accordingly.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply when the temporary difference reverses, based on rates that have been enacted or substantively enacted at the balance sheet date.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(y) Segment reporting
IFRS 8 *"Operating Segments"* requires operating segments to be identified on the basis of discrete financial information about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker ("CODM") to allocate resources to the segments and to assess their trading performance. As far as Marshalls is concerned, the CODM is regarded as being the Board. Following the acquisition of Marley, the Group has reviewed its reporting segments. The Directors have concluded that going forward the Group will report under three reporting segments, namely Marshalls Landscape Products, Marshalls Building Products and Marley Roofing Products.

(z) Alternative performance measures and adjusting items
The Group uses alternative performance measures ("APMs") which are not defined or specified under IFRS. The Group believes that these APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide additional comparative information. The prior period alternative performance measures have been restated to reflect the amortisation of acquired intangible assets in adjusting items.

Adjusting items

Adjusting items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group's results and to demonstrate the Group's capacity to deliver dividends to shareholders. Adjusted items should not be regarded as a complete picture of the Group's financial performance, which is presented in the total results.

For the year ended 31 December 2022 adjusting items include various charges that relate to the acquisition of Marley Group plc on 29 April 2022. These include professional fees and other transaction costs relating to the acquisition, the unwinding of an inventory fair value adjustments, the amortisation of acquired intangible assets and an increase in the estimate of contingent consideration payable in respect of Viridian Solar Limited. Adjusting items also include redundancy costs and asset impairments following a restructuring exercise to reduce production capacity and the impairment of certain assets in the Group's Belgian subsidiary. Further details have been disclosed in Note 4.

For the year ended 31 December 2021, adjusting items include the disposal of the Group's site at Ryton, significant asset impairments, the costs of closing the site at Stoke and exiting the manufacture of cast stone and the special "thank you" bonus paid to employees in recognition of their contributions during the COVID-19 pandemic. Adjusting items in 2021 also included an accounting charge relating to additional consideration for the acquisition of CPM, a non-cash finance charge resulting from the receipt of a Counsel's legal opinion in relation to certain historic pension issues and the amortisation of acquired intangible assets. Further details have been disclosed in Note 4.

1 Accounting policies continued

Significant accounting policies continued

(z) Alternative performance measures and adjusting items continued

The APMs used by the Group together with an explanation of how they are calculated and why we use them is set out below.

Alternative Performance Measure	Definition and purpose
Like-for-like revenue growth	Like-for-like revenue growth is revenue growth generated by the business assuming that acquired businesses had been part of the Group for the comparative period in the previous year. This provide users with an understanding about revenue growth that is not impacted by acquisitions.
Adjusted operating profit, adjusted profit before tax, adjusted profit after tax and adjusted earnings per share	These performance measures are all calculated using the relevant statutory measure and are stated after adding back adjusting items. The Group's accounting policy on adjusting items is set out on page 156. The Directors assess the performance of the Group using these measures including when considering dividend payments.
EBITA and adjusted proforma EBITA	EBITA is earnings before interest, taxation and amortisation and provides users with further information about the profitability of the business before financing costs, taxation and amortisation. Adjusted proforma EBITA stated after adding back adjusting items and including EBITA from 1 January to 28 April 2022 for Marley to give users information that it helpful in assessing future performance potential.
EBITDA and adjusted EBITDA	EBITDA is earnings before interest, taxation, depreciation and amortisation and provides users with further information about the profitability of the business before financing costs, taxation and non-cash charges. Adjusted EBITDA is EBITDA stated after adding back adjusting items. It provides users with additional information about the performance of the Group.
Adjusted proforma pre-IFRS 16 EBITDA	Adjusted proforma pre-IFRS 16 EBITDA is earnings before interest, taxation, depreciation, amortisation (but not right-of-use asset depreciation), and after adding back adjusting items and profit or losses on the sale of property, plant and equipment and including EBITDA from 1 January to 28 April 2022 for Marley and is used to assess compliance with covenants in the Group's bank facility.
Adjusted proforma return on capital employed	Adjusted proforma return on capital employed is calculated as adjusted proforma EBITA divided by shareholders' funds plus net debt at the period end. It is designed to give further information about the returns being generated by the Group as a proportion of capital employed. The use of adjusted proforma EBITA ensures that the return is matched to the higher value of capital employed following the Marley acquisition.
Net debt	Net debt comprises cash at bank and in hand, bank loans and lease liabilities. It shows the overall net indebtedness of the Group.
Pre-IFRS 16 net debt	Net debt comprises cash at bank and in hand and bank loans. It shows the overall net indebtedness of the Group excluding leases and is used is used in assessing compliance with covenants in the Group's bank facility.
Pre-IFRS 16 net debt to adjusted proforma EBITDA	This is calculated by dividing pre-IFRS 16 net debt by adjusted proforma pre-IFRS 16 EBITDA to provide a measure of leverage. It is used in assessing compliance with the covenants in the Group's bank facility.
Adjusted operating cash flow	This measure is net cash flow from operating activities stated after adding back adjusting items paid, net financial expenses paid and taxation paid. It is used to calculate the ratio of adjusted operating cash flow to adjusted EBITDA.
Ratio of adjusted operating cash flow to adjusted EBITDA	This measure is calculated by dividing adjusted operating cash flow by adjusted EBITDA. Adjusted operating cash flow is calculated by adding back adjusting items paid, net financial expenses paid and taxation paid. It illustrates the rate of conversion of profitability into cash flow.

1 Accounting policies continued

Significant accounting policies continued

(z) Alternative performance measures and adjusting items continued

The following table sets out statutory operating profit, profit before tax and profit after tax and the impact of adding back adjusting items. Details of the adjusting items are set out in Note 4.

	2022 £'000	2021 (as restated) £'000
Operating profit	47,912	76,223
Adjusting items (Note 4)	53,220	1,148
Adjusted operating profit	101,132	77,371
Profit before tax	37,197	69,322
Adjusting items (Note 4)	53,220	3,961
Adjusted profit before tax	90,417	73,283
Profit for the financial year	26,541	54,898
Adjusting items (net of tax) (Note 4)	46,815	3,355
Adjusted profit after tax	73,356	58,253
Earnings per share after adding back adjusting items		
Basic (pence)	31.3p	29.2p
Diluted (pence)	31.1p	29.0p

A reconciliation of IFRS reported income statement measures to income statement APMs is set out below.

	2022 £'000	2021 (as restated) £'000
Operating profit	47,912	76,223
Adjusting items (Note 4)	53,220	1,148
Adjusted operating profit	101,132	77,371
Amortisation (excluding amortisation of acquired intangible assets)	1,765	1,965
Adjusted EBITA	102,897	79,336
Depreciation	33,145	27,738
Adjusted EBITDA	136,042	107,074
Marley pre-acquisition EBITDA	18,099	—
Profit on sale of property, plant and equipment	(1,207)	(47)
Right-of-use asset depreciation	(11,328)	(11,315)
Adjusted proforma pre-IFRS 16 EBITDA	141,606	95,712

A reconciliation of operating profit to adjusted EBITDA is set out below.

	2022 £'000	2021 (as restated) £'000
Operating profit	47,912	76,223
Depreciation and amortisation	42,264	30,916
Reported EBITDA	90,176	107,139
Adjusting items (excluding amortisation of acquired intangible assets)	45,866	(65)
Adjusted EBITDA	136,042	107,074

A reconciliation of operating profit to adjusted proforma EBITA is set out below.

	2022 £'000	2021 (as restated) £,000
Operating profit	47,912	76,233
Amortisation	9,119	3,178
EBITA	57,031	79,401
Adjusting items (excluding amortisation of acquired intangible assets)	45,866	(65)
Adjusted EBITA	102,897	79,336
Marley pre-acquisition EBITA	16,357	—
Adjusted proforma EBITA	119,255	79,336

1 Accounting policies continued
Significant accounting policies continued
(z) Alternative performance measures and adjusting items continued

Disclosures required under IFRS are referred to as on a reported basis. Disclosures referred to on an after adding back adjusting items basis are restated and are used to provide additional information and a more detailed understanding of the Group's results. Certain financial information on a reported basis and after adding back adjusting items is set out below.

	Adjusted Pre-IFRS 16 proforma 2022	Adjusted 2022	As reported 2022	Adjusted (as restated) 2021	As reported (as restated) 2021
EBITDA (£'000)	141,606	136,042	90,176	107,074	107,139
Net debt (£'000)	190,771	236,605	236,605	41,123	41,123
Net debt: EBITDA	1.35	1.7	2.6	0.4	0.4
EPS (pence)	n/a	31.3	11.4	29.2	27.5

Marley Group Limited was acquired on 29 April 2022 and the following reconciliation discloses the impact of the revenue in the comparative post-acquisition period in order to provide a like-for-like comparison of revenue.

	2022 £'000	2021 £'000	Increase %
Reported revenue Marshalls	587,146	589,264	—
Marley	132,227	124,935	6
Like-for-like revenue	719,373	714,199	1

Marley revenue is as reported for 2022 and in 2021 it represents revenue for period from 29 April to 31 December.

ROCE

Reported ROCE is defined as EBITA divided by shareholders' funds plus net debt.

	Adjusted proforma 2022 £'000	Adjusted 2022 £'000	As reported 2022 £'000	After adding back adjusting items (as restated) 2021 £'000	As reported 2021 £'000
EBITA	119,255	102,897	57,031	79,336	79,401
Shareholders' funds	661,069	661,069	661,069	344,317	344,317
Net (cash)/debt	236,605	236,605	236,605	41,123	41,123
Capital employed	897,674	897,674	897,674	385,440	385,440
ROCE	13.3%	11.5%	6.4%	20.6%	20.6%

Notes to the Consolidated Financial Statements continued

1 Accounting policies continued
Significant accounting policies continued
(z) Alternative performance measures and adjusting items continued

Net debt

Net debt comprises cash at bank and in hand, bank loans and leasing liabilities. An analysis of net debt is provided in Note 26. Net debt on a pre-IFRS 16 basis has been disclosed to provide additional information and to align with the reporting required for the Group's banking covenants. Net debt on both a reported basis and on a pre-IFRS 16 basis is set out below:

	2022 £'000	2021 £'000
Net debt on a reported basis	**236,605**	41,123
IFRS 16 leases	**(45,834)**	(41,198)
Net debt/(cash) on a pre-IRS 16 basis	**190,771**	(75)

The ratio of adjusted operating cash flow to adjusted EBITDA

The ratio of adjusted operating cash flow to adjusted EBITDA is calculated as set out below:

	2022 £'000	2021 £'000
Net cash flows from operating activities	**85,343**	65,536
Adjusting items paid	**17,410**	2,820
Net financial expenses paid	**9,909**	3,534
Taxation paid	**11,592**	13,527
Adjusted operating cash flow	**124,254**	85,417
Adjusted EBITDA	**136,042**	107,074
Ratio of adjusted operating cash flow to adjusted EBITDA	**91.3%**	79.8%

2 Segmental analysis
IFRS 8 *"Operating Segments"* requires operating segments to be identified on the basis of discrete financial information about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker ("CODM") to allocate resources to the segments and to assess their performance. As far as Marshalls plc is concerned the CODM is regarded as being the Board. Following the acquisition of Marley, the Group has reviewed its reporting segments. The Directors have concluded that going forward the Group will report under three reporting segments, namely Landscape Products, Building Products and Roofing Products.

Marshalls Landscape Products comprises the Group's Public Sector and Commercial and Domestic landscape business, Landscape Protection and the International businesses. Marshalls Building Products comprises the Group's Civil and Drainage, Bricks and Masonry, Mortars and Screeds and Aggregate businesses.

Segment revenues and results

	2022				2021*			
	Landscape Products £'000	Building Products £'000	Roofing Products £'000	Total £'000	Landscape Products £'000	Building Products £'000	Roofing Products £'000	Total £'000
Total revenue	**394,075**	**195,445**	**132,227**	**721,747**	424,807	167,358	–	592,165
Inter-segment revenue	**(26)**	**(2,348)**	**–**	**(2,374)**	(21)	(2,880)	–	(2,901)
External revenue	**394,049**	**193,097**	**132,227**	**719,373**	424,786	164,478	–	589,264
Segment operating profit	**45,335**	**26,797**	**34,452**	**106,584**	62,412	19,640	–	82,052
Unallocated central costs				**(5,452)**				(4,681)
Operating profit before adjusting items				**101,132**				77,371
Adjusting items				**(53,220)**				(1,148)
Operating profit				**47,912**				76,223
Net finance charges (Note 6)				**(10,715)**				(6,901)
Profit before tax				**37,197**				69,322
Taxation (Note 7)				**(10,656)**				(14,424)
Profit after tax				**26,541**				54,898

* Following a change to the reporting segments, the comparative figures are being restated to ensure consistent classification with the analysis reported for the year ended December 2022. The change reflects the new internal performance reports and management responsibility framework.

The Group has two customers which each contributed more than ten per cent of total revenue in the current and prior year.

The accounting policies of the three operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned without allocation of certain central administration costs that are not capable of allocation. Centrally administered overhead costs that relate directly to the reportable segment are included within the segment's results.

2 Segmental analysis continued

Segment assets

	2022 £'000	2021* £'000
Property, plant and equipment, right-of-use assets, intangible assets and inventory:		
Landscape Products	**260,450**	256,933
Building Products	**148,400**	155,883
Roofing Products	**593,106**	—
Total segment property, plant and equipment, right-of-use assets, intangible assets and inventory	**1,001,956**	412,816
Unallocated assets	**206,910**	183,156
Consolidated total assets	**1,208,866**	595,972

* Following a change to the reporting segments, the comparative figures are being restated to ensure consistent classification with the analysis reported for the year ended December 2022. The change reflects the new internal performance reports and management responsibility framework.

For the purpose of monitoring segment performance and allocating resources between segments, the Group's CODM monitors the property, plant and equipment, right-of-use assets, intangible assets and inventory. Assets used jointly by reportable segments are not allocated to individual reportable segments.

Other segment information

	Depreciation and amortisation		Property, plant and equipment, right-of-use asset and intangible asset additions	
	2022 £'000	2021* £'000	2022 £'000	2021* £'000
Landscape Products	**22,263**	20,491	**37,127**	21,048
Building Products	**8,786**	9,212	**4,602**	6,621
Roofing Products	**3,861**	—	**1,957**	—
	34,910	29,703	**43,686**	27,669
Included in adjusting items (Note 4)	**7,354**	1,213	**—**	—
	42,264	30,916	**43,686**	27,669

* Following a change to the reporting segments, the comparative figures are being restated to ensure consistent classification with the analysis reported for the year ended December 2022. The change reflects the new internal performance reports and management responsibility framework.

