Marshalls
Annual Report
and Accounts 2021

Creating better futures for everyone.

Socially, environmentally and economically.

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

Our Group operates quarries and manufacturing sites throughout the UK and a manufacturing and trading operation in Belgium. We are **committed to quality in everything we do,** including environmental and ethical best practice.

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Strategic Report

Governance

Financial Statements

Highlights

Strong growth – **positive trading outlook**

Financial highlights

- Record sales and adjusted profitability
- Full-year revenue of £589.3 million (2020: £469.5 million; 2019: £541.8 million) – up 26% on 2020 and 9% on 2019
- Adjusted EBITDA of £107.1 million (2020: £57.6 million; 2019: £103.9 million)
- Adjusted profit before tax up 3% against 2019 at £72.1 million (up 221% on 2020)
- Profit before tax on a statutory basis was £69.3 million (2020: £4.7 million; 2019: £69.9 million)
- Net debt of £41.1 million (2020: £75.6 million). Pre-IFRS 16 net positive cash of £0.1 million
- Strong balance sheet, with a flexible capital structure and a clear capital allocation policy
- Recovery in adjusted ROCE of 20.6% (2020: 8.2%; 2019: 21.4%)
- Proposed final dividend of 9.6 pence giving rise to a total dividend for the year of 14.3 pence

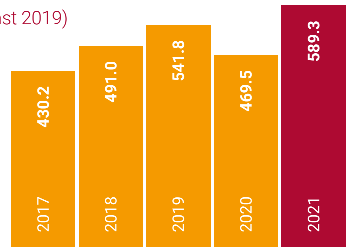
Operational highlights

- Strong trading in first two months of 2022 – healthy order books
- Continued focus on customer service and satisfying increased demand
- Proactive supply chain management to mitigate raw material shortages and cost inflation
- Focus on flexibility within manufacturing and logistics and short-term labour availability
- Sustained emphasis on growth opportunities arising from ESG leadership
- Capital investment of around £35 million planned for 2022 – construction of St Ives on track
- Priority given to health and safety

Revenue (£'m)

£589.3m

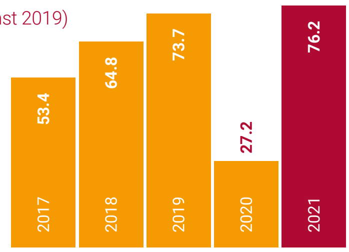
(up 9% against 2019)



Adjusted operating profit (£'m)

£76.2m

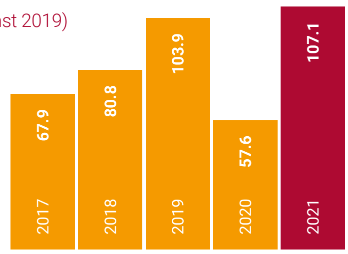
(up 3% against 2019)



Adjusted EBITDA (£'m)

£107.1m

(up 3% against 2019)



Profit before tax (£'m)

£72.1m

(before adjusting items)
(up 3% against 2019)

£69.3m

(on a reported basis)

Basic EPS (p)

28.6p

(before adjusting items)

27.5p

(on a reported basis)

Return on capital employed (%), before adjusting items

20.6%

(2020: 8.2%)

Full year dividend recommended (p)

14.3p

(2x cover)

Notes

1 Alternative performance measures are used consistently throughout this Annual Report. These relate to EBITA, EBITDA, return on capital employed ("ROCE"), net debt and results before adjusting items. Following the transition to IFRS 16, reference has been made to "pre-IFRS 16", "pre-IFRS 16 net debt" and "reported basis", the latter referring to amounts required under IFRS 16. For further details of their purpose, definition and reconciliation to the equivalent statutory measures, see Note 4.

2 In order to provide a more relevant performance commentary, comparison in this Annual Report has been made to the corresponding period for both 2020 and 2019, the latter considered to represent a more meaningful pre-COVID-19 baseline for performance comparison.

3 The results for the year ended 31 December 2021 have been disclosed before adjusting items. These are set out in Note 4.

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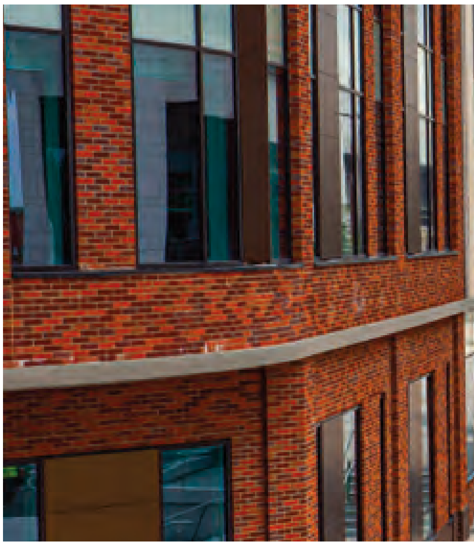
Our Purpose Roadmap

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 3***

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 **pages 4 to 6***

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 30 and 31***

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 22***

Strategic goal underpinned by eight growth pillars

1. Brand preference for product specification

2. Customer centricity

3. Growth in the emerging businesses

4. Logistics excellence

5. Operational excellence

6. Sustainable supply

7. New product development and innovation

8. Digital transformation

Enabled by people and talent development

*Read more about our strategic priorities on **pages 30 and 31***

Our purpose in action

St Ives dual block plant investment

*Read more on **page 28***

Investment in new vehicles

*Read more on **page 29***

Sustainable new product development –
The Marshalls Concrete Cycle Segregation Unit

*Read more on **page 15***

Our Investment Case

Proven, differentiated business model

We believe Marshalls is an attractive investment opportunity for the following reasons:

1

Strong track record

- From 2016 to 2021 we have seen strong cumulative annual growth rates
- We have shown resilience throughout the pandemic and have made a strong recovery from COVID-19

Revenue

8.2%

compound annual growth rate 2016–2021

Adjusted profit before tax

9.4%

compound annual growth rate 2016–2021 (before adjusting items)

Adjusted EPS

8.6%

compound annual growth rate 2016–2021 (before adjusting items)

Pre-supplementary dividends

10.4%

compound annual growth rate 2016–2021

*Read more about our key performance indicators on **pages 32 and 33***

2

Supportive UK construction market fundamentals

- Winter 2021 forecast of total construction output continues to anticipate robust recovery from COVID-19 challenges in 2020
- New Build Housing and Infrastructure are key sectors for Marshalls. Private Housing RM&I is the main driver for UK Domestic
- COVID-19 impacted working patterns, have increased demand for home and garden improvements underpinned by unprecedented savings values
- Domestic demand remains at historically high levels

Total construction

4.3%

CPA output growth forecast for 2022

Private housing

3.0%

CPA output growth forecast for 2022

Infrastructure

9.7%

CPA output growth forecast for 2022

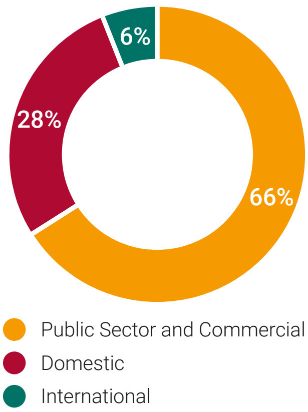
*Read more about our strong market position on **pages 16 and 17***

3

Diversified group with strong market position

- Diversified end markets, including Public Sector and Commercial, Domestic and International.
- Leading market share in UK hard landscaping
- Specification selling in Public Sector and Commercial
- Marshalls' register of approved domestic installers creates "pull" demand
- Building on 15 years of experience in digital visualisation, the new augmented reality app gives architects, garden designers, installers and consumers state-of-the-art solutions

2021 revenue %



*Read more on our strong market position on **page 9***

What we do

Marshalls is a complete external landscaping product business from design, planning and engineering to guidance and delivery. We supply to the domestic and commercial hard landscaping markets and our products include paving, block paving, kerbs and edgings, drainage and water management solutions, protective street furniture, lighting, concrete bricks, masonry, walling and mortar.

4

Efficient, nationwide manufacturing network

- The Group operates manufacturing plants, quarries and distribution sites across the UK and in Belgium
- Unique national network ensures proximity to customers and an efficient logistics footprint
- Well-invested sites with expansion opportunities
- Significant investments underway:
  - To upgrade our concrete block paving capability and capacity
  - New flag presses being installed with capability to double output from same footprint
- Longer-term capital plans underpin future growth potential
- Significant barriers to entry for new competitors

c.95%

of UK population within two hours delivery time

Health and safety

- Marshalls is committed to meeting the highest health and safety standards
- Health and Employee Wellbeing Strategy launched in 2021

16.9%

reduction in working days lost (%) compared with the target benchmark

*Read more about where we operate on **page 8***

5

Logistics excellence and sustainable supply strategy

Logistics excellence

- Flexibility to meet the delivery lead-time requirements of our customers
- Customer order tracking service via online portal and text message service
- Highly-trained drivers who are also Marshalls' customer ambassadors
- Brand promotion/recognition on the roads

230+

fleet of vehicles with a broad range of capability to meet every delivery requirement

Sustainable supply strategy

- Centralised procurement enables optimal buying power
- Majority of raw materials sourced in UK
- Outstanding supplier relationships deliver industry leading levels of availability
- Co-ordinated innovation in concrete mix designs

60%

cement substitution for block paving products

*Read more about our investment in new vehicles on **page 29***

6

ESG market leadership

Sustainability and carbon reduction commitments embedded in strategy

Responsible business practices

100%

of natural stone products now have Ethical Risk Index scores

Sustainable product development

30%+

reduction in plastic consumption since 2013

Focus on reducing waste and recycling

100%

of concrete and natural stone products are now fully-recyclable

Strong track record of delivery

30%

total reduction in carbon in the last five years

Verified carbon footprints – first in sector to commit

5,000+

individual product carbon footprints

*Read more about our ESG strategy on **page 50 to 67***

7

Strong balance sheet and cash generation

Strong cash generation

80%

OCF:EBITDA

Gearing

11.9%

(reported)