Depreciation and amortisation includes £7,354,000 of amortisation of intangible assets arising from the purchase price allocation exercises comprising £100,000 (2021: £100,000) in Marshalls Landscape Products, £1,113,000 (2021: £1,113,000) in Marshalls Building Products and £6,141,000 in Marley Roofing Products. The amortisation has been treated as an adjusting item (Note 4).

Geographical destination of revenue

	2022 £'000	2021 £'000
United Kingdom	**687,903**	556,110
Rest of the world	**31,470**	33,154
	719,373	589,264

The Group's revenue is subject to seasonal fluctuations resulting from demand from customers. In particular, demand is higher in the summer months.

3 Net operating costs

	2022 £'000	2021 (as restated) £'000
Raw materials and consumables	**267,254**	246,478
Changes in inventories of finished goods and work in progress	**6,625**	(15,762)
Personnel costs (Note 5)	**155,521**	130,903
Depreciation of property, plant and equipment	**21,817**	16,423
Depreciation of right-of-use assets	**11,328**	11,315
Amortisation of intangible assets	**1,765**	1,965
Own work capitalised	**(3,108)**	(2,758)
Other operating costs	**159,779**	124,665
Redundancy and other costs	**498**	398
Operating costs	**621,479**	513,627
Other operating income	**(2,031)**	(1,687)
Net gain on asset and property disposals	**(1,207)**	(47)
Net operating costs before adjusting items	**618,241**	511,893
Adjusting items (Note 4)	**53,220**	1,148
Total net operating costs	**671,461**	513,041

	2022 £'000	2021 £'000
Net operating costs include:		
Auditor's remuneration (see below)	**948**	340
Short-term and low-value lease costs	**7,010**	5,671
Research and development costs	**3,457**	3,098

In respect of the year under review, Deloitte LLP carried out work in relation to:

	2022 £'000	2021 £'000
Audit of Financial Statements of Marshalls plc	**60**	50
Audit of Financial Statements of subsidiaries of the Company	**853**	265
Half yearly review of Marshalls plc	**35**	25
	948	340

4 Adjusting items

	2022 £'000	2021 (as restated) £'000
Transaction related costs (i)	**14,887**	–
Amortisation of acquired intangible assets (ii)	**7,354**	1,213
Unwind of inventory fair value adjustment (iii)	**3,900**	–
Contingent consideration (iv)	**3,928**	–
Redundancy and other closure costs (v)	**4,173**	1,175
Impairment of property, plant and equipment (vi)	**8,794**	1,666
Impairment of assets in the Belgian subsidiary (vii)	**10,184**	–
Additional special COVID-19 bonus paid to all colleagues (viii)	**–**	2,216
Additional consideration to the CPM vendors (ix)	**–**	3,750
Net gain on sale of significant surplus site (x)	**–**	(8,872)
Total adjusting items within operating costs (Note 3)	**53,220**	1,148
Adjusting interest expense on defined benefit pension scheme (xi)(Note 6)	**–**	2,813
Total adjusting items before taxation	**53,220**	3,961
Current tax on adjusting items (Note 7)	**(1,599)**	97
Deferred tax on adjusting items (Note 7)	**(4,806)**	(703)
Total adjusting items after taxation	**46,815**	3,355

Notes:

(i) Transaction related costs relating to the acquisition of Marley Group plc. These comprise the fees charged by professional advisers.

(ii) Amortisation of acquired intangible assets is principally in respect of values recognised for the Marley brand and its customer relationships.

(iii) The unwind of the inventory fair value adjustment relates to the fair value uplift of the inventory as part of the Marley acquisition that has subsequently been sold. This item has been shown as an adjusting item to align with the internal reporting and to present a margin consistent with that which would have been reported in the absence of a recent acquisition transaction.

4 Adjusting items continued

Notes continued:

(iv) The additional contingent consideration relates to the reassessment of the amounts that will become payable to vendors arising in relation to Marley's acquisition of Viridian Solar Limited in 2021.

(v) 2022 redundancy and other closure costs relate a restructuring exercise to rightsize production capacity. The 2021 redundancy and other closure costs relate to the Edenhall Stoke site, following a network review, was used to manufacture cast stone and the Group decided to exit this market.

(vi) The 2022 asset impairment relates to the restructuring exercise to reduce capacity and includes the mothballing of manufacturing plant at the Group's site at Sandy and the closure of certain facilities elsewhere in the network. The 2021 write-off of property, plant and equipment relates to assets at our St. Ives site that are being dismantled to allow construction of the dual block plant.

(vii) Impairment of property, plant and equipment (£1,072,000), intangible assets (£731,000), right-of-use assets (£3,445,000) and inventory (£4,936,000) in the Belgian subsidiary resulting from an impairment review carried out in response to a downturn in the business performance in 2022. These assets have been impaired to their fair value, this being higher than the value in use. This value is based upon the Directors' assessment and consideration of the observable market information relating to such assets.

(viii) The additional special bonus payable to employees as a thank you for their support during the pandemic.

(ix) The additional consideration to the CPM vendors represents an accounting charge relating to the acquisition of CPM following the agreement reached with the vendors to release of funds initially set aside in escrow, following the identification of an under-funded pension scheme of a related company. This risk is now considered to be remote and £3,750,000 will be released from escrow and paid to the vendors as additional consideration. This results in a charge to the Income Statement because it falls outside the hindsight period of twelve months as set out under IAS.

(x) The net gain on a significant surplus site relates to the sale of Ryton near Coventry.

(xi) The interest expense on defined benefit pension scheme relates to a technical non-cash finance charge resulting from the receipt of Counsel's opinion on certain historic benefit issues (Note 6).

5 Personnel costs

	2022 £'000	2021 £'000
Personnel costs (including amounts charged in the year in relation to Directors):		
Wages and salaries	**126,163**	105,692
Social security costs	**15,089**	12,309
Share-based payments	**1,254**	2,303
Contributions to defined contribution pension scheme	**13,015**	10,599
Included in net operating costs (Note 3)	**155,521**	130,903
Personnel costs relating to the special COVID-19 bonus awarded to all colleagues (Note 4)	**—**	2,216
Personnel costs relating to redundancy and other costs (Note 3)	**498**	398
Personnel costs relating to adjusting items (Note 4)	**2,370**	159
Total personnel costs	**158,389**	133,676

	2022 £'000	2021 £'000
Remuneration of Directors:		
Salary	**1,311**	781
Other benefits	**55**	39
MIP Element A bonus	**152**	582
MIP Element B bonus	**206**	349
Amounts receivable under the MIP at the end of the first cycle	**111**	621
Salary supplement in lieu of pension	**128**	104
Non-Executive Directors' fees and fixed allowances	**477**	422
	2,440	2,898

The aggregate of emoluments and amounts receivable under the MIP of the highest paid Director was £1,002,000 (2021: £1,685,000), including a salary supplement in lieu of pension of £93,000 (2021: £80,000).

5 Personnel costs continued

There are no Directors to whom retirement benefits are accruing in respect of qualifying services. As set out in the Annual Remuneration Report on page 120, the Executive Directors receive a salary supplement in lieu of pension equal to their contractual entitlements.

Further details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed in the Remuneration Committee Report on pages 100 to 130.

The average monthly number of persons employed by the Group during the year was:

	2022 Number	2021 Number
Continuing operations	**3,293**	2,643

6 Financial expenses and income

	2022 £'000	2021 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	**97**	439
Interest expense on bank loans	**8,238**	1,762
Interest expense on lease liabilities	**2,381**	1,889
	10,716	4,090
(b) Adjusting items		
Adjusting interest expense on defined benefit pension scheme (Note 4)	**—**	2,813
	10,716	6,903
(c) Financial income		
Interest receivable and similar income	**1**	2

Net interest expense on the defined benefit pension scheme is disclosed net of Company recharges for scheme administration (Note 20).

7 Income tax expense

	2022 £'000	2021 £'000
Current tax expense		
Current year	**11,558**	11,360
Adjustments for prior years	**(568)**	(2,147)
	10,990	9,213
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**757**	6,519
Adjustments for prior years	**(1,091)**	(1,308)
Total tax expense	**10,656**	14,424
Current tax on adjusting items (Note 4)	**1,599**	(97)
Deferred tax on adjusting items (Note 4)	**4,806**	703
Total tax expenses after adding back adjusting items	**17,061**	15,030

	2022 %	2022 £'000	2021 %	2021 £'000
Reconciliation of effective tax rate				
Profit before tax	**100.0**	**37,197**	100.0	69,322
Tax using domestic corporation tax rate	**19.0**	**7,067**	19.0	13,171
Impact of capital allowances in excess of depreciation	**(13.9)**	**(5,164)**	(3.3)	(2,260)
Short-term timing differences	**2.5**	**925**	(0.1)	(74)
Adjustment to tax charge in prior year	**(1.5)**	**(568)**	(3.1)	(2,147)
Expenses not deductible for tax purposes	**23.5**	**8,730**	0.8	523
Corporation tax charge for the year	**29.6**	**10,990**	13.3	9,213
Impact of capital allowances in excess of depreciation	**13.7**	**5,101**	2.3	1,610
Short-term timing differences	**—**	**23**	—	(22)
Pension scheme movements	**(0.1)**	**(52)**	0.9	659
Adjusting items	**(12.9)**	**(4,806)**	(0.2)	(152)
Other items	**0.4**	**158**	(0.7)	(481)
Adjustment to tax charge in prior year	**(2.9)**	**(1,091)**	(1.9)	(1,308)
Impact of the change in the rate of corporation tax on deferred taxation	**0.9**	**333**	7.1	4,905
Total tax charge for the year	**28.7**	**10,656**	20.8	14,424

7 Income tax expense continued

The net amount of deferred taxation credited to the Consolidated Statement of Comprehensive Income in the year was £101,000 (2021: debited £6,547,000).

The majority of the Group's profits are earned in the UK with the standard rate of corporation tax being 19 per cent for the year to 31 December 2022. The UK corporation tax rate will increase to 25 per cent from 2023 and the deferred taxation liability at 31 December 2022 has been calculated at 25 per cent, which is the rate at which the deferred tax is expected to unwind in the future.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on fixed assets. The rates are determined by Parliament annually, and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on fixed assets is treated as an investment with the cost then being spread over the anticipated useful life of the asset, and/or impaired if the value of such assets is considered to have reduced materially.

The different accounting treatment of fixed assets for tax and accounting purposes is one reason why the taxable income of the Group is not the same as its accounting profit. During the year ended 31 December 2022 the capital allowances due to the Group exceeded the depreciation charge for the year.

Short-term timing differences arise on items such as depreciation in stock and share-based payments because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the years following those in which they arise, as is reflected in the deferred tax charge in the Financial Statements.

Adjustments to tax charges arising in earlier years arise because the tax charge to be included in a set of accounts has to be estimated before those Financial Statements are finalised. Such charges therefore include some estimates that are checked and refined before the Group's corporation tax returns for the year are submitted to HM Revenue & Customs, which may reflect a different liability as a result.

Some expenses incurred may be entirely appropriate charges for inclusion in the Financial Statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability for the same accounting period. Examples of such disallowable expenditure include business entertainment costs, some legal expenses and a significant proportion of the transaction costs arising on the acquisition of Marley.

The prior year adjustment in corporation tax includes the reversal of tax provisions made in prior years which are no longer required, including provisions made on acquisition of subsidiaries.

As can be seen from the tax reconciliation, the process of adjustment that can give rise to current year adjustments to tax charges arising in previous periods can also give rise to revisions in prior year deferred tax estimates. This is why the current year adjustments to the current year charge for capital allowances and short-term timing differences are not exactly replicated in the deferred taxation charge for the year.

The Group's overseas operations comprise a manufacturing operation in Belgium and sales and administration offices in the USA and China. The sales of these units, in total, were under 5 per cent of the Group's turnover in the year ended 31 December 2022. In total, the trading profits were not material and a minimal amount of tax is due to be paid overseas.

8 Earnings per share

Basic earnings per share from total operations of 11.4 pence (2021: 27.5 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £26,791,000 (2021: £54,806,000) by the weighted average number of shares in issue during the period of 235,388,001 (2021: 199,094,964).

Basic earnings per share after adding back adjusting items of 31.3 pence (2021: 29.2 pence) per share is calculated by dividing the adjusted profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £73,606,000 (2021: £58,161,000) by the weighted average number of shares in issue during the period of 235,388,001 (2021: 199,094,964).

Profit attributable to Ordinary Shareholders

	2022 £'000	2021 (as restated) £'000
Profit before adding back adjusting items	**73,356**	58,253
Adjusting items	**(46,815)**	(3,355)
Profit for the financial year	**26,541**	54,898
Profit attributable to non-controlling interests	**250**	(92)
Profit attributable to Ordinary Shareholders	**26,791**	54,806

8 Earnings per share continued
Weighted average number of Ordinary Shares

	2022 Number	2021 Number
Number of issued Ordinary Shares	252,968,728	200,052,157
Effect of shares issued during the period	(17,299,649)	—
Effect of shares transferred into Employee Benefit Trust	(281,078)	(957,193)
Weighted average number of Ordinary Shares at the end of the year	235,388,001	199,094,964

Diluted earnings per share from total operations of 11.3 pence (2021: 27.4 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £26,791,000 (2021: £54,806,000) by the weighted average number of shares in issue during the period of 235,388,001 (2021: 199,094,964) plus potentially dilutive shares of 1,213,042 (2021: 1,222,847), which totals 236,601,043 (2021: 200,317,811).

Diluted earnings per share after adding back adjusting items of 31.1 pence (2021: 29.0 pence) per share is calculated by dividing the adjusted profit for the financial year, after adjusting for non-controlling interests, of £73,606,000 (2021: £58,161,000) by the weighted average number of shares in issue during the period of 235,388,001 (2021: 199,094,964) plus potentially dilutive shares of 1,213,042 (2021: 1,222,847), which totals 236,601,043 (2021: 200,317,811).

Weighted average number of Ordinary Shares (diluted)

	2022 Number	2021 Number
Weighted average number of Ordinary Shares	235,388,001	199,094,964
Potentially dilutive shares	1,213,042	1,222,847
Weighted average number of Ordinary Shares (diluted)	236,601,043	200,317,811

9 Dividends
After the balance sheet date, a final dividend of 9.9 pence was proposed by the Directors. This dividend has not been provided for and there are no income tax consequences.

	Pence per qualifying share	2022 £'000	2021 £'000
2022 final	9.9	25,021	
2022 interim	5.7	14,406	
	15.6	39,427	
2021 final	9.6		24,263
2021 interim	4.7		9,362
	14.3		33,625

The following dividends were approved by the shareholders and recognised in the Financial Statements:

	Pence per qualifying share	2022 £'000	2021 £'000
2022 interim	5.7	14,406	
2021 final	9.6	24,263	
	15.3	38,669	
2021 interim	4.7		9,362
2020 final	4.3		8,562
	9.0		17,924

The Board recommends a 2022 final dividend of 9.9 pence per qualifying Ordinary Share (amounting to £25,021,000, to be paid on 3 July 2023 to shareholders registered at the close of business on 2 June 2023. The ex-dividend date will be 1 June 2023.

10 Property, plant and equipment

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2021	96,492	29,474	388,679	514,645
Exchange differences	(12)	–	(420)	(432)
Additions	1,327	–	19,231	20,558
Reclassified as held for sale	(1,536)	–	(1,566)	(3,102)
Reclassified to intangibles	–	–	(837)	(837)
Reclassifications	2,305	(2,305)	–	–
Disposals	(7,175)	(73)	(17,567)	(24,815)
At 31 December 2021	91,401	27,096	387,520	506,017
At 1 January 2022	**91,401**	**27,096**	**387,520**	**506,017**
Exchange differences	**10**	**–**	**383**	**393**
Additions	**1,305**	**–**	**27,110**	**28,415**
Acquisition of subsidiary	**66,321**	**–**	**29,869**	**96,190**
Reclassifications	**(444)**	**444**	**–**	**–**
Disposals	**(7)**	**(1,388)**	**(3,558)**	**(4,953)**
At 31 December 2022	**158,586**	**26,152**	**441,324**	**626,062**
Depreciation and impairment losses				
At 1 January 2021	44,501	9,285	281,458	335,244
Depreciation charge for the year	2,660	368	13,395	16,423
Exchange differences	(2)	–	(368)	(370)
Impairments	188	–	45	233
Reclassified as held for sale	(413)	–	(829)	(1,242)
Reclassified to intangibles	–	–	(219)	(219)
Reclassifications	28	(28)	–	–
Disposals	(3,038)	(23)	(14,922)	(17,983)
At 31 December 2021	43,924	9,602	278,560	332,086
At 1 January 2022	**43,924**	**9,602**	**278,560**	**332,086**
Depreciation charge for the year	**1,929**	**555**	**19,333**	**21,817**
Exchange differences	**2**	**–**	**349**	**351**
Impairments	**422**	**1,403**	**8,041**	**9,866**
Disposals	**–**	**(1,241)**	**(3,268)**	**(4,509)**
At 31 December 2022	**46,277**	**10,319**	**303,015**	**359,611**
Net book value				
At 1 January 2021	51,991	20,189	107,221	179,401
At 31 December 2021	47,477	17,494	108,960	173,931
At 31 December 2022	**112,309**	**15,833**	**138,309**	**266,451**

Mineral reserves and associated land have been separately disclosed under the heading of "Quarries".

The impairment represents the assets being written down to fair value less costs to sell of £8,794,000 in relation to a restructuring exercise to reduce capacity at Sandy and certain facilities elsewhere in the network and £1,072,000 in relation to the Belgian subsidiary (Note 4).

During the year ended 31 December 2022, land and buildings with a book value of £nil (2021: £1,860,000) have been reclassified as held for sale in accordance with IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"*.

Group cost of land and buildings and plant and machinery includes £708,000 (2021: £318,000) and £24,434,000 (2021: £8,534,000) respectively for assets in the course of construction.

Capital commitments

	2022 £'000	2021 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**4,695**	14,480

Depreciation charge

The depreciation charge is recognised in the following line items in the Consolidated Income Statement:

	2022 £'000	2021 £'000
Net operating costs (Note 3)	**21,817**	16,423

11 Right-of-use assets

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2021	24,931	41,371	66,302
Additions	625	3,601	4,226
Disposals	(2,679)	(4,198)	(6,877)
Modifications	(1,338)	(118)	(1,456)
At 31 December 2021	21,539	40,656	62,195
At 1 January 2022	**21,539**	**40,656**	**62,195**
Additions	**1,726**	**11,235**	**12,961**
Acquisition of subsidiary	**435**	**989**	**1,424**
Disposals	**(4,019)**	**(8,409)**	**(12,428)**
Modifications	**235**	**705**	**940**
At 31 December 2022	**19,916**	**45,176**	**65,092**
Depreciation and impairment losses			
At 1 January 2021	4,045	17,267	21,312
Depreciation change for the year	2,212	9,103	11,315
Disposals	(2,679)	(4,198)	(6,877)
At 31 December 2021	3,578	22,172	25,750
At 1 January 2022	**3,578**	**22,172**	**25,750**
Depreciation change for the year	**2,555**	**8,773**	**11,328**
Impairments	**3,208**	**237**	**3,445**
Disposals	**(4,019)**	**(8,409)**	**(12,428)**
At 31 December 2022	**5,322**	**22,773**	**28,095**
Net book value			
At 1 January 2021	20,886	24,104	44,990
At 31 December 2021	17,961	18,484	36,445
At 31 December 2022	**14,594**	**22,403**	**36,997**

The impairment of £3,445,000 represents the assets being written down to fair value less cost to sell in relation to the Belgium subsidiary (Note 4).

Depreciation charge

The depreciation charge is recognised in the following line items in the Consolidated Income Statement:

	2022 £'000	2021 £'000
Net operating costs (Note 3)	**11,328**	11,315

Lease commitments

	2022 £'000	2021 £'000
Lease commitments that have been contracted for but have not yet commenced	**22,850**	1,513

12 Intangible assets

	Goodwill £'000	Brand £'000	Customer relationships £'000	Supplier relationships £'000	Patents, trademarks and know-how £'000	Development costs £'000	Software £'000	Total £'000
Cost								
At 1 January 2021	87,426	—	12,811	1,629	1,760	159	20,374	124,159
Additions	—	—	—	—	—	139	2,746	2,885
Reclassified from property, plant and equipment	—	—	—	—	—	342	495	837
At 31 December 2021	87,426	—	12,811	1,629	1,760	640	23,615	127,881
At 1 January 2022	**87,426**	**—**	**12,811**	**1,629**	**1,760**	**640**	**23,615**	**127,881**
Additions	**—**	**—**	**—**	**—**	**—**	**—**	**2,310**	**2,310**
Recognised on acquisition of subsidiary	**244,119**	**82,760**	**145,400**	**—**	**—**	**—**	**—**	**472,279**
At 31 December 2022	**331,545**	**82,760**	**158,211**	**1,629**	**1,760**	**640**	**25,925**	**602,470**
Amortisation and impairment losses								
At 1 January 2021	8,912	—	5,121	1,166	1,558	133	12,590	29,480
Amortisation for the year	—	—	1,060	103	42	88	1,885	3,178
Reclassified from property, plant and equipment	—	—	—	—	—	144	75	219
At 31 December 2021	8,912	—	6,181	1,269	1,600	365	14,550	32,877
At 1 January 2022	**8,912**	**—**	**6,181**	**1,269**	**1,600**	**365**	**14,550**	**32,877**
Amortisation for the year	**—**	**2,381**	**4,820**	**103**	**42**	**90**	**1,683**	**9,119**
Impairments	**—**	**—**	**—**	**—**	**—**	**—**	**731**	**731**
At 31 December 2022	**8,912**	**2,381**	**11,001**	**1,372**	**1,642**	**455**	**16,964**	**42,727**
Carrying amounts								
At 1 January 2021	78,514	—	7,690	463	202	26	7,784	94,679
At 31 December 2021	78,514	—	6,630	360	160	275	9,065	95,004
At 31 December 2022	**322,633**	**80,379**	**147,210**	**257**	**118**	**185**	**8,961**	**559,743**

All goodwill has arisen from business combinations. The carrying amount of goodwill is allocated across cash generating units ("CGUs") and these CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations and at both 31 December 2022 and 31 December 2021. These calculations use cash flow projections based on a combination of individual financial three-year forecasts, containing assumptions for revenue growth and operational gearing, and appropriate long-term growth rates of 2.4 per cent. The long-term growth rate assumption reflects the long-term average growth rate for the UK economy. To prepare value-in-use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rate used to calculate the value in use was 15.1 per cent (2021: 14.8 per cent). The Directors have reviewed the recoverable amounts of the CGUs, and considered possible impacts that might arise from a range of uncertainties, including supply chain risks and cost inflation, that could lead to a reduction in consumer confidence and a continuing slowdown in the UK economy. The financial impact of climate change risk, including the cost of the Group's operational mitigation initiatives, continues to be assessed, along with market changes driven by advances in technology.

The Group has two main CGUs, namely the landscaping and building products businesses within Marshalls and the newly acquired Marley Group has now been identified as a separate CGU. The landscaping and building products CGU's associated cash flows are assessed as a whole when assessing impairment. This is unchanged from previous years. The Directors do not consider that any reasonable change in the assumptions would give rise to the need for further impairment in either of these CGU's.

The Marley business was acquired on 29 April 2022 and consequently the Marley CGU is the most sensitive to change. The post tax discount rate is 8.9 per cent (pre-tax 15.1 per cent). Applying a sensitivity of 10 per cent, as an increased discount rate, there is headroom of £43.7 million. The breakeven point that would indicate impairment would occur at a discount rate of 10.6 per cent.

The impairment represents the assets being written down to fair value less cost to sell of £731,000 in relation to the Belgian subsidiary (Note 4).

Included in software additions is £1,807,000 (2021: £1,610,000) of own work capitalised.

Amortisation charge

The amortisation charge is recognised in the following line items in the Consolidated Income Statement:

	2022 £'000	2021 £'000
Net operating costs (Note 3)	**1,765**	1,965
Adjusting items (Note 4)	**7,354**	1,213
	9,119	3,178

13 Inventories

	2022 £'000	2021 £'000
Raw materials and consumables	**30,100**	22,805
Finished goods and goods for resale	**108,665**	84,631
	138,765	107,436

Inventories stated at a net realisable value less than cost at 31 December 2022 amounted to £6,599,000 (2021: £4,656,000). The write down of inventories made during the year amounted to £9,401,000 (2021: £1,534,000) including £4,936,000 in relation to an impairment relating to the Belgian subsidiary (Note 4). There were £1,370,000 of reversals of inventory write downs made in previous years in 2022 (2021: £520,000).

14 Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables	**103,714**	84,313
Other receivables	**9,794**	15,989
Prepayments and accrued income	**9,773**	11,607
	123,281	111,909

A reimbursement asset of £4,149,000 was included in other receivables in 2021. This related to monies held in escrow in relation to the acquisition of CPM in 2017 as a consequence of an under-funded pension scheme of a related company. In December 2021 the risk of a liability arising from this matter was now considered to be remote and in December 2021 agreement was reached to release £3,750,000 from escrow in order to be paid to the vendors as additional consideration for the purchase of CPM. An amount was recorded in other payables for the charge of £3,750,000 which was booked in the Income Statement for the year ended 31 December 2021 to reflect this additional consideration payable to the CPM vendors (Note 4 the amounts were settled in full during 2022).

Ageing of trade receivables

	2022 £'000	2021 £'000
Neither impaired nor past due	**57,128**	46,142
Not impaired but overdue by less than 30 days	**40,989**	32,927
Not impaired but overdue by between 30 and 60 days	**1,641**	2,700
Not impaired but overdue by more than 60 days	**5,246**	3,276
	105,004	85,045

There were no net receivables due after more than one year (2021: £nil). All amounts disclosed above are considered recoverable and are disclosed gross of a provision for expected credit losses of £1,290,000 (2021: £732,000). This provision has been determined using a lifetime expected credit loss calculation. Assumptions made regarding the recoverability of balances have been determined with reference to past default experiences in line with our policies and understanding. Balances are only written off if deemed irrecoverable after all credit control procedures have been exhausted.

15 Cash and cash equivalents

	2022 £'000	2021 £'000
Bank balances	**56,262**	41,207
Cash in hand	**2**	5
Cash and cash equivalents in the Consolidated Cash Flow Statement	**56,264**	41,212

16 Trade and other payables

	2022 £'000	2021 £'000
Current liabilities		
Trade payables	**82,561**	67,261
Taxation and social security	**16,165**	13,718
Other payables	**21,259**	31,278
Accruals	**32,455**	25,961
	152,440	138,218

All trade payables are due in six months or less.

17 Interest bearing loans and borrowings

	2022 £'000	2021 £'000
Analysed as:		
Current liabilities	–	1,673
Non-current liabilities	**247,035**	39,341
	247,035	41,014

Bank loans

The bank loans are subject to by intra-Group guarantees by certain subsidiary undertakings.

18 Lease liabilities

	2022 £'000	2021 £'000
Analysed as:		
Amounts due for settlement within twelve months (shown under current liabilities)	**9,764**	8,545
Amounts due for settlement after twelve months	**36,070**	32,776
	45,834	41,321

	2022			2021		
	Minimum lease payments £'000	Interest £'000	Principal £'000	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	**11,046**	**1,282**	**9,764**	9,828	1,283	8,545
1 to 2 years	**8,176**	**1,126**	**7,050**	7,316	1,110	6,206
2 to 5 years	**14,576**	**2,384**	**12,192**	13,149	2,434	10,715
In more than 5 years	**22,230**	**5,402**	**16,828**	21,915	6,060	15,855
	56,028	**10,194**	**45,834**	52,208	10,887	41,321

As at 31 December 2022, the total minimum lease payments (above) comprised property of £30,686,000 (2021: £33,272,000) and plant, machinery and vehicles of £25,342,000 (2021: £18,936,000).

Certain leased properties have been sublet by the Group. Sublease payments of £200,176 (2021: £285,254) are expected to be received during the following financial year. An amount of £206,541 (2021: £295,548) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

The Group does not face a significant liquidity risk with regard to its lease liabilities. For the year ended 31 December 2022, the interest expense on lease liabilities amounted to £2,381,000 (2021: £1,889,000). Lease liabilities are calculated at the present value of the lease payments that are not paid at the commencement date.

For the year ended 31 December 2022, the average effective borrowing rate was 3.4 per cent. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The vast majority of lease obligations are denominated in Sterling.

For the year ended 31 December 2022, the total cash outflow in relation to leases amounts to £13,471,000 (2021: £12,717,000). The total cash outflow in relation to short-term and low-value leases was £7,010,000 (2021: £5,671,000).

19 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group's bank loans are non-equity funding instruments, further details of which are set out on page 175.