0%

(pre-IFRS 16)

Reported net debt

£41.1m

(reported)

Net positive cash

£0.1m

(pre-IFRS 16)

Total bank facilities

£165m

of which £140m are committed

Significant capacity to fund organic investment and selective acquisitions

*Read more about our financial strength on **pages 44 to 49***

8

Clear and consistent capital allocation policy

Organic growth investment – St Ives dual block plant

- Designed to manufacture walling, block paving and paving simultaneously doubling the output with the same labour as a single plant
- Creates multiple product combinations from one primary product

c.£24m

investment incorporating the latest advanced technologies

New product development strategy

- New facing bricks have significantly lower product carbon footprints
- The current trend for outdoor living spaces and kitchen gardens is one Marshalls has long anticipated and provides growth opportunity

142

new product ranges developed in the last 3 years

Mergers and acquisitions strategy

- Objective is to support organic growth with earnings accretive acquisitions
- Pipeline of opportunities under review

*Read more about our capital allocation policy on **page 7***

9

Focused growth strategy

Strategic goal

- To become the UK's leading manufacturer of products for the built environment

Strategic corporate objectives

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

Strategic goal underpinned by eight growth pillars

- Brand preference for product specification
- Customer centricity
- Growth in the Emerging Businesses
- Logistics excellence
- Operational excellence
- Sustainable supply
- New product development and innovation
- Digital transformation

Enabled by people and talent development

Policy that dividends will grow in line with earnings – 2 times cover

*Read more about our strategy on **pages 30 to 31***

Clear and consistent capital allocation policy, with **good organic** and **acquisition investment opportunities**

Priorities for capital

Organic growth

2017	2018	2019	2020	2021
✓	✓	✓		✓

- Capital investment remains core to strategic growth
- Plan c.£35 million in 2022

R&D and NPD

2017	2018	2019	2020	2021
✓	✓	✓	✓	✓

- Continued focus on R&D and NPD
- New product ranges
- Digital strategy progressing well; e-trading platform now established

Ordinary dividends

2017	2018	2019	2020	2021
✓	✓		✓	✓

- 2021 final dividend of 9.6 pence per share
- Total dividend (interim and final) of 14.3 pence per share

Selective acquisitions

2017	2018	2019	2020	2021
✓	✓			

- Good pipeline of potential acquisitions
- Target selective bolt-on acquisition opportunities in New Build Housing and Water Management

Supplementary dividends

2017	2018	2019	2020	2021
✓	✓			

- Supplementary dividends when appropriate. Discretionary and non-recurring

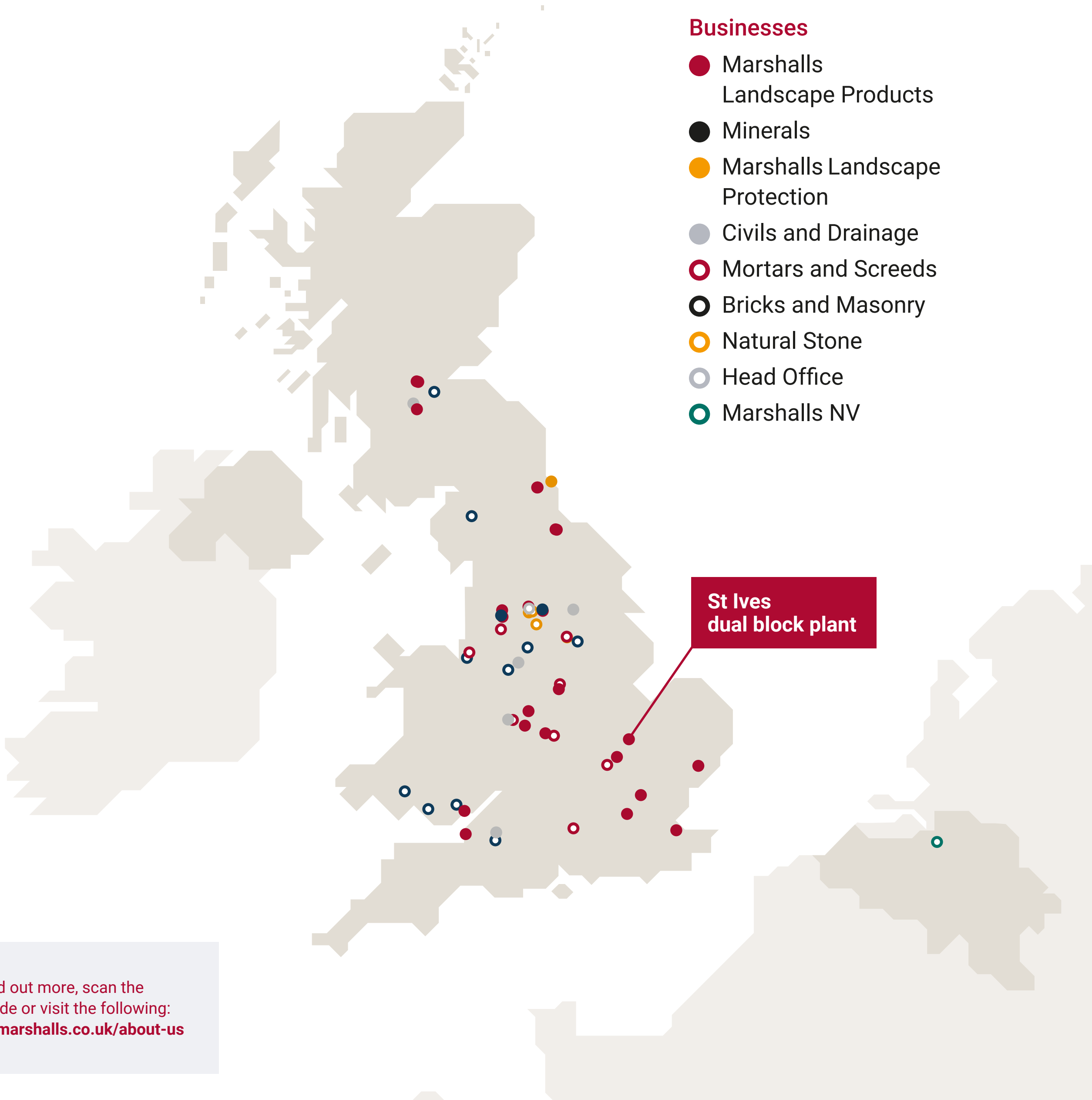
Marshalls at a Glance

The UK's leading manufacturer of hard landscaping products

Marshalls is a complete external landscaping product business from design, planning and engineering to guidance and delivery.

Where we operate

We have manufacturing plants, quarries and distribution sites across the UK. Our unique national network ensures proximity to customers and an efficient logistics footprint. We also have a manufacturing and trading operation in Belgium.



To find out more, scan the QR code or visit the following:
www.marshalls.co.uk/about-us

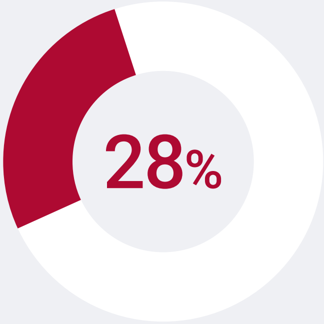
Our markets

Domestic

Marshalls' Domestic customers range from DIY enthusiasts to professional landscapers, driveway installers and garden designers.

Marshalls specialises in helping homeowners to create beautiful, yet practical, outdoor spaces which families can enjoy for years to come.

Domestic revenue

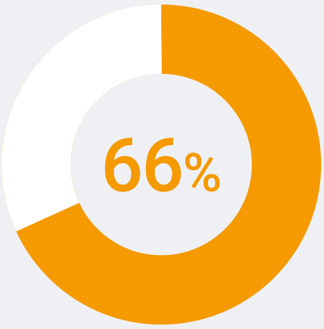


(2020: 27%)

Public Sector and Commercial

In the Public Sector and Commercial end market, Marshalls satisfies the needs of a diverse commercial customer base which spans local authorities, commercial architects, specifiers, contractors and housebuilders. We have unrivalled technical expertise and manufacturing capability and an enviable product range.

Public Sector and Commercial revenue



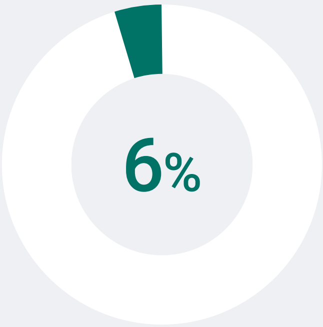
(2020: 66%)

International

Marshalls' international operations comprise a manufacturing site in Belgium and sales and administration offices in the USA and China.

International revenue, which also includes exports from the UK, comprises 6 per cent of Group sales.

International revenue



(2020: 7%)

Chair's Statement

We have a clear vision for the future **and for how we will get there**

Summary

- Record sales and adjusted profit
- Continued focus on health, safety and employee wellbeing
- Strong trading recovery despite supply chain challenges
- Revenue up 9% compared with 2019
- Final dividend proposed of 9.6 pence per share
- Clear strategy with sustainability embedded
- Trading continues to improve and order books remain strong

Overview

The Group has delivered a strong trading performance in 2021, despite it being a challenging year. Lockdown restrictions remained in place and the business continued to deploy remote working and social distancing. We have consistently adopted appropriate COVID-19 measures, and throughout the last two years the health, safety and wellbeing of our employees, suppliers and customers has been at the very top of our agenda. Throughout this period, our health and safety policies have been more stringent than the Government's recommended guidelines. Your Board has continued to take an active role in the Group's response to the pandemic.

Recovery has been strong: sales and operating profit for the year ended 31 December 2021 both exceeded 2019 results. This is despite operational challenges, such as labour and raw material shortages, HGV driver availability and significant cost inflation.

We have collectively risen to all these challenges with a "can do" spirit, and a focus on collaboration that epitomises The Marshalls Way. Teamwork is at the core of our culture and we continue to support colleagues, customers and all other stakeholders. I am very proud of the Group's response and performance during this period, and how we have continued to do "the right things, for the right reasons, in the right way". Demand remains high and order books continue to be strong.

Results

Group revenue for the year ended 31 December 2021 was £589.3 million (2020: £469.5 million; 2019: £541.8 million), an increase of 26 per cent against the 2020 comparative and an increase of 9 per cent compared with 2019. At the half year point, revenue was up by 6 per cent compared with 2019. Since the half year, the trend of sales growth has progressively increased, and in the second half of the year sales were 11 per cent ahead of the comparative period for 2019.

The Group's adjusted operating profit was £76.2 million (2020: £27.2 million; 2019: £73.7 million) and was 3 per cent ahead of the 2019 comparative. Statutory operating profit was £76.2 million (2020: £9.4 million; 2019 £73.7 million). Adjusted EBITDA was £107.1 million (2020: £57.6 million; 2019: £103.9 million). Earnings per share was 28.6 pence (2020: 8.6 pence), before adjusting items, and on a reported basis, earnings per share was 27.5 pence (2020: 1.2 pence).

Marshalls continues to have strong cash generation, with year-end net debt, on a reported basis, of £41.1 million (2020: £75.6 million; 2019: £60.0 million).

Dividends

The Group maintains a progressive dividend policy with the objective of achieving up to two times dividend cover over the business cycle. The aim of this policy is to increase 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 9.6 pence which, when combined with the interim dividend of 4.7 pence, gives rise to a total dividend for the year of 14.3 pence. This compares with adjusted earnings per share of 28.6 pence for the year ended 31 December 2021, and represents two times cover.

Marshalls' strategy

Marshalls has a clear vision for the future and our strategic direction is supported by The Marshalls Way. We have an ambitious strategic agenda, which is focused around our eight strategic growth pillars. These are set out in detail on pages 30 and 31, and we have clear objectives for improvement and growth in every area of the business. Our ultimate aim is to create better outdoor spaces for everyone, and to do this in a way that supports our Company values of doing the right things, for the right reasons, in the right way. Our strategy for long-term success is based on active communication with all our stakeholders. A strong company looks after its customers, looks after its employees and works in collaboration with its stakeholders to fulfil its environmental and social responsibilities.

At the centre of our strategy is sustainability, which is embedded into our business model. Our ESG agenda is explained in more detail on pages 50 to 69 and also in a Q&A format on pages 14 and 15. The Group is committed to promoting strong environmental, social and governance objectives.

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 from all parts of the Group. This initiative has proved successful, and has contributed to multiple positive new initiatives in the last year – further details can be found on page 67. The group of elected employees continue to represent their colleagues in a meaningful and constructive way.

Environmental

COP26 reminded us all how companies need to adapt to mitigate climate change. Marshalls has led this sustainable journey for over 20 years. We have worked hard to reduce our carbon footprint throughout this period. Since 2008 the Group has reduced its footprint by 50 per cent and we are on target to make a further 50 per cent reduction by 2030, in line with our commitment to net zero emissions by this date.

Our commitment is to reduce Scope 1 and 2 greenhouse gas emissions by 40 per cent per tonne of production by 2030 from a 2018 base year. For Scope 3, we have also committed that 73 per cent of our suppliers by emissions, covering purchase 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 this net-zero commitment. We were the first company in our sector to achieve this accreditation and we have a published roadmap to support these targets. We continue to make and plan operational changes, with a focus on our fleet using lower emission fuels and installing solar panels across our manufacturing sites.

Social

We continue to take the lead in supporting and upholding human rights at home and overseas in our supply chains. We aim to ensure that all our products and services are ethically sourced and sustainable.

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 72 to 83. We maintain a detailed framework and comprehensive policies covering the environment, human rights, labour and governance.

> "A strong company looks after its customers, looks after its employees and works in collaboration with its stakeholders to fulfil its environmental and social responsibilities."

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. Your Board continues to provide detailed oversight and governance. 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 our major dual block plant investment at St Ives on page 28.

Board changes

Janet Ashdown retired from the Board following the Annual General Meeting in May 2021 having served on the Board since May 2015 as Senior Independent Non-Executive Director and Chair of the Remuneration Committee. Following Janet's retirement, Graham Prothero was appointed Senior Independent Non-Executive Director and Angela Bromfield was appointed as Chair of the Remuneration Committee. Avis Darzins was appointed as a Non-Executive Director in June 2021. Philip Rogerson joined the Board as a Non-Executive Director in September 2021, but in December 2021 stepped down due to health reasons. Jack Clarke retired as Group Finance Director in March 2021 and Justin Lockwood was appointed Chief Financial Officer in July 2021.

Our people

It continues to be a privilege to serve as your Chair. We have an excellent management team supported by a talented workforce of committed and professional colleagues. Our employees are a major strength of the business, and I would like to thank every member of our team for their commitment, hard work and continuing dedication to Marshalls. We should all be proud of what we have achieved during 2021.

In recognition of this combined effort, the Board was pleased to award a special COVID-19 thank you bonus of £600 to all employees across the Group, which was paid in December 2021.

Outlook

Trading remains strong and has continued to improve since the start of the year, notwithstanding the ongoing supply chain challenges. At the end of February, revenues were up 13 per cent and order volumes up 5 per cent compared to the same period in 2021. Despite the terrible situation in Ukraine and the current geo-political uncertainties that prevail, the outlook for the construction market remains positive. This continues to be supported by strong forward indicators, particularly in our key target markets in New Build Housing, Road, Rail and Water Management.

Our strong market positions, focused investment plans and established brand underpin the Group's business strategy. We remain confident that our strategy will deliver profitable long-term growth and that we will be able to mitigate new material shortages and cost inflation through the effective management of the supply chain.

Given the strength of recent and current trading the Board's expectations for the current year are now ahead of its previous view.

Vanda Murray OBE
Chair

Chief Executive's Statement

Strong trading performance in 2021 with record sales and adjusted profit **exceeding the pre-pandemic levels from 2019**

> Market conditions remain supportive, despite challenging supply chain pressures."

Summary

- Strong trading performance with adjusted and statutory operating profit of £76.2 million (2019: £73.7 million)
- Adjusted EBITDA of £107.1 million, 3% ahead of 2019
- Net debt of £41.1 million (2020: £75.6 million; 2019: £60.0 million)
- Dual block plant investment at St Ives progressing well in line with plan
- ESG strategy generating good sustainable commercial opportunities
- Trading in 2022 has continued strongly with healthy order books

Introduction

Market conditions have remained supportive over the last year, despite increasingly challenging supply chain pressures. The Group has performed well and delivered a record trading performance, despite experiencing issues with both raw material and labour shortages. These operational challenges have given rise to significant cost inflation, additional overtime costs to cover COVID-19 related absenteeism and some customer project delays. Nevertheless, demand for our products has remained strong, and cost increases were recovered through a mid-year price increase and a further price increase has been implemented successfully in January 2022. We have strong supplier relationships, and our centralised procurement team is actively managing our supply chain to create flexibility and reduce risk. Trading in the first two months of 2022 has continued to be positive, with revenue growth of 13 per cent, and the order books remain strong.

We have continued to prioritise health and safety, and we are committed to taking the safety and wellbeing of our employees and other stakeholders to the highest possible level. We have maintained robust health and safety procedures throughout our manufacturing, logistics and office-based operations. In 2021, we launched our Health and Employee Wellbeing Strategy and in 2022 we will be introducing a 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. Our dedicated, external and confidential Employee Assistance Helpline has actively supported colleagues who have been working from home.

2021 trading summary

Group revenue for the year ended 31 December 2021 was £589.3 million (2020: £469.5 million; 2019: £541.8 million), which is 26 per cent ahead of the 2020 comparative and 9 per cent ahead of the same period in 2019. Revenue growth in the second half of the year was increasingly strong and was 11 per cent ahead of the comparative figures for 2019.

Revenue in the Domestic end market, which represented approximately 28 per cent of Group sales, was £167.0 million. This represents an increase of 30 per cent compared with the prior year, and is up 18 per cent compared with the same period in 2019. Marshalls' register of approved installers at the end of February 2022 revealed order books of 17.4 weeks (2021: 19.4 weeks) which compared with 16.7 weeks at the end of October 2021 and remains at historically high levels. Private Housing "repair, maintenance and improvement" continues to be strong and is the main driver in the UK Domestic end market. There continues to be strong demand for DIY projects, with customers spending more time at home and investing in home and garden improvements. This demand is underpinned by unprecedented savings accumulated during the pandemic.

Revenue in the Public Sector and Commercial end market was £389.1 million and 66 per cent of Group revenue. This represents an increase of 26 per cent compared with the prior year, and is up 4 per cent compared with the same period in 2019. The comparison with 2019 increases to 6 per cent after adjusting for the impact on sales caused by the planned reduction in Marshalls Mortars and Screeds sites in the first half of 2020. The Group continues to focus on those market areas where future demand is expected to be greatest, including New Build Housing, Road, Rail and Water Management. Infrastructure is also expected to be a key element of medium-term construction growth. The ABI lead indicator indicates a strong outlook for commercial contract work in 2022.

Revenue in the International business, which includes Marshalls NV in Belgium, was up 6 per cent compared with the prior period and 23 per cent compared with 2019. International revenue represented 6 per cent of Group sales in the period. The Group continues to develop its international supply chains to ensure that they remain sustainable and aligned with market risks and opportunities. Freight costs from overseas have been particularly challenging, with the cost of container transport increasing significantly in the last year.

The breadth of our operations continues to be a strength and we continue to be able to balance the demand for imported stone with quality materials from our UK-based quarries.

2021 results

Adjusted EBITDA was £107.1 million (2020: £57.6 million; 2019: £103.9 million). The Group's adjusted operating profit was £76.2 million (2020: £27.2 million; 2019: £73.7 million) and was 3 per cent ahead of the 2019 comparative. The operating profit margin of 12.9 per cent for the year ended 31 December 2021 (2020: 5.8 per cent; 2019: 13.6 per cent) has been adversely impacted by the temporary effect of supply chain issues and by increased levels of overtime required as a consequence of labour shortages and absenteeism during the COVID-19 pandemic.