As directed by the Board, the Group does not engage in speculative activities using derivative financial instruments. Group cash reserves are held centrally to take advantage of the most rewarding short-term investment opportunities. Forward foreign currency contracts are used in the management of currency risk.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and pricing risk. The Board reviews and agrees the policies for managing each of these risks and they have remained unchanged since 2021.

Capital management

The Group defines the capital that it manages as its total equity and net debt balances. The Group manages its capital structure in light of current economic conditions and its strategic objectives to ensure that it is able to continue as a going concern whilst maximising the return to stakeholders through the optimisation of debt and equity balances.

The Group manages its medium-term bank debt to ensure continuity of funding and the policy is to arrange funding ahead of requirements and to maintain sufficient undrawn committed facilities. A key objective is to ensure compliance with the covenants set out in the Group's bank facility agreements.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's incentive schemes. Buy and sell decisions are made on a specific transaction basis by the Board.

There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2022 and 31 December 2021.

Financial risks

The Group has exposure to a number of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, guidelines and authorisation procedures, which are outlined in the Strategic Report on pages 1 to 75. The key financial risks resulting from financial instruments are liquidity risk, interest rate risk, credit risk, foreign currency risk and pricing risk.

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings. For instance, a weakening of Pound Sterling on the foreign currency market would increase the cost of certain raw materials, whereas a strengthening would have the opposite effect.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board is responsible for ensuring that the Group has sufficient liquidity to meet its financial liabilities as they fall due and does so by monitoring cash flow forecasts and budgets. Cash resources are largely and normally generated through operations and short-term flexibility is achieved by bank facilities. Bank debt is raised centrally and the Group aims to maintain a balance between flexibility and continuity of funding by having a range of maturities on its borrowings. Details of the Group borrowing facility are provided on page 175.

(b) Interest rate risk

The Group's policy is to review regularly the terms of its available short-term borrowing facilities and to assess individually and manage each long-term borrowing commitment accordingly. The Group borrows principally at floating rates of interest and, where appropriate, uses interest rate swaps and interest rate caps to generate the desired interest rate profile, thereby managing the Group's exposure to interest rate fluctuations.

Approximately 70 per cent of core debt is covered by interest rate swaps and caps of varying maturities up until 2026, which reflects the maturity date of the related loans and medium-term requirements, in accordance with Group policy. The Group classifies its interest rate swaps as cash flow hedges and states them at fair value. The fair value of interest rate swaps is £3,547,000 asset (2021: £nil) and is adjusted against the hedging reserve on an ongoing basis. The period that the swaps cover is matched against the debt maturity in order to fix the impact on the Income Statement. During the year £3,259,000 (2021: £nil) has been recognised in Other Comprehensive Income for the year with £288,000 (2021: £nil) being reclassified from equity to the Income Statement. The interest rate swaps have been fully effective in the period.

Sensitivity analysis

A change of 100 basis points in interest rates at the balance sheet date would have decreased equity and profit by the amounts shown below. The sensitivity analysis has been undertaken before the effect of tax. The sensitivity analysis of the Group's exposure to interest rate risk has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis was performed on the same basis for 2021.

	2022 £'000	2021 £'000
Increase of 100 basis points	**(1,134)**	(372)
Decrease of 100 basis points	**1,134**	372

19 Financial instruments continued

Financial risks continued

(c) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and, where appropriate, credit insurance cover is obtained. This provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. An ageing of trade receivables is shown in Note 14 on page 170.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group. Transactions involving derivative financial instruments are with counterparties with which the Group has a signed netting agreement as well as sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

(d) Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Sterling. The currencies giving rise to this risk are primarily Euros and US Dollars.

The Group's policy is to cover all significant foreign currency commitments in respect of trade receivables and trade payables by using forward foreign currency contracts. All the forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The Group classifies its forward exchange contracts as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is a £195,000 liability (2021: £159,000 asset) and is adjusted against the hedging reserve on an ongoing basis. During the year £354,000 (2021: £131,000) has been recognised in other comprehensive income for the year with £nil (2021: £nil) being reclassified from equity to the Income Statement. At 31 December 2021 all outstanding forward exchange contracts had a maturity date within twelve months.

The foreign currency profile of monetary items was:

	2022					2021				
	Sterling £'000	**Euro £'000**	**US Dollar £'000**	**AED £'000**	**Total £'000**	Sterling £'000	Euro £'000	US Dollar £'000	AED £'000	Total £'000
Cash and cash equivalents	**51,167**	**2,799**	**2,257**	**41**	**56,264**	38,534	808	1,834	36	41,212
Trade receivables	**103,032**	**992**	**(190)**	**(120)**	**103,714**	82,712	1,529	192	(120)	84,313
Secured bank loans	**(240,130)**	**(6,905)**	**–**	**–**	**(247,035)**	(34,500)	(6,514)	–	–	(41,014)
Lease liabilities	**(40,275)**	**(5,559)**	**–**	**–**	**(45,834)**	(35,598)	(5,723)	–	–	(41,321)
Trade payables	**(74,613)**	**(6,728)**	**(1,220)**	**–**	**(82,561)**	(61,634)	(5,114)	(513)	–	(67,261)
Derivative financial instruments	**3,820**	**(73)**	**(86)**	**–**	**3,661**	654	158	1	–	813
Balance sheet exposure	**(196,999)**	**(15,474)**	**761**	**(79)**	**(211,791)**	(9,832)	(14,856)	1,514	(84)	(23,258)

A 10 per cent strengthening and weakening of the following currencies against the Pound Sterling at 31 December 2022 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis was performed on the same basis for 2021:

	2022 £'000	2021 £'000
10% strengthening of £ against €	**1,375**	1,321
10% weakening of £ against €	**(1,125)**	(1,080)
10% strengthening of £ against $	**(68)**	(135)
10% weakening of £ against $	**55**	110
10% strengthening of £ against AED	**7**	7
10% weakening of £ against AED	**(6)**	(6)

(e) Pricing risks

Where appropriate the Group uses hedging instruments to mitigate the risks of significant forward price rises of fuel in relation to expected consumption. The current hedges held are in place until 28 February 2023. The Group classifies its fuel hedges as cash flow hedges and states them at fair value. The fair value of the fuel hedges is a £273,000 asset (2021: £654,000 asset) and is adjusted against the hedging reserve on an ongoing basis. The period that the fuel hedges cover is matched against future expected purchases in order to fix the impact on the Income Statement. During the year £2,755,000 (2021: £1,272,000) has been recognised in other comprehensive income, with £3,136,000 (2021: £922,000) being reclassified from equity to the Income Statement. The fuel hedges have been fully effective in the period.

When combining interest rate swaps, fuel hedges and forward contracts, this gives a total of £5,660,000 credit (2021: £1,403,000 credit) recognised in other comprehensive income for the year with £2,847,000 debit (2021: £922,000 debit) being reclassified from equity to the Income Statement.

19 Financial instruments continued

Financial risks continued

(f) Other risks

Further information about the Group's strategic and financial risks is contained in the Strategic Report on pages 66 to 75.

Effective interest rates and maturity of liabilities

At 31 December 2022 there were £45,834,000 (2021: £41,321,000) of Group borrowings on a fixed rate. The interest rate profile of the financial liabilities is set out below. The tables also disclose cash and cash equivalents in order to reconcile to net debt (Note 26).

	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2022								
Cash and cash equivalents (Note 15)	**Variable**	**3.8**	**(56,264)**	**(56,264)**	**–**	**–**	**–**	**–**
Interest bearing loans and borrowings (Note 17)	**Variable**	**3.8**	**247,035**	**–**	**–**	**–**	**247,035**	**–**
Lease liabilities (Note 18)	**Fixed**	**3.4**	**45,834**	**5,771**	**3,993**	**7,050**	**12,192**	**16,828**
			236,605	**(50,493)**	**3,993**	**7,050**	**259,227**	**16,828**

	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2021								
Cash and cash equivalents (Note 15)	Variable	1.8	(41,212)	(41,212)	–	–	–	–
Interest bearing loans and borrowings (Note 17)	Variable	1.8	41,014	–	1,673	39,341	–	–
Lease liabilities (Note 18)	Fixed	3.4	41,321	5,396	3,149	6,206	10,715	15,855
			41,123	(35,816)	4,822	45,547	10,715	15,855

At 31 December the undiscounted outstanding contractual payments (including interest) of financial liabilities were as follows:

	Fixed or variable rate	Carrying value £'000	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2022								
Interest bearing loans and borrowings	**Variable**	**247,035**	**288,377**	**6,222**	**6,188**	**12,409**	**263,558**	**–**
Trade and other payables	**Variable**	**136,525**	**136,525**	**136,525**	**–**	**–**	**–**	**–**
Lease liabilities	**Fixed**	**45,834**	**56,028**	**6,476**	**4,570**	**8,176**	**14,576**	**22,230**
Derivative financial assets	**Fixed**	**(3,661)**	**(3,661)**	**33**	**(241)**	**–**	**(3,453)**	**–**
		425,733	**477,269**	**149,256**	**10,517**	**20,585**	**274,681**	**22,230**

	Fixed or variable rate	Carrying value £'000	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2021								
Interest bearing loans and borrowings	Variable	41,014	41,700	237	1,907	39,556	–	–
Trade and other payables	Variable	118,888	118,888	118,888	–	–	–	–
Lease liabilities	Fixed	41,321	52,208	6,175	3,653	7,316	13,149	21,915
Derivative financial assets	Fixed	(813)	(813)	(547)	(266)	–	–	–
		200,410	211,983	124,753	5,294	46,872	13,149	21,915

19 Financial instruments continued

Borrowing facilities

The total bank borrowing facility at 31 December 2022 amounted to £370 million (2021: £155.0 million), of which £120.1 million (2021: £114.0 million) remained unutilised. The undrawn facility available at 31 December 2022, in respect of which all conditions precedent had been met, was as follows:

	2022 £'000	2021 £'000
Committed:		
Expiring in more than 5 years	–	–
Expiring in more than 2 years but not more than 5 years	120,095	80,659
Expiring in 1 year or less	–	18,327
Uncommitted:		
Expiring in 1 year or less	–	15,000
	120,095	113,986

On 3 May 2022, the Group drew down a new four-year bank loan of £210 million to support the funding of the acquisition of Marley. In addition, to support ongoing working capital requirements, the Group has entered into a new committed revolving credit facility of £160 million with a maturity date of four years.

The Group's committed bank facilities are charged at variable rates based on SONIA plus a margin. The Group's bank facility continues to be aligned with the current strategy to ensure that headroom against the available facility remains at appropriate levels and are structured to provide committed medium-term debt.

Marshalls is party to a reverse factoring finance arrangement between a third party UK bank and one of the Group's key customers. The principal relationship is between the customer and its partner bank. The agreement enables Marshalls to benefit from additional credit against approved invoices and, in practice, this provides a facility of up to £15 million which the Group utilises periodically in order to help manage its short-term, mid-month funding requirements. The credit risk is retained by the customer and Marshalls pays a finance charge upon utilisation.

Fair values of financial assets and financial liabilities

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 December 2022 is shown below:

	2022		2021	
	Book amount £'000	Fair value £'000	Book amount £'000	Fair value £'000
Trade and other receivables	113,538	113,538	95,032	95,032
Cash and cash equivalents	56,264	56,264	41,212	41,212
Bank loans	(247,035)	(259,180)	(41,014)	(40,023)
Trade payables, other payables and provisions	(136,525)	(136,525)	(118,888)	(118,888)
Interest rate swaps, forward contracts and fuel hedges	3,661	3,661	813	813
Contingent consideration	(8,860)	(8,860)	(1,563)	(1,563)
Financial instrument assets and liabilities – net	(218,957)		(24,408)	
Non-financial instrument assets and liabilities – net	880,026		368,725	
	661,069		344,317	

19 Financial instruments continued
Borrowing facilities continued
Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table. Other than contingent consideration, which uses a level 3 basis, all use level 2 valuation techniques.

(a) Derivatives
Derivative contracts are either marked to market using listed market prices or by discounting the contractual forward price at the relevant rate and deducting the current spot rate. For interest rate swaps, broker quotes are used.

(b) Interest-bearing loans and borrowings
Fair value is calculated based on the expected future principal and interest cash flows discounted at the market rate of interest at the balance sheet date.

(c) Trade and other receivables/payables
For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

(d) Contingent consideration
The basis of calculating contingent consideration is set out in Note 21 on page 180.

(e) Fair value hierarchy
The table below analyses financial instruments, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2022				
Derivative financial assets/(liabilities)	**—**	**3,661**	**—**	**3,661**
Contingent consideration	**—**	**—**	**(8,860)**	**(8,860)**
	—	**3,661**	**(8,860)**	**(5,199)**
31 December 2021				
Derivative financial assets/(liabilities)	—	813	—	813
Contingent consideration	—	—	(1,563)	(1,563)
	—	813	(1,563)	(750)

20 Employee benefits
The Company sponsors a funded defined benefit pension scheme in the UK (the "Scheme"). The Scheme is administered within a trust which is legally separate from the Company. The Trustee Board is appointed by both the Company and the Scheme's membership and acts in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustee is also responsible for the investment of the Scheme's assets.

The defined benefit section of the Scheme provides pension and lump sums to members on retirement and to dependants on death. The defined benefit section closed to future accrual of benefits on 30 June 2006 with the active members becoming entitled to a deferred pension. Members no longer pay contributions to the defined benefit section. Company contributions to the defined benefit section after this date are used to fund any deficit in the Scheme and the expenses associated with administering the Scheme, as determined by regular actuarial valuations.

The Trustee is required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

The defined benefit section of the Scheme poses a number of risks to the Company, for example longevity risk, investment risk, interest rate risk, inflation risk and salary risk. The Trustee is aware of these risks and uses various techniques to control them. The Trustee has a number of internal control policies, including a Risk Register, which are in place to manage and monitor the various risks it faces. The Trustee's investment strategy incorporates the use of liability-driven investments ("LDIs") to minimise sensitivity of the actuarial funding position to movements in interest rates and inflation rates.

The volatility in gilt markets during 2022 has had a significant impact on pension schemes. Due to the Scheme's LDI strategy to provide an effective hedge against both inflation and interest rates the additional market volatility and the increase in gilt rates during the year had consequences for the Marshalls Pension Scheme. The Scheme utilises a "cash driven investment strategy" which has ensured there have been sufficient "liquid" investments in the Scheme to enable the Trustee Board to respond effectively to the market volatility and the short-notice collateral calls.