The reported operating profit for the year ended 31 December 2021 is after a number of adjusting items. Once combined, the net impact on the reported operating profit was not material. The adjusting costs are explained in more detail in the Financial Review on pages 44 to 49 and in Note 4 on pages 142 and 143.

Adjusted profit before tax was £72.1 million, before a non-cash pension interest charge of £2.8 million required under IAS 19. The additional pension liability is explained in more detail on page 46. Statutory profit before tax was £2.8 million lower than the adjusted result at £69.3 million, reflecting the additional pension interest charge of £2.8 million (2020: £22.5 million; 2019: £69.9 million).

Earnings per share was 27.5 pence (2020: 1.2 pence), which increases to 28.6 pence on an adjusted basis after adding back the impact of the pension interest adjustment.

Capital discipline remains a key priority, and the Group's strong cash generation has continued. Reported net debt at 31 December 2021 was £41.1 million (2020: £75.6 million; 2019: £60.0 million). On a pre-IFRS 16 basis, there was net positive cash of £0.1 million at 31 December 2021 (2020: £26.9 million net debt; 2019: £18.7 million net debt). Due to the supply chain challenges and raw material shortages experienced, we increased our investment in inventory driven by higher shipping costs on imported product lines and our desire to improve availability and customer service. Inventory at 31 December 2021 was £107.4 million (2020: £89.8 million; 2019: £89.2 million).

Operational initiative

During the year ended 31 December 2021, capital expenditure has amounted to £21.9 million, which has fallen short of the £30 million originally planned for 2021. Supply chain issues experienced during the year have led to delays in certain of our capital expenditure projects. 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 around £35 million in 2022.

The construction of our flagship dual block plant at our St Ives site is progressing in line with plan and the overall three-year investment will be around £24 million, and will incorporate the latest advanced technologies. It will be the first facility of its kind in the UK, and the project will significantly increase capacity, improve efficiency, enable multiple secondary finishing and facilitate the launch of new products. The plant is being designed to manufacture walling, block paving and paving simultaneously which will double the output with the same labour as a single plant. Further details of this project are included in the case study on page 28.

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. Investment is being driven by our sustainability agenda and by anticipating future trends. Two examples are our new facing concrete bricks which have significantly lower product carbon footprints and new granite choices which have lower Ethical Risk Index scores. We have further reduced carbon emissions in 2021, well in line with our net zero target.

Another example of sustainable product development is our new Concrete Cycle Segregation Unit, which is a solution that allows the public to cycle and walk safely in an urban environment. This product encourages both methods of commuting whilst enabling local authorities to plan the public transport systems more efficiently and to reduce the overall carbon footprint. We continue to bring new products to market which are less carbon intensive to produce or made from recycled materials.

Organic growth will continue to be supported by targeted acquisitions. We will continue to focus on acquisition targets in our key growth areas of Water Management and New Build Housing.

Health and safety

We continue to be committed to ensuring the health, safety and wellbeing of everyone who works with us and for us. Marshalls' five-year health and safety strategy is aligned with the business strategy 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.

Marshalls' 5 year Strategy and ESG agenda

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 strong ESG agenda is fully integrated into our business operations and our eight strategic growth pillars. We believe that our ESG strategy continues to generate opportunities which, going forward, will be a source of significant competitive advantage.

We are the first company in our sector to have emission reduction targets approved by the Science Based Targets initiative and we have a clear, published roadmap to achieve net zero by 2030. Our roadmap includes the following specific targets:

- bio LPG for all our forklift trucks by 2022;
- removal of packaging ovens by 2025;
- all company cars to be electric or hybrid by 2027; and
- all manufacturing sites to use solar panels by 2030.

This is set out in more detail in the ESG section of the Strategic Report on pages 50 to 69.

Martyn Coffey
Chief Executive

Q&A with the Chief Executive

Sustainability is embedded in our strategy and **is a driver for growth**

> We have committed to reaching net zero by 2030 and becoming a net positive company."

1. **What are the key challenges that Marshalls has encountered on the journey to meeting its carbon reduction targets?**
   We started on our sustainability journey over 20 years ago – and we started reporting our carbon emissions back in 2004. A key challenge has been the speed at which governments and our industry have moved in order to make carbon reduction a priority. We set science-based targets in 2020, and remain the only UK business in our sector to have done this.

2. **Is there any scope to increase Marshalls' carbon reduction ambitions?**
   We have committed to reaching net zero by 2030 and to becoming a net positive company. I would of course like to see us reach our target earlier, but our carbon reduction targets are already aligned to a 1.5°C pathway. We have a plan in place and, though our goal to be net positive is ambitious, we strongly believe that putting people and planet first is the right way to operate as a business.

3. **Can you highlight any new successes in how Marshalls has tapped into opportunities for sustainable product development?**
   Our product carbon footprints have recently been updated, and they show that some of our products are low or ultra-low carbon. We have worked hard to reduce our carbon emissions, and our product portfolio includes permeable paving that alleviates flooding and concrete bricks that have a much lower carbon footprint.

4. **What is Marshalls doing to respond to the growing emphasis on biodiversity and nature-related risk?**
   Biodiversity is an area of focus for us. We operate a number of stone quarries across the UK, and we adhere to minerals planning and environmental legislation to provide quality quarry restoration. Whether it's planting trees or developing species-rich meadows, it is part of what we do to protect the natural environment.

5. **How has Marshalls been working to enhance the experience of its employees?**
   People and talent development is a priority in our 5 year Strategy. It is the people that make our business, and I believe that our employees are key to future success. Our aim is to continue being an employer of choice by creating a workplace where people can develop and achieve. Our people plan covers recruitment, diversity and inclusion, training and progression, through to employee experience and communications. During 2021, we have increased the number of apprenticeships, introduced our own Driver Academy, and significantly enhanced our benefits, wellbeing and reward programmes.

6. **What progress has been made to improve on Marshalls' approach to diversity and inclusion within the business?**
   The aim of our Diversity, Equity, Respect and Inclusion ("DERI") strategy is to open up dialogue and engage with all of our people. We want to continue making Marshalls a diverse and inclusive organisation. Our DERI plan has many different focus areas, covering everything from gender equality through to protecting and respecting different beliefs. As part of our work on gender equality, in 2021 we submitted data to the Workforce Disclosure Initiative ("WDI") in order to improve corporate transparency and accountability in this area. We continue to work with the UN Global Compact on our Target for Gender Equality, and as signatories of the Women's Empowerment Principles ("WEPs") we are working to support and promote the rights of women and girls. Like the rest of the industry, we have more work to do. We have further increased our DERI focus for 2022 and beyond because we recognise and believe in the value of being an inclusive and diverse organisation.

7. **Does Marshalls see any opportunity in adopting a circular economy approach to the business?**
   The circular economy makes business sense. Our approach is to look at our processes and the materials we use in order to minimise our overall impact. This ranges from using secondary materials in our concrete block paving right through to the processes at our new dual block plant and our plastic packaging reduction project.

8. **How is Marshalls working together with its suppliers and partners to improve sustainability in its supply chains?**
   Working with our supply chain is really important to us, especially with the challenges we have faced in the last couple of years. Our procurement systems, human rights due diligence and risk analysis processes ensure we have open dialogue with all our suppliers. We continue to maintain a high level of engagement with customers and stakeholders to further the sustainability agenda in our sector.

9. **What impact has COVID-19 had on your human rights due diligence activities in higher-risk overseas supply chains?**
   We have built a strong network of trusted partners and human rights actors globally over many years, including the United Nations International Labour Organisation and the International Organisation for Migration. The challenges presented by the pandemic have meant that we've drawn upon our networks, enabling us to understand the impact upon workers and communities, and how we can best respond, even though we haven't been able to be there ourselves. COVID-19 has also fuelled further enhancements in our internal human rights due diligence systems and processes, and driven us to better harness technology to help us undertake enhanced supply chain mapping and develop a live monitoring app.

10. **What initiatives does Marshalls have in place to prevent complacency around its health and safety standards in the workplace?**
    The global pandemic continues to bring challenges, and we continue to work with our teams to ensure the safety and wellbeing of our colleagues – whether in our manufacturing sites or working from home. We launched our Health and Employee Wellbeing Strategy, and our work on behavioural safety continues to move forward with the SLAM ("Stop, Look, Assess, Manage") toolkit in our Logistics division and our new Fair & Just Approach Framework which is key to developing and sustaining a positive safety culture.

Case study

The Marshalls Concrete Cycle Segregation Unit

Manufactured in Britain, our versatile concrete kerb unit is designed to act as a demarcation tool to safely segregate cyclists from trafficked areas.

Its 45-degree splayed kerb profile on the cycleway side provides a soft transition between the carriageway and the cycle lane. This means that cyclists of all abilities can use the cycleway without the fear of colliding with a steep kerb or catching a pedal.

The outside kerb offers a bullnose profile designed to stop vehicles mounting the unit and potentially endangering the cyclist.

Designed to be installed in new or existing schemes where the highway requires a redesign, the Cycle Segregation Unit ensures that cyclists feel safe and at ease when commuting, and consequently encouraging an increase in this mode of transport.

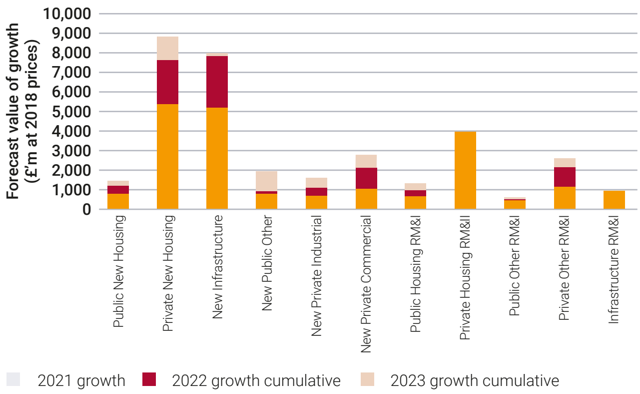
Growth Markets

We continue to operate in those market areas where **demand is forecast to be strongest**

The CPA forecasts that construction demand will remain strong including in Infrastructure, Housing and Housing RM&I.