The defined benefit section of the Scheme is subject to regular actuarial valuations, which are usually carried out every three years. The next actuarial valuation is being carried out with an effective date of 5 April 2024. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures which are determined using best estimate assumptions.

20 Employee benefits continued

A formal actuarial valuation was carried out as at 5 April 2021. The results of that valuation have been projected to 31 December 2022 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method.

The amounts recognised in the Consolidated Balance Sheet were as follows:

	2022 £'000	2021 £'000	2020 £'000
Present value of Scheme liabilities	**(232,469)**	(366,359)	(399,938)
Fair value of Scheme assets	**254,903**	392,116	402,664
Net amount recognised at the year end (before any adjustments for deferred tax)	**22,434**	25,757	2,726

The current and past service costs, settlements and curtailments, together with the net interest expense for the year, are included in the employee benefits expense in the Consolidated Statement of Comprehensive Income. Remeasurements of the net defined benefit surplus are included in other comprehensive income.

	2022 £'000	2021 £'000
Net interest expense before adjusting items	**197**	539
Adjusting interest expense (Note 4)	**—**	2,813
Net interest expense recognised in the Consolidated Income Statement	**197**	3,352
Remeasurements of the net liability:		
Return on Scheme assets (excluding amount included in interest expense)	**130,067**	3,786
Gain arising from changes in financial assumptions	**(134,472)**	(20,383)
Gain arising from changes in demographic assumptions	**(886)**	(6,317)
Experience loss/(gain)	**8,417**	(3,469)
Debit/(credit) recorded in other comprehensive income	**3,126**	(26,383)
Total defined benefit debit/(credit)	**3,323**	(23,031)

The principal actuarial assumptions used were:

	2022 £'000	2021 £'000
Liability discount rate	**4.90%**	1.90%
Inflation assumption – RPI	**3.15%**	3.30%
Inflation assumption – CPI	**2.60%**	2.70%
Rate of increase in salaries	**n/a**	n/a
Revaluation of deferred pensions	**2.60%**	2.70%
Increases for pensions in payment:		
CPI pension increases (maximum 5% p.a.)	**2.55%**	2.70%
CPI pension increases (maximum 5% p.a., minimum 3% p.a.)	**3.60%**	3.35%
CPI pension increases (maximum 3% p.a.)	**1.95%**	2.35%
Proportion of employees opting for early retirement	**0%**	0%
Proportion of employees commuting pension for cash	**80%**	80%
Mortality assumption – before retirement	**Same as post-retirement**	Same as post-retirement
Mortality assumption – after retirement (males)	**S2PXA tables**	S2PXA tables
Loading	**110%**	110%
Projection basis	**Year of birth CMI_2021 1.0%**	Year of birth CMI_2020 1.0%
Mortality assumption – after retirement (females)	**S2PXA tables**	S2PXA tables
Loading	**110%**	110%
Projection basis	**Year of birth CMI_2021 1.0%**	Year of birth CMI_2020 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	**85.3**	85.4
Female aged 65 at year end	**87.5**	87.5
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	**86.3**	86.3
Female aged 45 at year end	**88.7**	88.7

20 Employee benefits continued

Changes in the present value of assets over the year

	2022 £'000	2021 £'000
Fair value of assets at the start of the year	**392,116**	402,664
Interest income	**7,313**	5,551
Return on assets (excluding amount included in net interest expense)	**(130,067)**	(3,786)
Benefits paid	**(13,780)**	(11,740)
Administration expenses	**(679)**	(573)
Fair value of assets at the end of the year	**254,903**	392,116
Actual return on assets over the year	**(122,754)**	1,765

Changes in the present value of liabilities over the year

	2022 £'000	2021 £'000
Liabilities at the start of the year	**366,359**	399,938
Past service cost	**—**	2,813
Interest cost	**6,831**	5,517
Remeasurement (gains)/losses:		
Actuarial gains arising from changes in financial assumptions	**(134,472)**	(20,383)
Actuarial gains arising from changes in demographic assumptions	**(886)**	(6,317)
Experience loss/(gain)	**8,417**	(3,469)
Benefits paid	**(13,780)**	(11,740)
Liabilities at the end of the year	**232,469**	366,359

The split of the Scheme's liabilities by category of membership is as follows:

	2022 £'000	2021 £'000
Deferred pensioners	**96,072**	204,739
Pensioners in payment	**136,397**	161,620
	232,469	366,359
Average duration of the Scheme's liabilities at the end of the year (in years)	**14**	18

The major categories of Scheme assets are as follows:

	2022 £'000	2021 £'000
Return-seeking assets		
UK equities	**936**	1,864
Overseas equities	**22,462**	41,492
Other equity type investments	**31,066**	34,119
Total return-seeking assets	**54,464**	77,475
Other		
Insured pensioners	**419**	591
Cash	**3,118**	6,117
Property	**32,848**	36,941
Liability-driven investments and bonds	**164,054**	270,992
Total matching assets	**200,439**	314,641
Total market value of assets	**254,903**	392,116

The return-seeking assets and LDI assets have quoted prices in active markets. The valuation of the insured pensions has been taken as the value of the corresponding liabilities assessed using the assumptions set out above.

The Scheme has no investments in the Company or in property occupied by the Company.

The Company expects to pay no contributions to the defined benefit section of the Scheme during the year ended 31 December 2023.

20 Employee benefits continued

Sensitivity of the liability value to changes in the principal assumptions

If the discount rate were 0.5 per cent higher/(lower), the defined benefit section Scheme liabilities would decrease by approximately £14.3 million (increase by £14.3 million) if all the other assumptions remained unchanged.

If the inflation assumption were 0.5 per cent higher/(lower), the Scheme liabilities would increase by £6.1 million (decrease by £6.1 million). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is salary, the deferred pension and pension in payment increases. The other assumptions remain unchanged.

If life expectancies were to increase/(decrease) by one year, the Scheme liabilities would increase by £8.0 million (decrease by £8.0 million) if all the other assumptions remained unchanged.

Management Incentive Plan ("MIP")

Share-based payment awards have been made during the year in accordance with the rules of the MIP. Full details of the performance criteria and the basis of operation of the MIP are set out in the Remuneration Committee Report on pages 100 to 130.

Equity settled awards are settled by physical delivery of shares. The following equity settled awards have been granted:

	Number of instruments	£'000	Plan year	Vesting date
Equity settled awards granted to Directors of Marshalls plc	87,000	715	2019	March 2023
Equity settled awards granted to other employees	86,224	708	2019	March 2023
Equity settled awards granted to Directors of Marshalls plc	—	—	2020	March 2024
Equity settled awards granted to other employees	—	—	2020	March 2024
Equity settled awards granted to Directors of Marshalls plc	104,187	726	2021	March 2025
Equity settled awards granted to other employees	184,712	1,288	2021	March 2025
Equity settled awards granted to Directors of Marshalls plc	317,782	885	2022	March 2026
Equity settled awards granted to other employees	359,324	1,001	2022	March 2026
	1,139,229	5,323		

Analysis of closing balance (deferred into shares):

	2022		2021	
	£'000	Shares	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	2,326	508,969	2,939	463,027
Equity settled awards granted to other employees	2,997	630,260	3,467	534,892
	5,323	1,139,229	6,406	997,919

	2022		2021	
	Value £'000	Number of options	Value £'000	Number of options
Outstanding at 1 January	6,406	997,919	7,261	1,228,437
Granted	1,933	694,397	3,474	498,256
Change in value of notional shares	(530)	—	—	—
Lapsed	(297)	(42,585)	(252)	(43,204)
Element released	(2,189)	(510,502)	(4,077)	(685,570)
Outstanding at 31 December	5,323	1,139,229	6,406	997,919

The total expenses recognised for the period arising from share-based payments were as follows:

	2022 £'000	2021 £'000
Awards granted and total expense recognised as employee costs	2,038	2,545

Further details in relation to the Directors are set out in the Remuneration Committee Report on pages 100 to 130. Included in the total expense of £2,038,000 (2021: £2,545,000) is an amount of £1,297,000 (2021: £1,490,000) settled as interim cash payments under the terms of the Scheme and which has been included within wages and salaries in Note 5.

Employee Bonus Share Plan

A Bonus Share Plan was approved by shareholders in May 2015 under which a number of senior management employees were granted performance related bonuses with an element of this bonus being in the form of shares. The bonus performance criteria are the same as those applicable to the MIP awards. The bonus shares take the form of nil-cost options to acquire shares at the end of a three-year vesting period from the date of grant, and vesting is conditional on continued employment at the end of the vesting period. Awards are made to participants following publication of the Group's year-end results. In addition, certain discretionary Share Awards have been granted to certain employees in the form of nil-cost options to acquire Ordinary Shares in Marshalls plc at the end of a three-year period. The total awards outstanding at 31 December 2022 were over 279,431 shares (31 December 2021: 358,217). The total expenses recognised for the year arising from share-based payments were £270,000 (2021: £1,117,000).

Employee profit sharing scheme

At 31 December 2022 the scheme held 42,287 (2021: 42,287) Ordinary Shares in the Company.

21 Provisions

	Contingent consideration £'000	Legal and regulatory provisions £'000	Total £'000
At 1 January 2021	—	3,149	3,149
Movement in provisions made in the period	—	(2,310)	(2,310)
At 31 December 2021	—	839	839
At 1 January 2022	—	839	839
On acquisition of subsidiary undertakings	4,932	—	4,932
Increase in the provision in the period (Note 4)	3,928	—	3,928
At 31 December 2022	**8,860**	**839**	**9,699**

	2022 £'000	2021 £'000
Analysed as:		
Current liabilities	**3,000**	—
Non-current liabilities	**6,699**	839
	9,699	839

As part of the acquisition of Marley, there is an obligation to pay the vendors of Viridian Solar Limited deferred consideration which is contingent on the achievement of certain performance targets in the period post-acquisition. These performance periods are annually up to and including 31 December 2024 and will be settled in cash on their payment date on achieving the relevant targets. The range of additional consideration is estimated to be between £nil and £12 million. The Group has included £8,860,000 million as a contingent consideration which represents £4,932,000 for the fair value at acquisition date and a further charge in the post-acquisition period of £3,928,000, which has been included in adjusting items (Note 4). Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities.

Other provisions comprise the estimated cost of settlement of certain legal and regulatory matters relating to the CPM business acquired on 19 October 2017 and the Edenhall business acquired on 11 December 2018, and reflect the Directors' estimate of the likely outflow from settlement of these matters.

22 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Property, plant and equipment	**—**	—	**(24,606)**	(17,089)
Intangible assets	**—**	—	**(57,542)**	(1,547)
Inventories	**505**	—	**—**	(477)
Employee benefits	**—**	—	**(5,606)**	(6,439)
Equity settled share-based payments	**432**	1,249	**—**	—
Other items	**333**	356	**(2,907)**	(2,513)
Tax assets/(liabilities)	**1,270**	1,605	**(90,661)**	(28,065)

The deferred taxation liability at 31 December 2022 has been calculated at 25 per cent based on the rate at which the deferred tax is expected to unwind in the future using rates enacted at the balance sheet date.

The deferred taxation liability of £5,606,000 (2021: £6,439,000) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £22,434,000 (2021: £25,757,000) (Note 20) calculated at 25 per cent (2021: 25 per cent).

Deferred tax assets on capital losses and overseas trading losses have not been recognised due to uncertainty around the future use of the losses.

Deferred taxation liabilities represent sums that might become payable as tax in future years as a result of transactions that have occurred in the current year. The explanation as to why such liabilities may arise is included in the notes to the tax reconciliation (Note 7).

The deferred tax liabilities disclosed in the year ended 31 December 2022 include the deferred tax relating to the Group's pension scheme assets. Deferred tax assets on capital losses and overseas trading losses have not been recognised due to uncertainty around the future use of the losses.

22 Deferred taxation continued

Movement in temporary differences

Year ended 31 December 2022

	1 January 2022 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	On acquisition of subsidiary undertaking £'000	**31 December 2022 £'000**
Property, plant and equipment	(17,089)	(2,069)	–	–	(5,448)	**(24,606)**
Intangible assets	(1,547)	1,664	–	–	(56,918)	**(56,801)**
Inventories	(477)	779	–	–	(538)	**(236)**
Employee benefits	(6,439)	52	781	–	–	**(5,606)**
Equity settled share-based payments	1,249	(209)	–	(608)	–	**432**
Other items	(2,157)	117	(677)	–	143	**(2,574)**
	(26,460)	334	104	(608)	(62,761)	**(89,391)**

Year ended 31 December 2021

	1 January 2021 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	31 December 2021 £'000
Property, plant and equipment	(12,506)	(4,583)	–	–	(17,089)
Intangible assets	(1,594)	47	–	–	(1,547)
Inventories	(499)	22	–	–	(477)
Employee benefits	(519)	663	(6,583)	–	(6,439)
Equity settled share-based payments	2,241	(736)	–	(256)	1,249
Other items	(1,569)	(624)	36	–	(2,157)
	(14,446)	(5,211)	(6,547)	(256)	(26,460)

The deferred tax balances on short-term timing differences are expected to reverse within one to three years.

Based on the current investment programme of the Group and assuming that current rates of capital allowances on fixed asset expenditure continue into the future, there is little prospect of any significant part of the deferred taxation liability of the Company becoming payable over the next three years. It is not realistic to make any projection after a three-year period.

23 Called-up share capital

The authorised, issued and full paid up Ordinary Share Capital was as follows:

	Authorised		Issued and paid up	
Ordinary Shares (25 pence nominal)	**Number**	Value £'000	**Number**	Value £'000
At 31 December 2021	**300,000,000**	75,000	**200,052,157**	50,013
Shares issued in the year	**–**	–	**52,916,571**	13,229
At 31 December 2022	**300,000,000**	75,000	**252,968,728**	63,242

During the year 52,916,571 new Ordinary Shares with a nominal value of £0.25 per share were issued and fully paid in connection with the Group's acquisition of Marley on 29 April 2022.

Share premium account and merger reserve

	Share premium account		Merger reserve	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
At 1 January	**24,482**	24,482	**–**	–
Shares issued in relation to the placing and open offer	**180,151**	–	**–**	–
Consideration shares issued	**–**	–	**141,605**	–
Costs associated with the share issue	**(4,706)**	–	**–**	–
At 31 December	**199,927**	24,482	**141,605**	–

During the year ended 31 December 2022, 28,824,114 new Ordinary Shares were issued at £6.50 per share in relation to a placing and a placing and open offer. An amount of £180,151,000 has been credited to the share premium account in relation to the issue of these shares. A further 24,092,457 new ordinary shares were issued at £6.80 per share as consideration for the acquisition of Marley Group Limited. An amount of £141,605,000 has been credited to a merger reserve in relation to the issue of these shares and reflects the fair value of the shares at the date of the acquisition.