Construction market overview

The CPA winter forecast showed a slight weakening in forecast construction output for 2022 and 2023 compared with its previous forecast. The CPA also estimates that total construction output will have risen by 13.3 per cent in 2021. Construction demand looks set to remain strong with investment commitments already made in Housing and RM&I. However, as shown by the graph below, Marshalls continues to operate in those market sectors where demand is forecast to be strongest. These include Infrastructure, Private New Housing and Private Housing RM&I. In its forecast the CPA reported that demand continues to be strong across these sectors. Private Housing RM&I activity is forecast to be broadly flat due to being constrained by supply. The capacity of small contractors that primarily carry out the RM&I work is already being severely tested from the perspective of labour and availability.



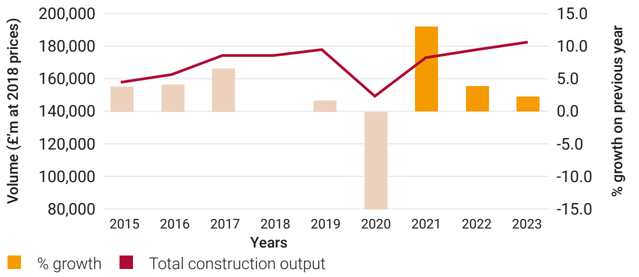
Construction output (% change)	2021	2022	2023
Private Housing	▲17.0	▲3.0	▲3.0
Private Housing RM&I	▲17.0	–	▼(2.0)
Infrastructure	▲23.5	▲9.7	▲1.1
Total construction output	**▲13.3**	**▲4.3**	**▲2.5**

There continue to be supply chain uncertainties and constraints that may restrict growth over the medium term. These include raw material and energy cost inflation together with reduced raw material and labour availability and skills shortages. The CPA predicts that these issues will persist in the short term and may lead to delays in completing projects. The supply issues have been particularly affecting small contractors as they have less ability to plan or purchase in advance and are impacted more by inflation. Skilled labour shortages continue to be a concern across the sector. As a consequence of these uncertainties, the CPA has revised down its construction output forecast for 2022 from 6.3 per cent in the summer of 2021 to 4.3 per cent in the winter forecast. This still represents robust growth and with this increase, total construction output in 2022 would be 2.5 per cent higher than in 2019.

In the medium term, rising inflation concerns increase the probability that the Bank of England will continue to raise interest rates, which may increase household costs and suppress confidence and consumer demand.

CPA total construction output

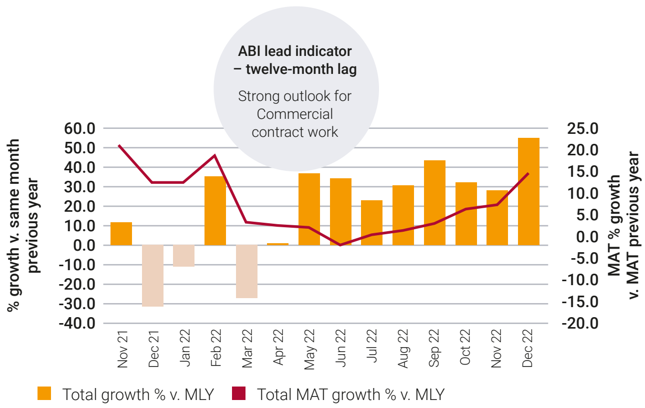
CPA 2021 ▲ £20bn (13.3%)
CPA 2022 ▲ £7.2bn (4.3%)



Public Sector and Commercial

Strong outlook for commercial contract work

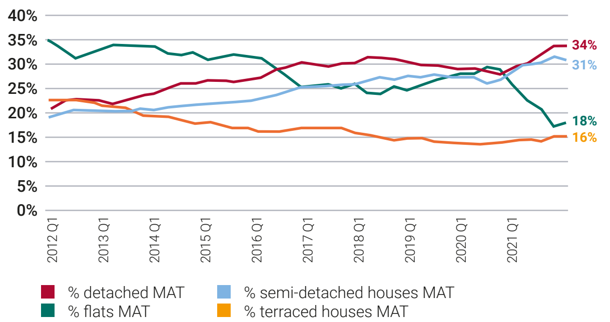
Whilst the COVID-19 pandemic caused significant decline in the construction of commercial buildings in 2020, the CPA is forecasting steady growth in 2022 and 2023. Offices and retail are predicted to decline, but industrial units and warehousing remain strong due to the growth in online trading.



NHBC – new dwelling registrations by type

MAT share of total registrations by type of dwelling

This chart shows that while residential housing is growing, the mix of dwelling types is moving towards traditional housing and away from flats. This is beneficial to Marshalls products.

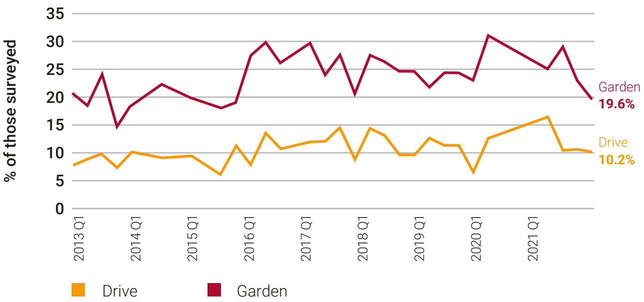


Key sector for Marshalls	Opportunities and challenges	Our strategic priorities
Private Housing		
• Key strategic growth area • Growth of 17 per cent in 2021 • Strong brand presence and breadth of offer	• Private housing starts expected to grow by 7 per cent in 2022 • Predicted 201,000 dwellings to be completed in 2022 • Focus likely to be on houses with outside spaces, rather than flats • ABI residential contract awards increased during 2021 HY2 • House price inflation may impact consumer confidence and spending • Planning issues continue to be a potential constraint	• Strategic relationships with housebuilders and merchants • Sustainable materials and innovative new products (e.g. the Marshalls concrete brick) • NPD and the supply of quality products
Private Housing RM&I		
• Main driver for UK Domestic • Wealth and savings remain strong in the key over-55 age category • Consumer confidence and price inflation are key factors	• Forecast output flat for 2022 and slightly down for 2023; however, this is from a very high growth figure of 17 per cent in 2021 • High demand for better "outdoor spaces" is continuing • Risk that inflation may start to impact demand • Households have accumulated £200bn of savings in the last 18 months ("BOE") • Capacity of small contractors may be tested due to material and labour shortage	• Network of domestic installers to drive growth • Digital investment to drive the customer experience
Infrastructure		
• Expected to be a key driver for UK construction growth • Infrastructure activity forecast to increase by approximately 10 per cent in 2022	• Growth to be driven by major projects (such as HS2) although there is a risk that such projects may exacerbate supply issues for other parts of the industry • High levels of activity envisaged for Road and Rail	• We aim to lead the social and environmental agenda

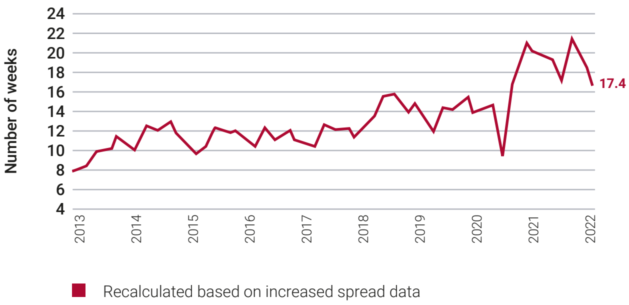
UK Domestic

Domestic demand remains strong. COVID-19 impacted working patterns have increased demand for home and garden improvements underpinned by unprecedented savings values. The GfK Consumer Confidence amongst £50k+ households was +5 in December 2021, a -7 point increase from -2 in November 2021 and the highest level since February 2019.

GfK consumer intentions
– household income £50k+



Registered installer order book – October 2021
Recalculated order books with increased spread data after October 2017



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

Human
The Group has an experienced workforce of 2,643 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

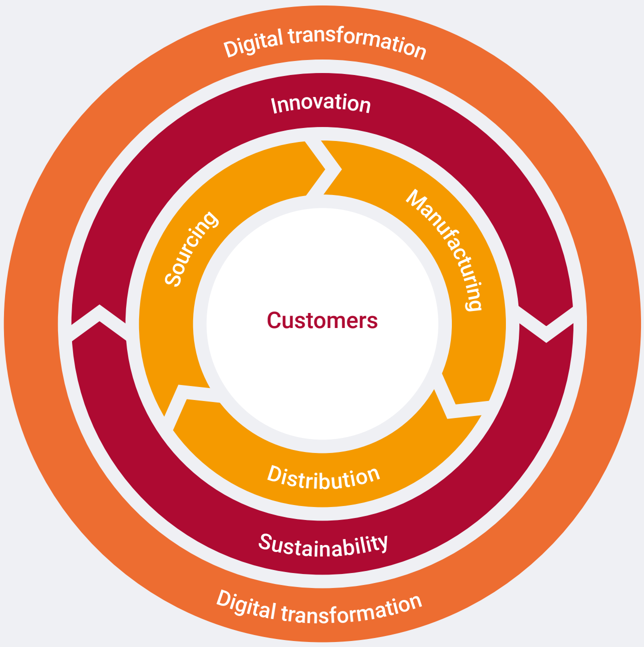
Our stakeholder relationships are underpinned by a focus on responsible business which is a key part of the Marshalls culture

Our business

Innovation

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

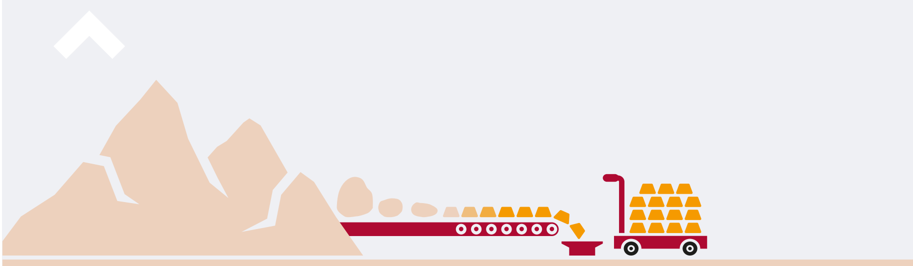
Related risks
- Competitive markets
- Cost inflation
- Security of raw materials supply
- Climate change



Sustainability

We are committed to ensuring that our ESG credentials are at the heart of the Marshalls brand

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



Doing things The Marshalls Way *Read more on* page 22

Our business model is constantly developing through collaboration with customers and feedback from stakeholders. Our customer-focused investment in digital technology is transforming the customer experience and advancing the business model.

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
- Competitor activity
- Legal and regulatory

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

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

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

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

Outcomes

Stakeholder outcomes

Shareholders
Cumulative growth of dividends of 10.4% (pre-supplementary) over the last five years

Dividend per share
14.3p

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

Suppliers trained on anti-bribery and modern slavery
70%

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

Customer service index
98%

Communities and environment
Positive impact, with direct investment in the community

Reduction in carbon footprint since 2008
50%

Employees
DERI strategy and employee engagement measurement

Active apprenticeships in 2021
102

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

8 years
of being Fair Tax Mark certified

*Read more about our stakeholder engagement on **pages 22 to 29***

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 30 and 31***

Doing things The Marshalls Way *Read more on page 22*

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 2021.

Pages 24 and 29 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 24 and 25. 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 the Board receives presentations and reports from senior management as part of updates on how the business is progressing with its strategic priorities. Further details of how we engage with our stakeholders are set out on page 22.

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 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 2021), 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.	*Pages 30 and 31*
	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 34 to 43*
	The Board has adopted a clear and consistent capital allocation policy, with good organic and acquisition investment opportunities. This demonstrates its commitment to the development of the business over the medium to longer term.	*Page 7*
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 but we acknowledge this as a key area of development for our business.	*Pages 64 to 67*
	Health, safety and wellbeing within our operations is our top priority, with this being a standing and separate 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 68 to 69*
	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 67*
	Our Group Human Resources Director presents the results of our annual employee engagement survey to the Board, together with details of the actions being taken to address the feedback received.	*Page 67*

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 30 and 31*
	Our record performance during 2021 was underpinned by regular engagement with our customers and suppliers as we navigated the ongoing supply chain challenges in the face of strong customer demand and the continuing impact of the pandemic.	*Pages 24 and 25*
	We are committed to operating sustainably and ethically and, within our sector, seek to show leadership in these areas.	*Pages 50 to 67*
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 52 and 53*
	The Board receives regular updates on our ESG programme from the Group Sustainability Director and engages directly with shareholders through our annual programme of meetings with shareholder governance teams.	*Pages 56 and 57*
	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. We have established a business ESG Committee, with representation from across the business, that has conducted a review of this materiality matrix during 2021. Pages 59 to 61 set out, in detail, our ESG programme and activities, including our roadmap to net zero by 2030.	*Pages 56 and 57*
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 82*
	Where more specialist advice is required, the Board seeks guidance from its professional advisers.	
The importance of the Company maintaining a reputation for high standards of business conduct	The Marshalls Way defines our brand and all business decisions are driven by achieving this standard.	*Page 22*
	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.	*Pages 68 and 69*
	Our strategic growth pillars underpin our purpose, mission and strategy.	*Pages 30 and 31*
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 PR advisers.	*Pages 26 to 29*
	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 92 to 95*
	Although conducted as a hybrid meeting, our AGM provided members the opportunity to ask questions and vote in real time to ensure maximum engagement opportunity.	*Pages 113 and 114*
	Equality of rights attaching to members' ensures we meet the obligation to act fairly between them.	*Pages 113 and 114*

Stakeholder Engagement

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

- What we do: Generate value by sustainable growth
- How we benefit: Investment, strategic guidance and stewardship

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

- What we do: We deliver market leading product innovation
- How we benefit: 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

- What we do: A stretching, exciting, supportive and inclusive working environment
- How we benefit: Diverse, talented, engaged and productive colleagues

Marshalls

Our purpose

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

Suppliers
- What we do: We treat suppliers fairly, building long-term relationships
- How we benefit: High-quality goods and services resulting in products our customers love and specify

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

Communities and the environment
- What we do: We act in support of the commitments we make to doing business responsibly
- How we benefit: We see the business through the lenses of others

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

Government and regulatory bodies
- What we do: We share knowledge and sector-specific expertise
- How we benefit: Government policy, regulatory frameworks and recognition

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

2021 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 of our longer-term strategy.

During 2021, the business operated against the backdrop of the continuing COVID-19 pandemic but benefited from the decisions that were made during 2020 to manage its initial impact and the medium-term threat it presented. The processes and procedures put in place at that time have continued to support the Board and senior management team's decision making throughout 2021.

Although, Section 172(1) of the Act, as a whole, sits at the top of each Board agenda and is considered in taking key decisions, the Board, and the business as a whole, have, during 2021, prioritised the health and wellbeing of our colleagues and the safety of our operations. In addition, our sustainability and ESG commitments (pages 50 to 67), which are relevant to all our stakeholders and increasingly important in attracting and retaining talented people, have been an area of real focus for the Board during 2021.

The significant additional time committed by the Board and the senior management team during the first wave of the pandemic in 2020 has enabled the completion of a more comprehensive strategic review in 2021. This has given us a clear vision for the future and of how we will get there. The record performance of the Group during 2021 validates the, at times difficult and challenging, decisions that were made during 2020.

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 34 to 43), 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 marketing and employee relations and from its increased diversity, with the Non-Executive Directors sharing their experiences with some of our more focused internal colleague forums. Angela Bromfield has succeeded Janet Ashdown (following her retirement from the Board) as the designated Non-Executive Director for workforce engagement (page 64) and attends our Employee Voice Group, which has evolved further during 2021. Recognising the criticality of logistics excellence, as one of our strategic growth pillars, a Drivers' Working Party was also established during 2021 to enable our drivers to have their say in the decisions we take that impact them in their roles.

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 examples of how we have considered their interests in taking two key strategic decisions during 2021 are set out on pages 28 and 29.

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 – refreshed during 2021
- Group Sustainability Director engages regularly on ESG and sustainability

Board engagement

- The Chair and Remuneration Committee Chair held meetings with shareholders in November 2021
- 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

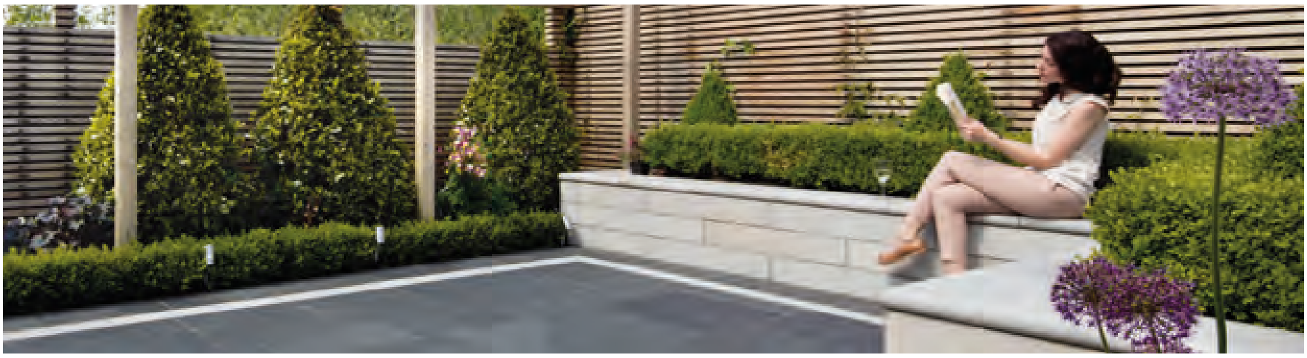
Business engagement

- Centralised procurement for the entire Group enabling optimal buying power and attention from suppliers
- 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
- 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 third party professionals
- 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
- Creation of Drivers' Working Party to engage 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, when permitted, and engagement through our Leadership Connected Group
- Development training and succession planning
- People and culture strategy to unlock potential

Board engagement
- Board participation in the Employee Voice Group via Angela Bromfield, our designated Director. Chaired by Group HR Director, with other Board and senior management team members attending regularly
- Board site visits
- Board attended strategy review
- Annual reviews of HR and Group reward strategy
- Review of senior management team succession planning and wider talent development initiatives
- Monthly health and safety Board reviews
- Active engagement in workforce diversity, reward and recruitment

Links to strategic corporate objectives

Communities and the environment

Business engagement
- Continue to support the UN Global Compact's commitment to corporate sustainability
- Work with the Carbon Trust to analyse our product footprint
- Regular dialogue with local community groups
- £103,500 raised for charitable and community causes in 2021

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, commitments and progress against targets
- Chair, with our Group Sustainability Director, held ESG focused meetings with shareholders in November 2021
- 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 CPA 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
- Board has been heavily engaged in the Group's business continuity and COVID-19 planning and response

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 provide the foundation for long-term sustainable growth and are central to our purpose.

Outcome

- We completed a strategic review in November 2021, reflecting not only on the impact of the pandemic but on whether our business is positioned to meet the big societal challenges of the future. We committed to a 2030 net zero target.
- We have achieved record performance during 2021 in spite of the supply chain and people challenges we have faced. We have continued to listen to our customers, acknowledging their disappointment at times regarding availability and price rises.
- Our ESG Report on pages 50 to 67 articulates our transparent approach to sharing details of our progress with our ESG objectives. We have provided details of how we measure progress but acknowledge that we need to re-evaluate this annually to ensure the measures we choose provide meaningful indications of our commitments and progress.