Own shares reserve

Transactions of the Group-sponsored Employee Benefit Trust are included in the Group Financial Statements. The Trust's purchases of shares in the Company are debited directly to equity and disclosed separately in the balance sheet as "own shares". Further details are included on page 131.

Capital redemption reserve

The capital redemption reserve records the nominal value of shares repurchased by the Company.

23 Called-up share capital continued

Consolidation reserve

On 8 July 2004 Marshalls plc was introduced as the new holding company of the Group by way of a court-approved Scheme of Arrangement under Section 425 of the Companies Act 1985. The restructuring was accounted for as a capital reorganisation and accounting principles were applied as if the Company had always been the holding company of the Group. The difference between the aggregate nominal value of the new shares issued by the Company and the called-up share capital, capital redemption reserve and share premium account of Marshalls Group plc (the previous holding company) was transferred to a consolidation reserve.

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging, principally from the Group's interest rate swaps, energy price contracts and forward exchange contracts.

Dividends

After the balance sheet date, the following dividends were proposed by the Directors. The dividends have not been provided for and there were no income tax consequences.

	2022 £'000	2021 £'000
9.9 pence final dividend (2021: 9.6 pence) per Ordinary Share	**25,021**	19,122

24 Non-controlling interests

	2022 £'000	2021 £'000
At 1 January	**987**	950
Share of (loss)/profit for the year	**(250)**	92
Foreign currency transaction differences	**45**	(55)
At 31 December	**782**	987

25 Acquisition of subsidiary

On 29 April 2022 Marshalls Group Limited acquired 100 per cent of the issued share capital of Marley Group plc, a leader in the manufacture and supply of pitched roofing systems to the UK construction market. Marley Group plc operates within the UK and is registered in England and Wales. The fair values acquired are disclosed as provisional given that the acquisition was made on 29 April 2022.

The amounts in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	Provisional fair values acquired £'000
Land and buildings	**66,321**
Plant, machinery and vehicles	**29,869**
Right-of-use assets	**1,424**
Brand	**82,760**
Customer relationships	**145,400**
Inventories	**27,423**
Trade and other receivables	**33,284**
Cash and cash equivalents	**34,087**
Trade and other payables	**(34,556)**
Provisions	**(4,932)**
Borrowings	**(291,956)**
Lease liabilities	**(1,588)**
Corporation tax	**(987)**
Deferred tax	**(62,761)**
Total identifiable net assets	**23,788**
Goodwill	**244,119**
	267,907
Total consideration satisfied by:	
Cash consideration	**120,280**
Equity consideration	**147,627**
Total cost of investment	**267,907**
Total cash movements in connection with the acquisition	
Cash consideration	**120,280**
Cash and cash equivalents acquired	**(34,087)**
Borrowings acquired	**291,956**
Lease liabilities acquired	**1,588**
Total cash outflow (net) in connection with the acquisition	**379,737**

25 Acquisition of subsidiary continued

The headline enterprise value agreed for the transaction was £535 million on a cash-free and debt-free basis. Due to the timing between the agreed consideration scheme price as at 6 April 2022 of £6.80 and the share price at the close of completion on 29 April 2022 of £6.18, the enterprise value of the transaction at fair value was £525.7 million. The consideration for the acquisition was funded by a combination of new debt financing and £187 million from a Firm Placing and Placing Open Offer. In addition 24,092,457 new Ordinary Shares were issued to the seller at a price of £6.80 per share, equating to a value of £163,827,000 million. The fair value of the equity consideration is £147,627,000, which reflects a reduction of £16,200,000 being the impact of the reduced share price of £6.18 at the date of completion on 29 April 2022.

As part of the ongoing review of the fair value of assets and liabilities acquired, adjustments have been made to the initial assessment that was disclosed in the Half Year Statement at 30 June 2022. These had the effect of reducing fair value of the net assets acquired under the acquisition by £13,795,000 which has given rise to an increase in goodwill of the same amount. The provisional value of goodwill reported in respect of Marley as at 31 December 2022 is £244,119,000. Goodwill, trade and other payables, trade and other receivables and corporation tax balances have been restated accordingly in the 31 December 2022 balance sheet. In assessing the fair value of land and buildings, brands and customer relationships, the Group has engaged the support of third party specialists, including PwC and Avison Young.

Due to their contractual dates, fair value receivables (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be received is minimal.

The goodwill arising from the acquisition represents the opportunity to grow by utilising the capabilities and technical experience of the acquired workforce and developing synergistic opportunities. The goodwill arising from the acquisition is not expected to be deductible for income tax purposes. Transaction costs incurred on the acquisition totalled £14,887,000 and further details are set out in Note 4, adjusting items.

Marley contributed revenue of £132,227,000 and operating adjusted profit of £34,452,000 to the Group's results for the period between the date of acquisition and the balance sheet date.

26 Analysis of net debt

	1 January 2021 £'000	Cash flow £'000	New leases £'000	On acquisition of Marley £'000	Other changes [i] £'000	**31 December 2022 £'000**
Cash at bank and in hand	41,212	(19,331)	–	34,087	296	**56,264**
Debt due within 1 year	(1,673)	1,673	–	–	–	**–**
Debt due after 1 year	(39,341)	84,545	–	(291,956)	(283)	**(247,035)**
Lease liabilities	(41,321)	11,090	(14,015)	(1,588)	–	**(45,834)**
	(41,123)	77,977	(14,015)	(259,457)	13	**(236,605)**

(i) Other changes include foreign currency movements on cash and loan balances.

Movement in the net debt is shown net of bank arrangement fees.

Reconciliation of net cash flow to movement in net debt

	2022 £'000	2021 £'000
Net decrease in cash equivalents	**(19,331)**	(62,439)
Cash outflow from decrease in bank borrowings	**86,218**	88,628
On acquisition of subsidiary undertakings	**(259,457)**	–
Cash outflow from lease repayments	**11,090**	10,828
New leases entered into	**(14,015)**	(3,158)
Effect of exchange rate fluctuations	**13**	584
Movement in net debt in the year	**(195,482)**	34,443
Net debt at 1 January	**(41,123)**	(75,566)
Net debt at 31 December	**(236,605)**	(41,123)

27 Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's Consolidated Cash Flow Statement as cash flows from financing activities.

			Non-cash changes		
	1 January 2022 £'000	Financing cash flows* £'000	Acquisition of Subsidiary (Note 25) £'000	Other changes** £'000	**31 December 2022 £'000**
Interest bearing loans and borrowings (Note 17)	(41,014)	86,218	(291,956)	(283)	**(247,035)**
Lease liabilities (Note 18)	(41,321)	11,090	(1,588)	(14,015)	**(45,834)**
Total liabilities from financing activities	(82,335)	97,308	(293,544)	(14,298)	**(292,869)**

			Non-cash changes		
	1 January 2021 £'000	Financing cash flows * £'000	Acquisition of Subsidiary (Note 25) £'000	Other changes ** £'000	31 December 2021 £'000
Interest bearing loans and borrowings (Note 17)	(130,282)	88,628	—	640	(41,014)
Lease liabilities (Note 18)	(48,991)	10,828	—	(3,158)	(41,321)
Total liabilities from financing activities	(179,273)	99,456	—	(2,518)	(82,335)

* The cash flows from bank loans, overdrafts and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the Consolidated Cash Flow Statement.

** New leases and foreign currency movements.

28 Contingent liabilities

National Westminster Bank plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self-insurance for employer's liability and vehicle insurance:

Beneficiary	Amount	Period	Purpose
M S Amlin Limited	£675,000	23 Dec 2011 to 30 Oct 2023	Employer's liability
HDI Global SE — UK	£500,000	8 Dec 2020 to 30 Oct 2023	Employer's liability
AIOI Nissay Dowa Insurance UK Limited	£575,000	8 Dec 2020 to 30 Oct 2023	Vehicle insurance
Aviva Insurance Limited	£350,000	19 Mar 2014 to 30 Oct 2023	Vehicle insurance
M S Amlin Limited	£750,000	30 Oct 2016 to 30 Oct 2023	Vehicle insurance

Marshalls plc has provided a statutory Parent Company guarantee to those subsidiaries listed below in order that they are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of S479A of the Act.

	Registered number
Marley Group Limited	13596495
Monty Bidco Limited	12144582
Monty Midco 1 Limited	12144469
Monty Midco 2 Limited	12144529
Monty Topco Limited	12144396
Marshalls Building Products Limited	00113882
Marshalls Properties Limited	04349470
Marshalls EBT Limited	05472428
CPM Group Limited	01005164
PD Edenhall Limited	03635485
Edenhall Holdings Limited	10367730
PD Edenhall Holdings Limited	08911209

29 Related parties

Identity of related parties

The Group has a related party relationship with its Directors.

Transactions with key management personnel

Other than the Directors, there are no senior managers in the Group who are relevant for establishing that Marshalls plc has the appropriate expertise and experience for the management of its business.

The Directors of the Company and their immediate relatives control 0.2182 per cent (2021: 0.3072 per cent) of the voting shares of the Company.

In addition to their salaries and pension allowances, the Group also provides non-cash benefits to Directors. Further details in relation to Directors are disclosed in the Remuneration Committee Report on pages 100 to 130.

30 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out in Note 1 on pages 149 to 160. As stated in the accounting policies, revenue is disclosed net of rebates. Whilst the Directors do not regard the determination of accruals for rebates as a key area of estimation uncertainty, the estimation of appropriate accruals for rebates requires commercial assessment. Note 13 contains details of the Group's inventory. Whilst not considered by the Directors to be a key source of estimation uncertainty, the carrying value of the Group's finished goods inventory has been reviewed using commercial judgement with regard to the assessment of the appropriate level of provisioning against inventory obsolescence and for net realisable value. The Directors consider the following to be key sources of estimation uncertainty:

- Note 20 contains information about the principal actuarial assumptions used in the determination of defined benefit pension obligations. These key assumptions include discount rates and inflation rates which have been determined following advice received from an independent qualified actuary. Sensitivity analysis is disclosed in Note 20 on page 179.
- Note 12 contains information about the principal assumptions that have been applied in assessing the carrying value of goodwill for impairment and acquired intangible assets. The assessments use cash flow projections based on financial forecast. To prepare value-in-use calculations key assumptions are made in relation to cash flow forecasts that are discounted back to present value using an appropriate market-based discount rate. The assumption around the discount rate is determined following advice from third party financial advisers. Sensitivity analysis is disclosed in Note 12 on page 169.
- Note 4 contains information relating to the assumptions in relation to the impairment of the net assets of the Belgian subsidiary. The Directors have made an assessment of the market for such assets in arriving at the fair value applied.

The Directors have concluded that critical accounting judgements, apart from those involving estimations, have been made in relation to the following issue during the preparation of the Financial Statements:

- Adjusting items have been disclosed separately as alternative performance measures due to their size, nature and incidence to provide a better understanding of the Group's results. The determination of whether items merit treatment as an adjusting item is a matter of judgement. Note 4 contains details of adjusting items.
- Note 1 contains information about the assumptions and adjustments made relating to the identification of operating segments for the Group as defined in IFRS 8 *"Operating segments"*.
- Note 25 contains information relating to the acquisition of Marley Group plc. Judgements have been applied in determining the fair value of land and buildings, brands, customer relationships and the related deferred tax.
- Note 12 contains information relating to the judgements made in relation to goodwill impairment testing. These include judgements made in relation to the cash flow forecasts and the use of an appropriate market-based discount rate.

Company Statement of Changes in Equity
for the year ended 31 December 2022

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Current year								
At 1 January 2022	**50,013**	**24,482**	**–**	**(646)**	**75,394**	**14,560**	**167,702**	**331,505**
Total comprehensive income for the year								
Profit for the financial year	**–**	**–**	**–**	**–**	**–**	**–**	**137,785**	**137,785**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**137,785**	**137,785**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Shares issued	**13,229**	**180,151**	**141,605**	**–**	**–**	**–**	**–**	**334,985**
Share issue costs	**–**	**(4,706)**	**–**	**–**	**–**	**–**	**–**	**(4,706)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**725**	**529**	**1,254**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**(219)**	**–**	**(219)**
Dividends to equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(38,669)**	**(38,669)**
Purchase of own shares	**–**	**–**	**–**	**(1,075)**	**–**	**–**	**–**	**(1,075)**
Own shares issued under share schemes	**–**	**–**	**–**	**396**	**–**	**–**	**(396)**	**–**
Total contributions by and distributions to owners	**13,229**	**175,445**	**141,605**	**(679)**	**–**	**506**	**(38,536)**	**291,570**
Total transactions with owners of the Company	**13,229**	**175,445**	**141,605**	**(679)**	**–**	**506**	**99,249**	**429,355**
At 31 December 2022	**63,242**	**199,927**	**141,605**	**(1,325)**	**75,394**	**15,066**	**266,951**	**760,860**

There were no items of other comprehensive income in the year other than the profit for the financial year recorded above.

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Current year							
At 1 January 2021	50,013	24,482	(806)	75,394	13,010	195,034	357,127
Total comprehensive expense for the year							
Loss for the financial year	–	–	–	–	–	(6,362)	(6,362)
Total comprehensive expense for the year	–	–	–	–	–	(6,362)	(6,362)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	–	–	–	–	1,622	681	2,303
Deferred tax on share-based payments	–	–	–	–	(72)	–	(72)
Dividends to equity shareholders	–	–	–	–	–	(17,924)	(17,924)
Purchase of own shares	–	–	(3,567)	–	–	–	(3,567)
Own shares issued under share schemes	–	–	3,727	–	–	(3,727)	–
Total contributions by and distributions to owners	–	–	160	–	1,550	(20,970)	(19,260)
Total transactions with owners of the Company	–	–	160	–	1,550	(27,332)	(25,622)
At 31 December 2021	50,013	24,482	(646)	75,394	14,560	167,702	331,505

There were no items of other comprehensive expense in the year other than the loss for the financial year recorded above.

Company Balance Sheet
at 31 December 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Investments	34	**353,699**	352,974
Deferred taxation assets	35	**156**	673
Loans to Group undertakings	36	**407,497**	—
		761,352	353,647
Current assets			
Debtors	37	**—**	964
Net current assets		**—**	964
Total assets		**761,352**	354,611
Current liabilities			
Creditors	38	**(492)**	(23,106)
Net current liabilities		**(492)**	(23,106)
Net assets		**760,860**	331,505
Capital and reserves			
Called-up share capital	39	**63,242**	50,013
Share premium account	39	**199,927**	24,482
Merger reserve	39	**141,605**	—
Own shares		**(1,325)**	(646)
Capital redemption reserve		**75,394**	75,394
Equity reserve		**15,066**	14,560
Profit and loss account		**266,951**	167,702
Equity shareholders' funds		**760,860**	331,505

The Company reported a profit for the financial year ended 31 December 2022 of £137,785,000 (2021: loss of £6,362,000).