Board decision making

Effect

- The Board made a number of key decisions during 2021 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 recommencement of dividends to shareholders for both the final dividend for the year ended 31 December 2020 and the interim dividend for the year ended 31 December 2021. This decision was taken only after the repayment in full by the Company of the money claimed from the Government's Coronavirus Job Retention Scheme and with the Board having assessed the capital requirements of the Group at the time the dividends were declared.
- The Board approved the Group's multi-million-pound investment in a new dual block plant at our St Ives manufacturing site that underpins a number of our strategic growth pillars including our commitment to new product development. The investment secures the long-term future of the site and will predominantly serve our customers in the South of England. It also supports our supply chain partners which will provide the machinery and raw materials for production. Further details are set out on page 28.
- The Board approved the Group's multi-million-pound investment in the purchase of new commercial fleet vehicles where the key considerations were whether to buy or lease the vehicles and the opportunities to maximise new technology and reduce carbon emissions, where viable. Further details are set out on page 29.

Dynamic business management

Effect

- During 2021, regular engagement with our customers has managed their expectations in the face of strong demand for our products and mitigated complaints.
- The Board and senior management team have listened to colleagues throughout 2021, recognising the challenges they have faced whether as a result of working conditions during the pandemic or market pressures or as a result of the impact on them of the way in which we have managed the business.
- Ensuring all colleagues have a voice is critical to the achievement of our purpose and to the preservation of our culture and values.
- We reinstated our dividends to shareholders following a period of careful capital management by the Board, ensuring the business remained on sound financial footing during the height of the pandemic, our focus being not only short-term cash flow security but ensuring we continued to invest in the future growth and development of the business.
- Throughout 2021, we have worked hard to ensure we have the best quality and value raw materials and resources we can source. In addressing security of supply, we maintained high supplier standards to ensure that our materials are sustainable and ethically sourced. We continued to undertake robust and effective human rights due diligence and monitoring in the high-risk areas of our supply chain.

Outcome

- We achieved record performance during the year despite the challenging environment. We have sought additional feedback from customers through targeted pulse surveys so we could respond quickly to these challenges. In the short term, we have provided explanations to customers regarding root causes and, in the long term, we have reflected on how these challenges impact our long-term objectives under our customer centricity growth pillar.
- We achieved an employee Net Promoter Score of 7.6 (0.3 above industry benchmark).
- Our Employee Voice Group has contributed to decisions and discussion on people change at Marshalls, most notably our "standardisation programme", which aims to create fairness and consistency in the terms and conditions of employment. Implementing this programme attracted a great deal of, sometimes negative, attention from both colleagues and trade unions. At each stage, we listened and engaged further, ultimately helping us to navigate this major change programme.
- We created a Drivers' Working Party, responding to the specific concerns of our drivers regarding pay and working conditions. We introduced enhanced training, joining and retention bonuses and significantly increased driver pay reflecting our desire to attract, retain and develop the best employees.
- We have retained a stable and supportive shareholder base and, unlike many in the sector, we have done so without having to seek any additional financial support from them.
- The Board has supported the Group entering into longer-term supply contracts during the year for key materials that support sustainable production in the medium to long term. The availability of materials underpins our ability to meet customer demand and, as a general rule, contracts are with trusted, long-term, suppliers which have a track record of delivering and also benefiting from their relationship with Marshalls. Securing key materials for our sites gives us greater assurance around the viability of the sites and greater job security for our employees.

Stakeholder Engagement continued

Board decision:
Dual block plant investment

Background

Production expertise, capacity, innovation and sustainability are what drive our competitive advantage and brand preference. Throughout our history, we have looked for opportunities to invest in new, efficient manufacturing techniques supported by our in-house technical expertise. We have evolved our offer to meet changing customer tastes and specifications and the need for innovative solutions.

Our c.£24 million investment in a dual block plant at our St Ives manufacturing site represents one of the most significant capital investments in Marshalls' history. This investment delivers a unit capable of manufacturing twice the volume of a traditional plant with the same number of people.

Board role

The Board considered the proposed investment in April 2021. The Board challenged every key aspect of the project including our approach to health and safety, the environmental impact (including the extent to which allowance had been made for new "green" technology), the supplier risks (given the proposed configuration of the plant would involve machines being supplied from a number of international suppliers), and our consideration of other key stakeholders, including our employees, together with the overall financial viability of the project.

Stakeholder considerations and impacts

Employees – We consulted with key employees (including machine operators) who influenced many technical improvements and requirements, including the final design of the plant's batching system. A 3D model was created facilitating full participation in creating the specified design and layout.

Communities and the environment – Reflecting the Group's sustainability commitments, the design enables the Company to take advantage of new technologies, including carbon capture, meaning we can offer alternative, lower-carbon, more environmentally responsible and differentiated products.

The Company worked with energy specialists in incorporating the installation of a solar array system at our St Ives site. We estimate this will contribute over 17 per cent of the site's current electricity usage. This fits with Marshalls' aim to install renewable power on all major production facilities by 2030.

Customers – This investment enables us to improve our offer and service to our customers. Engagement with our sales and marketing teams ensured the investment addresses current and future customer product requirements. We also worked with product development specialists and customer focus groups to incorporate product finishing technology, allowing us to replicate the aesthetics of a number of globally sourced products, bringing with it the opportunity for us and our customers to significantly reduce our respective carbon footprints.

Suppliers – We engaged at length with each of the suppliers whose machines are integral to the processes incorporated within the dual block plant design (e.g. batching, curing and secondary processing) to ensure maximum flexibility and efficiency in the designs, in addition to supporting the product innovation that drives our competitive advantage and brand preference.

Shareholders – With the Board, we considered the scale of the investment and the projected benefits and financial returns in order to assess whether it was an effective use of our capital and supported our strategic objectives. In seeking approval from the Board, measurable performance targets and benefits were included in the proposal supporting the Board's assessment of whether this investment is good value for our shareholders and supports long-term sustainable growth.

Outcomes and decisions

The Board unanimously approved the proposed investment in April 2021 with a request that it receives regular updates on progress with the project including on the realisation of the returns and benefits anticipated in the proposal.

Links to strategic corporate objectives

- Shareholder value
- Sustainable profitability
- Organic expansion
- Brand development

*Find our strategy on **page 30 and 31***

Impact on business model

- Customers
- Sustainability
- Manufacturing
- Distribution

*Find our business model on **pages 18 and 19***

Board decision:
Investment in new vehicles

Background
Our ability to deliver our own products to our customers is a key part of our service proposition and sits within our logistics excellence strategic growth pillar. We operate our own fleet, supplemented by third-party logistics contractors as needed. As part of our fleet replacement strategy, we regularly assess future business requirements, looking not only at fleet that requires renewal, but also opportunities to increase our owned fleet. Within our Marshalls Mortars and Screeds business, the requirement was for thirteen replacement and two additional vehicles for delivery in 2022. Within Marshalls' Landscape Products business, we were seeking an additional ten vehicles. In addition, we wanted to replace four short-term hire vehicles with Marshalls owned equipment. The choice between buying or leasing the vehicles was a key consideration, as were opportunities to maximise new technology and reduce carbon emissions.

Board role
The Board considered the proposed investment in May 2021, challenging our stakeholder considerations and how we proposed to finance the vehicles. In particular, the Board challenged whether these vehicles represented the latest technology, in terms of reduced carbon emissions, and whether our capital allocation policy needed to be reviewed in light of our change in approach to financing our vehicle requirements.

Stakeholders' considerations and impacts
Employees – We actively engaged with our employees seeking their input into the vehicle specification, and looking at alternative fuels as well as overall driver comfort, which resulted in the loan of a demonstrator vehicle for a four-week period.

Communities and the environment – This investment supports our policy to reduce vehicle carbon emissions within our communities and meets the requirement of the Ultra-Low Emission Zones ("ULEZ") which are now very prevalent within the towns and cities in which we operate.

Shareholders – We received proposals with a range of financing options, including for the vehicles alone and for the vehicles and repairs and maintenance. Careful consideration was given to whether we should include these within contracts or pay for servicing and maintenance when required. We considered self-funding the acquisition of the fleet or securing a lease with one of our suppliers. Reviewing the different criteria against our internal measures and assessing the impact on our cash flow were both important considerations, which could ultimately affect shareholder value.

Customers – The vehicles we use to make deliveries to our customers, particularly those deployed within our Mortars and Screeds business, are highly specialised and not readily available to hire. With new vehicle lead-times being more than twelve months, we had to make decisions during 2021, based on projected customer sales, to ensure that we could meet future customer demand.

Outcomes and decisions
The Board approved the proposed investment in May 2021 but supported our decision to defer an element of what we proposed, providing us the opportunity to take advantage of any subsequent developments in vehicle technology without compromising our customer offer.

Links to strategic corporate objectives
- Sustainable profitability
- Organic expansion
- Brand development
- Effective capital structure

*Find our strategy on **pages 30 and 31***

Impact on business model
- Customers
- Distribution

*Find our business model on **pages 18 and 19***

Focused strategy to deliver **sustainable growth**

Growth pillars	Our objectives
Brand preference for product specification We aim to create product specifications by using our strong brand, communicating well with our customer segments and early involvement in any project	• To build relationships and increase engagement with consumers, developers, builders and architects. • To widen our presence and increase product specification, project pipeline and project conversion. • To build brand preference through NPD, marketing and innovation.
Logistics excellence We put customer wants and needs first with direct, informed and professional deliveries	• To deliver logistics excellence with more efficient, lower emission vehicles and new technology across our full fleet.
Sustainable materials supply We source and supply sustainable materials, products and solutions	• To create a sustainable and ethical supply chain that enables headroom for changes in demand and operates within our carbon targets.
Customer centricity We want to have the best customer experience in the buildings material industry	• To grow the business by providing an outstanding customer service experience. • To improve customer ease and embed an improvement culture.
Operational excellence We invest in our manufacturing facilities and industrial network and use the best tools, processes and systems	• To deliver operational excellence by improving how we work and delivering new ways of thinking. • To effectively manage our cost base and add value. • To improve competitive advantage whilst providing market leading products and service.
Innovation and new product development We deliver market leading product innovation	• To create new, innovative products that will drive the market forward. • To develop best-in-class facilities, processes and products.
Growth in the emerging businesses We make selective acquisitions to complement our business and help us advance into new and untapped areas	• To grow our emerging businesses to help us expand into key growth areas. • To develop clear plans for each business and deliver margin growth.
Digital transformation We are continuing to invest in digital and forward-thinking technology	• To provide an end-to-end digital offering and to pioneer the digital standard for the industry. • To move to B2B digital trading where this is possible with our customers. • To ensure the planned upgrade and move of our ERP system to the cloud. This will bring with it a platform to digitise our processes optimising and transforming our ways of working.