Approved at a Directors' meeting on 15 March 2023.

On behalf of the Board:

Martyn Coffey
Chief Executive

Justin Lockwood
Chief Financial Officer

The Notes on pages 188 to 193 form part of these Company Financial Statements.

31 Accounting policies

The following paragraphs summarise the main accounting policies of the Company, which have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements.

(a) Authorisation of Financial Statements and Statement of Compliance with FRS 101

The Parent Company Financial Statements of Marshalls plc for the year ended 31 December 2022 were authorised for issue by the Board of Directors on 15 March 2023. Marshalls plc is a public limited company that is incorporated and domiciled and has its registered office in England and Wales. The Company's Ordinary Shares are publicly traded on the London Stock Exchange and the Company is not under the control of any single shareholder.

These Financial Statements were prepared in accordance with the historical cost basis of accounting and Financial Reporting Standard 101 *"Reduced Disclosure Framework"* ("FRS 101").

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

(b) Basis of preparation

The Company has adopted FRS 101 from the UK Generally Accepted Accounting Practice for all periods presented.

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31 December 2022.

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

- the requirements of paragraphs 45(b) and 46 – 52 of IFRS 2 *"Share-based Payments"*;
- the requirements of IFRS 7 *"Financial Instruments: Disclosures"*;
- the requirements of paragraphs 91 – 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, 39(c), 40A, 40B, 40C, 40D, 111 and 134 – 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 Errors"*;
- the requirements of paragraph 17 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; and
- the requirements of paragraphs 134(d) – 134(f) and 135(c) – 135(e) of IAS 36 *"Impairment of Assets"*.

The Company also intends to take advantage of these exemptions in the Financial Statements to be issued in the following year. Objections may be served in the Company by shareholders holding in aggregate 5 per cent or more of the total allocated shares in the Company. Where required, additional disclosures are given in the Consolidated Financial Statements.

(c) Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment. The Directors consider annually whether a provision against the value of investments on an individual basis is required.

(d) Share capital

(i) Share capital

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or if it is redeemable but only at the Company's option. Dividends on share capital classified as equity are recognised as distributions within equity. Non-equity share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the profit and loss account as a financial expense.

(ii) Dividends

Dividends on non-equity shares are recognised as a liability and accounted for on an accruals basis. Equity dividends are recognised as a liability in the period in which they are declared (appropriately authorised and no longer at the discretion of the Company).

(e) Pension schemes

(i) Defined benefit scheme

The Company participates in a Group-wide pension scheme providing benefits based on final pensionable pay. The defined benefit section of the Scheme was closed to future service accrual in July 2006.

The assets of the Scheme are held separately from those of the Company. The defined benefit cost and contributions payable are borne by Marshalls Group Limited and, therefore, the defined benefit surplus or deficit is recorded in Marshalls Group Limited. Full details are provided in Note 20 on pages 176 to 179.

(ii) Defined contribution scheme

Obligations for contributions to defined contribution schemes are recognised as an expense as incurred.

31 Accounting policies continued

(f) Share-based payment transactions

The Company enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's Management Incentive Plan ("MIP") and the Employee Bonus Share Plan ("BSP").

These schemes allow employees to acquire shares in Marshalls plc. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Where appropriate, the fair value of the options granted is measured using the Black-Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Current tax relief is available as shares vest based on the value at the date of vesting. A deferred tax asset is recognised at grant date based on the number of shares expected to be issued, at the value at which they are expected to be issued, proportioned in line with the vesting period.

(g) Own shares held by the Employee Benefit Trust

Transactions of the Company-sponsored Employee Benefit Trust are included in the Group Financial Statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity and disclosed separately in the balance sheet as "own shares".

(h) Trade and other payables

Trade and other payables are stated at nominal amount (discounted if material).

(i) Income tax

Income tax on the profit or loss for the year comprises current and deferred taxation. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply when the temporary difference reverses, based on rates that have been enacted or substantively enacted at the balance sheet date.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

32 Operating costs

The audit fee for the Company was £60,000 (2021: £50,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditor for services other than the statutory audit of the Company are not disclosed in the Notes to the Company Financial Statements since the consolidated accounts of the Group are required to disclose non-audit fees on a consolidated basis.

Details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed on pages 100 to 130 of the Remuneration Committee Report.

The average monthly number of employees of Marshalls plc (including Executive Directors) in the year ended 31 December 2022 was 203 (2021: 183). The personnel costs for the majority of these employees are borne by Marshalls Group Limited. The personnel costs charged to Marshalls plc in the year were £3,939,000 (2021: £4,524,000) in relation to 21 employees (2021: 21), including the Directors.

33 Ordinary dividends: equity shares

	2022		2021	
	Pence per share	£'000	Pence per share	£'000
2022 interim: paid 1 December 2022	5.7	24,263	4.7	9,362
2021 final: paid 1 July 2022	9.6	14,406	4.3	8,562
	15.3	38,669	9.0	17,924

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided and there were no income tax consequences.

	2022 £'000	2021 £'000
2022 final: 9.9 pence (2021: 9.6 pence) per Ordinary Share	25,021	19,122

34 Investments

	£'000
At 1 January 2022	**352,974**
Additions	**725**
At 31 December 2022	**353,699**

Investments comprise shares in the subsidiary undertaking, Marshalls Group Limited. The Directors have considered the carrying value of the Company's investments and are satisfied that no provision is required.

The increase in the year of £725,000 represents adjustments to the number of shares expected to vest in respect of share-based payment awards granted to employees of Marshalls Group Limited.

Pursuant to Sections 409 and 410(2) of the Companies Act 2006, the subsidiary undertakings of Marshalls plc at 31 December 2022 are set out below.

Subsidiaries	Principal activities	Class of share	% ownership
Acraman (418) Limited	Non-trading	Ordinary/ preference	100
Alton Glasshouses Limited	Non-trading	Ordinary	100
Bollards Direct Limited	Non-trading	Ordinary	100
Capability Brown Garden Centres Limited	Non-trading	Ordinary	100
Capability Brown Landscaping Limited	Non-trading	Ordinary	100
Classical Flagstones Limited	Non-trading	Ordinary	100
CPM Group Limited** (01005164)	Non-trading	Ordinary	100
Dalestone Concrete Products Limited	Non-trading	Ordinary	100
Edenhall Limited	Non-trading	Ordinary	100
Edenhall Building Products Limited	Non-trading	Ordinary	100
Edenhall Concrete Limited	Non-trading	Ordinary	100
Edenhall Concrete Products Limited	Non-trading	Ordinary	100
Edenhall Holdings Limited** (10367730)	Non-trading	Ordinary/ preference	100
Edenhall Technologies Limited	Non-trading	Ordinary	100
Locharbriggs Sandstone Limited	Non-trading	Ordinary	100
Lloyds Quarries Limited	Non-trading	Ordinary	100
Marley Limited	Manufacturer of roofing products and solutions	Ordinary	100
Marley Group Limited** (13596495)	Non-trading	Ordinary	100
Marshalls Building Materials Limited	Non-trading	Ordinary	100
Marshalls Building Products Limited** (00113882)	Property management	Ordinary	100
Marshalls Concrete Products Limited	Non-trading	Ordinary	100
Marshalls Directors Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 30 Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 31 Limited	Non-trading	Ordinary	100
Marshalls EBT Limited*/** (05472428)	Non-trading	Ordinary	100
Marshalls Estates Limited	Non-trading	Ordinary	100
Marshalls Group Limited*	Intermediate holding company	Ordinary	100
Marshalls Landscape Products Limited	Non-trading	Ordinary	100
Marshalls Landscape Products (North America) Inc.	Landscape Products supplier	Ordinary	100
Marshalls Mono Limited	Landscape Products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products	Ordinary	100
Marshalls Natural Stone Limited	Non-trading	Ordinary	100
Marshalls NV	Landscape Products manufacturer and supplier	Ordinary	66.7
Marshalls Profit Sharing Scheme Limited	Non-trading	Ordinary	100
Marshalls Properties Limited** (04349470)	Property management	Ordinary	100
Marshalls Register Limited	Non-trading	Ordinary	100
Marshalls Stone Products Limited	Non-trading	Ordinary	100
Marshalls Street Furniture Limited	Non-trading	Ordinary	100
Monty Bidco Limited** (12144582)	Non-trading	Ordinary	100
Monty Midco 1 Limited** (12144469)	Non-trading	Ordinary	100
Monty Midco 2 Limited** (12144529)	Non-trading	Ordinary	100
Monty Topco Limited** (12144396)	Non-trading	Ordinary	100
Ollerton Limited	Non-trading	Ordinary	100
Panablok (UK) Limited	Non-trading	Ordinary	100
Paver Systems (Carluke) Limited	Non-trading	Ordinary	100
Paver Systems Limited	Non-trading	Ordinary	100
PD Edenhall Holdings Limited	Intermediate holding company	Ordinary	100

34 Investments continued

Subsidiaries	Principal activities	Class of share	% ownership
PD Edenhall Limited** (03635485)	Non-trading	Ordinary	100
PD Edenhall Holdings Limited** (08911209)	Non-trading	Ordinary	100
Premier Mortars Limited	Non-trading	Ordinary	100
Quarryfill Limited	Non-trading	Ordinary	100
Rhino Protec Limited	Non-trading	Ordinary	100
Robinson Associates Stone Consultants Limited	Non-trading	Ordinary	100
Robinsons Greenhouses Limited	Non-trading	Ordinary	100
Rockrite Limited	Non-trading	Ordinary	100
S Marshall & Sons Limited	Non-trading	Ordinary	100
Scenic Blue Limited	Non-trading	Ordinary	100
Scenic Blue Landscape Franchise Limited	Non-trading	Ordinary	100
Scenic Blue (UK) Limited	Non-trading	Ordinary	100
Stancliffe Stone Company Limited	Non-trading	Ordinary	100
Stoke Hall Quarry Limited*	Non-trading	Ordinary	100
Stone Shippers Limited	Non-trading	Ordinary	100
Stonemarket (Concrete) Limited	Non-trading	Ordinary	100
Stonemarket Limited	Non-trading	Ordinary	100
The Great British Bollard Company Limited	Non-trading	Ordinary	100
The Stancliffe Group Limited	Non-trading	Ordinary	100
The Yorkshire Brick Co. Limited	Non-trading	Ordinary	100
Town & Country Paving Limited	Non-trading	Ordinary	100
Urban Engineering Limited	Non-trading	Ordinary	100
Viridian Solar Limited	Manufacturer of roof interpreted solar products	Ordinary	100
Viridian Solar BV	Manufacturer of roof interpreted solar products	Ordinary	100
Woodhouse Group Limited	Non-trading	Ordinary	100
Woodhouse UK Limited	Non-trading	Ordinary	100
Xiamen Marshalls Import Export Company Limited	Sourcing and distribution of natural stone products	Ordinary	100

* Held by Marshalls plc. All others held by subsidiary undertakings.

** These subsidiaries are exempt from the requirement of the Companies Act 2006 relating to the audit of individual accounts by virtue of S479A of the Act. Marshalls plc has provided a statutory Parent Company guarantee in relation to these subsidiaries. In each case the registered number is disclosed.

All the other companies excluding the ones below operate within the United Kingdom and are registered in England and Wales at the following address: Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT. Marshalls NV is registered in Belgium, Viridian Solar B.V. is registered in the Netherlands, Xiamen Marshalls Import Export Company Limited is registered in China and Marshalls Landscape Products (North America) Inc. is registered in the USA. Paver Systems Limited, Paver Systems (Carluke) Limited and Locharbriggs Sandstone Limited are registered in Scotland. The respective registered offices are:

Paver Systems Limited and Paver Systems (Carluke) Limited
Roadmeetings, Carluke, Lanarkshire ML8 4QG

Locharbriggs Sandstone Limited
Locharbriggs, Dumfries, Dumfriesshire DG1 1QS

Marshalls Landscape Products (North America) Inc.
1209 Orange Street, Wilmington, County of New Castle, Delaware 19801, USA

Marshalls NV
Nieuwstraat 4, 2840 Rumst, Belgium

Viridian Solar BV
Van Bylandtachterstraat 24, unit 6 5046 MB Tilburg, The Netherlands

Xiamen Marshalls Import Export Company Limited
12 A4, Xiangyu Building, No. 22, 4th Xiangxing Road,
Xiangyu Free Trade Zone, Xiamen, China

35 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Equity settled share-based payments	**156**	673	**—**	—

Movement in temporary differences

	1 January 2022 £'000	Recognised in income £'000	Recognised in statement of changes in equity £'000	**31 December 2022 £'000**
Equity settled share-based payments	673	(298)	(219)	**156**

	1 January 2021 £'000	Recognised in income £'000	Recognised in statement of changes equity £'000	31 December 2021 £'000
Equity settled share-based payments	1,058	(313)	(72)	673

36 Loans to Group undertakings

	2022 £'000	2021 £'000
Amounts owed from subsidiary undertakings	**407,497**	—

An on-demand facility is in place between Marshalls plc and Marshalls Group Limited. The loan is unsecured and, together with accrued interest and any other amounts accrued, is repayable in full on demand. Interest is accrued on a daily basis on the outstanding balance at a rate equivalent to SONIA plus 1.65 per cent. The loan, however, is expected to be recovered after more than one year and has been reported as a non-current asset.

37 Debtors

	2022 £'000	2021 £'000
Corporation tax	**—**	964

38 Creditors

	2022 £'000	2021 £'000
Corporation tax	**492**	—
Amounts owed to subsidiary undertakings	**—**	23,106
	492	23,106

No creditors were due after more than one year.

39 Capital and reserves

Called-up share capital

The authorised, issued and full paid up Ordinary Share Capital was as follows:

	Authorised		Issued and paid up	
Ordinary Shares (25 pence nominal)	**Number**	Value £'000	**Number**	Value £'000
At 31 December 2021	**300,000,000**	75,000	**200,052,157**	50,013
Shares issued in the year	**—**	—	**52,916,571**	13,229
At 31 December 2022	**300,000,000**	75,000	**252,968,728**	63,242

52,916,571 new Ordinary Shares with a nominal value of £0.25 per share were issued during the year fully paid in connection with the Group's acquisition of Marley on 29 April 2022.

Share premium account and merger reserve

	Share premium account		Merger reserve	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
At 1 January	**24,482**	24,482	**—**	—
Shares issued in relation to the placing and open offer	**180,151**	—	**—**	—
Consideration shares issued	**—**	—	**141,605**	—
Costs associated with the share issue	**(4,706)**	—	**—**	—
At 31 December	**199,927**	24,482	**141,605**	—

39 Capital and reserves continued

Share premium account and merger reserve continued

During the year ended 31 December 2022, 28,824,114 new Ordinary Shares were issued at £6.50 per share. An amount of £180,151,000 has been credited to the share premium account in relation to the issue of these shares. A further 24,092,457 new Ordinary Shares were issued at £6.80 per share as consideration for the acquisition of Marley Group Limited. An amount of £141,605,000 has been credited to a merger reserve in relation to the issue of these shares and reflects the fair value of the shares at the date of the acquisition.

Own shares reserve

Transactions of the Group-sponsored Employee Benefit Trust are included in the Group Financial Statements. The Trust's purchases of shares in the Company are debited directly to equity and disclosed separately in the balance sheet as "own shares". Further details are included on page 181.

Capital redemption reserve

The capital redemption reserve records the nominal value of shares repurchased by the Company.

Distributable reserves

The Company's distributable reserves amount to £266 million (2021: £168 million) at the end of the period.

Equity reserve

The equity reserve represents the number of shares expected to vest in respect of share-based payment awards granted to employees of the Company.

40 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2022 or 31 December 2021.

41 Bank facilities

The Group's banking arrangements are in respect of Marshalls plc, Marshalls Group Limited and Marshalls Mono Limited with each company being nominated borrowers. The operational banking activities of the Group are undertaken by Marshalls Group Limited and the Group's bank debt is largely included in Marshalls Group Limited's balance sheet.

42 Contingent liabilities

National Westminster Bank plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self-insurance for employer's liability and vehicle insurance:

Beneficiary	Amount	Period	Purpose
M S Amlin Limited	£675,000	23 Dec 2011 to 30 Oct 2023	Employer's liability
HDI Global SE — UK	£500,000	8 Dec 2020 to 30 Oct 2023	Employer's liability
AIOI Nissay Dowa Insurance UK Limited	£575,000	8 Dec 2020 to 30 Oct 2023	Vehicle insurance
Aviva Insurance Limited	£350,000	19 Mar 2014 to 30 Oct 2023	Vehicle insurance
M S Amlin Limited	£750,000	30 Oct 2016 to 30 Oct 2023	Vehicle insurance

43 Pension scheme

The Company is the sponsoring employer of the Marshalls plc pension scheme (the "Scheme") which is primarily a closed defined benefit scheme with a small defined contribution element (mainly AVCs). The assets of the Scheme are held in separately managed funds which are independent of the Group's finances.

Full details of the Scheme are provided in Note 20. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis.

The latest funding valuation of the defined benefit section of the Scheme was carried out as at 5 April 2021 and was updated for the purposes of the 31 December 2022 Financial Statements by a qualified independent actuary.

44 Accounting estimates and judgements

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions. Although these judgements and estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are disclosed below.

There are no critical accounting judgements or key sources of estimation uncertainty.

45 Related parties

Related party relationships exist with other members of the Group. All operating costs are borne by Marshalls Group Limited and are recharged to Marshalls plc in respect of specifically attributable costs. All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Financial History – Consolidated Group

	Year ended 31 December 2018 £'000	Year ended** 31 December 2019 £'000	Year ended** 31 December 2020 £'000	Year ended 31 December 2021 £'000	**Year ended 31 December 2022 £'000**
Consolidated Income Statement					
Revenue	490,988	541,832	469,454	589,264	**719,373**
Net operating costs (after adding back adjusting items)	(425,331)	(466,938)	(441,059)	(511,893)	**(618,241)**
Operating profit (after adding back adjusting items)	65,657	74,894	28,395	77,371	**101,132**
Adjusting items*****	(823)	(1,213)	(19,022)	(1,148)	**(53,220)**
Operating profit	64,834	73,681	9,373	76,223	**47,912**
Financial income and expenses (net)	(1,899)	(3,828)	(4,720)	(6,901)	**(10,715)**
Profit before tax (after adding back adjusting items)	63,758	71,066	23,675	73,283	**90,417**
Profit before tax	62,935	69,853	4,653	69,322	**37,197**
Income tax expense	(11,307)	(11,942)	(2,095)	(14,424)	**(10,656)**
Profit for the financial year	51,628	57,911	2,558	54,898	**26,541**
Profit for the year attributable to:					
Equity shareholders of the Parent	51,958	58,240	2,370	54,806	**26,791**
Non-controlling interests	(330)	(329)	188	92	**(250)**
	51,628	57,911	2,558	54,898	**26,541**
EBITA****	66,593	76,104	12,092	79,401	**57,031**
EBITA (after adding back adjusting items)***	66,593	76,104	29,901	79,336	**102,897**
EBITDA****	80,792	103,875	45,298	107,139	**90,176**
EBITDA (after adding back adjusting items)***	80,792	103,875	57,618	107,074	**136,042**
Basic earnings per share (pence)	26.3	29.4	1.2	27.5	**11.4**
Basic earnings per share (after adding back adjusting items)*****	26.7	30.0	9.2	29.2	**31.3**
Dividends per share (pence) – IFRS	14.8	16.7	—	9.0	**15.3**
Dividends per share (pence) – traditional	12.0	4.7	4.3	14.3	**15.6**
Dividends per share (pence) – supplementary	4.0	—	—	—	**—**
Year-end share price (pence)	464.8	860.0	748.5	699.5	**273.2**
Tax rate (%)	18.0	17.1	45.0	20.8	**28.7**

	2018* £'000	2019* £'000	2020* £'000	2021 £'000	**2022 £'000**
Consolidated Balance Sheet					
Non-current assets	302,785	350,035	324,416	332,742	**886,895**
Current assets	210,776	212,534	290,013	263,230	**321,971**
Total assets	513,561	562,569	614,429	595,972	**1,208,866**
Current liabilities	(141,190)	(162,349)	(157,158)	(150,634)	**(167,332)**
Non-current liabilities	(105,656)	(104,454)	(169,423)	(101,021)	**(380,465)**
Net assets	266,715	295,766	287,848	344,317	**661,069**
Net borrowings	(37,433)	(59,976)	(75,566)	(41,121)	**(236,605)**
Gearing ratio	14.0%	20.3%	26.3%	11.9%	**35.8%**

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired.

** The Group applied IFRS 16 *"Leases"* with effect from 1 January 2019 and consequently the information disclosed above includes the impact of adoption.

*** After adding back adjusting items.

**** EBITA is defined as earnings before interest, tax and amortisation of intangibles. EBITDA is defined as earnings before interest, tax and amortisation of intangibles and depreciation.

*****Adjusting items have been restated to ensure consistent classification with the analysis reported for the year ended 31 December 2022.

Glossary

ABI
Barbour ABI – a provider of construction intelligence data

BEIS
Business, Energy & Industry Strategy

BES 6001
BRE accreditation for responsible sourcing

BRE
Independent organisation offering expertise in the built environment sector

CCO
Corporate Criminal Offence – legislation which can hold companies accountable for tax fraud

CDP
Carbon Disclosure Project

Circular economy
Production model recycling and reusing as much as possible

CO_2, CO_2e and greenhouse gas emissions
Carbon dioxide emissions. Carbon dioxide (CO_2) is the primary greenhouse gas emitted through human activities.

While CO_2 emissions come from a variety of natural sources, human related emissions are responsible for the increase that has occurred in the atmosphere since the Industrial Revolution.

"Carbon dioxide equivalent" or "CO_2e" is a term for describing different greenhouse gases in a common unit. For any quantity and type of greenhouse gas, CO_2e signifies the amount of CO_2 which would have the equivalent global warming impact.

Carbon sequestration
Carbon sequestration is the long-term removal, capture or sequestration of CO_2 from the atmosphere to slow or reverse atmospheric CO_2 pollution and to mitigate or reverse climate change. Carbon dioxide is captured from the atmosphere through biological, chemical and physical processes. Concrete building products naturally absorb CO_2. Calculations show that concrete absorbs roughly 30 per cent of the amount of CO_2 that cement production emits over its life.

CPA
Construction Products Association

D365
Microsoft cloud ERP software system

DERI
Diversity, equity, respect and inclusion

eNPS
Employee Net Promoter Score – how likely employees are to recommend an organisation as a good place to work

EPDs
Environmental Product Declarations

ERP system
Enterprise Resource Planning software system

ESOS
Energy Savings Opportunity Scheme

ETI
Ethical Trading Initiative

EVG
Employee Voice Group

FSC certified
Forest Stewardship Council certified from responsibly managed forests

FTSE4Good
An index of companies scoring highly in corporate social responsibility measures

GDPR
General Data Protection Regulation

GfK
Company providing data and analytics on consumer goods

GHG
Greenhouse gases

ILO
International Labour Organization

ISO
International Organisation for Standardisation

LDI asset portfolio
Liability Driven Investment asset portfolio – investment needed to fund future liabilities

Marshalls NOW
An internal news, employee benefits and wellbeing platform

MHFAs
Mental Health First Aiders

MIP
Management Incentive Plan

Mitigation vs adaptation
The difference between climate change mitigation strategies and climate change adaptation is that mitigation is aimed at tackling the causes and minimising the possible impacts of climate change. Adaptation looks at how to reduce the negative effects it has and how to take advantage of any opportunities that arise.

Net zero
A net zero company will set and pursue a 1.5°C aligned science-based target for its full value chain emissions. Any remaining hard-to-decarbonise emissions must be compensated using certified greenhouse gas removal.

NGO
Non-Governmental Organisation

NHBC
National House Building Council

PAS 2050
PAS 2050 is the first consensus-based and internationally applicable standard on product carbon footprinting that has been used as the basis for the development of other standards internationally. From creation to disposal; throughout the lifecycle. The term is used in a number of business contexts, but most typically in a company's responsibility for dealing with hazardous waste and product performance.

Product carbon footprints
A lifecycle product carbon footprint measures the total greenhouse gas emissions generated by a product, from extraction of raw materials, to end of life. It is measured in carbon dioxide equivalent (CO_2e). Product carbon footprints should be associated with a scope or boundary, the most common being:

Cradle to gate: This measures the total greenhouse gas emissions from the extraction of raw materials through to product manufacture up to the factory gate.

Cradle to grave: This measures the total greenhouse gas emissions from the extraction of raw materials through to the product's manufacture, distribution, use and eventual disposal.

QR technologies
Quick Response technology, a type of barcode

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

Risk Register
A document used to table risks and responses to those risks

RM&I
Repair, Maintenance & Improvement

SASB
Sustainability Accounting Standards Board

Science-based targets
Science-based targets are a set of goals developed by a business to provide it with a clear route to reduce greenhouse gas emissions. An emissions reduction target is defined as "science-based" if it is developed in line with the scale of reductions that are required to keep global warming below 1.5°C from pre-industrial levels.

Science Based Targets initiative ("SBTi")
The Science Based Targets initiative ("SBTi") defines and promotes best practice in emissions reductions and net zero targets in line with climate science. It provides technical assistance and expert resources to companies which set science-based targets in line with the latest climate science. The SBTi is a partnership between CDP, the United Nations Global Compact, the World Resources Institute ("WRI") and the World Wide Fund for Nature ("WWF"). The SBTi is considered the gold standard in carbon reduction commitment setting.

Scope 1, 2 and 3 emissions
Scope 1 – all direct emissions
Emissions derived from the activities of an organisation or under their control. This includes fuel combustion on site, from owned vehicles and fugitive emissions. Examples include fleet vehicles, gas emissions from boilers and air-conditioning refrigerant leaks.

Scope 2 – indirect emissions
Emissions derived from electricity purchased and used by the organisation. Emissions will be created during the production of the energy and eventually used by the organisation. This includes electricity from energy suppliers to power computers, heating and cooling.

Scope 3 – all other indirect emissions
Emissions derived from activities of the organisation, but occur from sources that they do not own or control. This is usually the largest share of the carbon footprint, especially for office-based companies, covering emissions associated with business travel, procurement, waste and water. Examples include plane travel, shipping of goods and waste disposal.

SDGs
Sustainable Development Goals

SECR
Streamlined Energy and Carbon Reporting

SIP
Share Investment Plan

SLAM
Stop, Look, Assess, Manage

SuDS
Sustainable Drainage Systems

TCFD
Task Force on Climate-related Financial Disclosures

The Group
All of Marshalls' UK and overseas operations

ULEZ
Ultra Low Emission Zone

UNGC
United Nations Global Compact

Verisk Maplecroft
A company providing risk analytics

WDI
Workforce Disclosure Initiative

WEPs
Women's Empowerment Principles

Shareholder Information

Shareholder analysis at 31 December 2022

Size of shareholding	Number of shareholders	%	Number of Ordinary Shares	%
1 to 500	1,944	51.34	259,438	0.10
501 to 1,000	426	11.25	318,066	0.13
1,001 to 2,500	492	13.00	843,226	0.33
2,501 to 5,000	280	7.40	986,293	0.39
5,001 to 10,000	188	4.96	1,314,025	0.52
10,001 to 25,000	134	3.54	2,134,328	0.84
25,001 to 100,000	129	3.41	6,944,538	2.75
100,001 to 250,000	62	1.64	10,090,880	3.99
250,001 to 500,000	34	0.90	12,587,733	4.98
500,001 and above	97	2.56	217,490,201	85.97
	3,786	100.00	252,968,728	100.00

Financial calendar

Preliminary announcement of results for the year ended 31 December 2022	Announced	15 March 2023
Final dividend for the year ended 31 December 2022	Payable	3 July 2023
Half yearly results for the year ending 31 December 2023	Announcement	16 August 2023
Half yearly dividend for the year ending 31 December 2023	Payable	1 December 2023
Results for the year ending 31 December 2023	Announcement	Early March 2024

Advisers

Stockbrokers
Numis Securities Limited
Peel Hunt

Auditor
Deloitte LLP

Legal advisers
Slaughter and May
Pinsent Masons LLP

Financial adviser
N M Rothschild & Sons Limited

Bankers
National Westminster Bank plc
HSBC Bank plc
Lloyds Bank plc
Santander UK plc
Caixabank SA
Bank of Ireland
Clydesdale Bank plc
Citibank NA
KBC Bank NV
Credit Industriel et Commercial
National Bank of Kuwait

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