Strategic goal to become the UK's leading manufacturer of products for the built environment

Strategic corporate objectives

Shareholder value	Relationship building	Sustainable profitability
To deliver sustainable shareholder value by improving the long-term operating performance of the business.	To develop relationships with key stakeholders, installers and suppliers.	To maintain a strong market position and grow the business' profitability in all of the Group's end markets.

What we have achieved	Future priorities
• Improved process mapping and measurement. • Improved capability to leverage NPD with additional capability and capacity from the dual block plant project at St Ives. • Reintroduction of a strong marketing campaign.	• To target greater penetration of all market sectors. • To increase our range of innovative and sustainable products.
• Own fleet of over 230 vehicles, with a broad range of capability to meet every delivery requirement. • Highly trained drivers. • Acted swiftly in response to market challenges in driver availability and wage inflation to ensure fleet stability. • Customer order tracking service via online portal. • Flexibility to meet delivery lead-time needs of customers.	• To attract and retain talent. • To create a Driver Academy to attract and retain HGV drivers. • To optimise our delivery systems and processes.
• Continued to source materials, despite the many supply chain challenges, introducing alternative sourcing, flexibility and security. • The majority of raw materials are sourced from within the UK. • Centralised procurement team to optimise buying power and relationships. • Our ethics, human rights and environmental commitments are never compromised.	• To prioritise carbon reduction programmes. • To reduce reliance on cement. • To ensure long-term material supply availability. • To ensure our ESG commitments are embedded in the supply chain.
• Extensive communication to manage the challenges of COVID-19 and raw material shortages. • Effective project management to measure improvement and deliver results. • Reduction in quality complaints.	• To improve our customer service scores across all business areas (target is to achieve a 90 per cent customer recommendation metric). • To embed our "customer centric" culture.
• Increased output in response to high demand despite the challenges of COVID-19 and material/labour availability. • Ongoing network development programme to improve operational efficiency. • Wet press development – new investment in Scotland. • Quality programme and ongoing reduction in waste.	• To continue to standardise our operations and processes across the Group and to improve asset utilisation. • To improve workforce skills and attract and retain the best people. • To reduce rectification and transportation costs. • Further wet press development in other sites.
• Dual block plant project at St Ives on track – two additional CBP face mix lines with advanced secondary processing. • Established Enterprise Project Management Office to co-ordinate all project activity, efficiency and delivery.	• To deliver dual block plant project completion by end of 2022.
• Using our commercial excellence framework, plans were created and deployed that delivered growth in both sales and profitability. • Renewed focus on marketing, and rebranding the businesses and focusing on the solutions they deliver.	• Continuation in sales and profit growth plans. • Development of service offer to improve ease of doing business.
• D365 implementation project in progress – incorporating process improvement and optimisation. • E-commerce platform now established – creating a cohesive, frictionless user experience and a new complementary sales channel. • Product augmented reality experience now live on the website. • Developed digital solutions to allow for improved self-service.	• To migrate all business units from our on-premise ERP system to the cloud. • To develop automation and AI processes. • To further improve our B2B web offering. • To develop visualisation and QR technologies to enhance customer experience. • To optimise and digitise any offline processes.

Enabled by people and talent management

Strategic corporate objectives

Organic expansion
To invest in organic expansion in existing and related markets and product categories to expand the business.

Brand development
To strengthen and extend the Marshalls brand by focusing on innovation, service and new product development.

Effective capital structure and control framework
To ensure that the capital structure remains aligned with the Group's corporate growth objectives.

Key Performance Indicators

Measuring **our performance**

The Group's KPIs monitor progress towards the achievement of its objectives. All of the Group's strategic KPIs have moved forward strongly during 2021.

Revenue (£'m)

£589.3m
(up 9% against 2019)

2021	589.3
2020	469.5
2019	541.8
2018	491.0
2017	430.2

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
Sales have been strong and market conditions have remained supportive. 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
(before adjusting items)

£72.1m

2021	72.1
2020	22.5
2019	69.9
2018	62.9
2017	52.1

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

Performance
Strong profit performance despite increasingly challenging supply chain pressures. Cost increases have been recovered through sales price increases. Trading in 2022 has started strongly.

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 (%)

ROCE (before adjusting items)

20.6%

2021	20.6
2020	8.2
2019	21.4
2018	20.9
2017	20.8

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

Performance
Adjusted ROCE for 2021 is 20.6 per cent (2019: 21.4 per cent). ROCE is defined as EBITA/shareholders' funds plus net debt.

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
£0.1m
(net positive cash)

Reported basis
£41.1m

(41.1)	2021
(75.6)	2020
(60.0)	2019
(37.4)	2018
(24.3)	2017

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

Performance
Net debt was £41.1 million at 31 December 2021 (£0.1 million net positive cash on a pre-IFRS 16 basis). Gearing remains low at 12.1 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

*Find our strategy on **pages 30 and 31***

Operating cash flow (“OCF”)

80%

OCF:EBITDA
(rolling annual basis)

2021	80
2020	49
2019	96
2018	94
2017	103

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

Performance
Operating cash flow was 80 per cent of EBITDA. This was lower than usual due to increased investment in imported inventory due to significant increases in shipping costs. This action was taken to ensure ongoing availability.

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

98%

customer
service index

2021	98
2020	94
2019	98
2018	98
2017	98

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 LTIP

Stakeholder linkage
- Customers
- Communities
- Environment

Climate change

16%

carbon reduction per tonne
of production output in 2021

2021	6.46
2020	7.70
2019	9.21
2018	9.92
2017	10.24

Why is this KPI important?
The Group’s continued commitment to our sustainability strategy is that our annual carbon reduction targets must be achieved – target is to be net zero by 2030.

Performance
Although our absolute emissions increased in 2021, due to increased production, our relative (intensity) performance has decreased.

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 accident rate)

16.9%

reduction in working days lost (%)
compared with the target benchmark

2021	17
2020	12
2019	14
2018	17
2017	46

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

Performance
In 2021 there was a 16.9 per cent reduction in days lost from workplace incidents compared with the target benchmark.

Links to strategic corporate objectives

Principal risks
- Consistency of standards
- Regulatory controls
- Investment in operation network
- Extended 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

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

The Group seeks to mitigate exposure to all forms of strategic, financial and operational risk, both external and internal.

Achievements in 2021

The impact of COVID-19 continues to have implications for the business and its underlying risks. This is particularly true in the areas of health and safety, cyber security and the security of raw materials supply. All these areas are considered in more detail on pages 37 to 43. 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:

- **Health and safety** – the Group has used frequent and consistent messaging with mental and physical health prioritised for all employees and stakeholders. We have maintained our established COVID-19 workplace protocols throughout the last year.
- **IT and cyber risk** – the Group has continued to ensure business continuity during the COVID-19 restrictions. Practical support and guidance, together with additional cyber security training, has been provided to facilitate home working and this has remained a priority as the focus has shifted to a more "business as usual" environment.
- **Security of raw materials supply** – the Group has continued to ensure that product and distribution can continue to meet the increased levels of demand.

KPMG completed a number of targeted internal audit projects during 2021 covering the following areas:

- Business continuity/IT disaster recovery;
- Payroll systems and controls;
- Accounts receivable;
- Digitalisation/digital maturity;
- GDPR compliance;
- ESG maturity; and
- Cyber risk – ransomware.

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 2022

The priorities for the Group's risk function in 2022 include the following areas:

- Health and safety remains a major focus area and 2022 will see additional governance and control reviews.
- The completion of a number of targeted projects will again be a major focus for KPMG. In 2022, projects covering cyber security, general IT controls, project delivery and inventory are planned.
- During 2022 the Group will commence a project to review the adequacy, completeness and effectiveness of the underlying control environment to ensure that it continues to be robust and suitably documented.
- Our ESG agenda continues to embrace risk management and governance and the generation of detailed climate risk assessments and scenario planning continues to be a priority.
- We also intend to review our approach to identifying the risk appetite for each significant risk area. The aim is to have a structural approach to aligning internal controls and risk mitigation initiatives with our risk appetite.

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.

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.

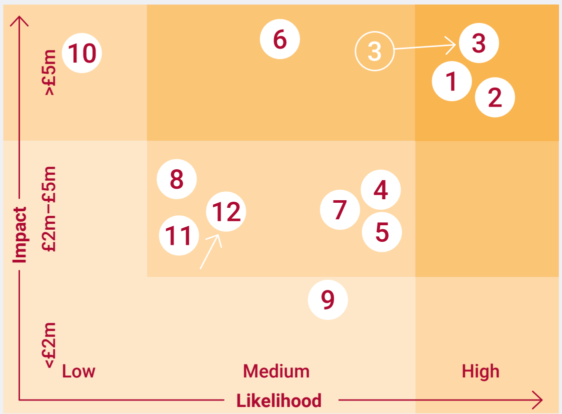
The Audit Committee:
- has delegated responsibility from the Board to oversee risk management and internal controls;
- reviews the effectiveness of the Group's risk management and internal control procedures; and
- monitors the effectiveness of the internal audit function and the independence of the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

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 Auditor, regularly attends the risk review meetings. The conclusion of KPMG is that 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 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.

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 37 to 43, 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. The objective continues to be to have a range of competitively-priced funding lines in place, at all times, with different maturity dates.

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 forecasts currently go out to 2023. This remains compatible with the 5 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 stress testing reflects the principal risks that could conceivably threaten the Group's ability to continue operating as a going concern, and focuses on scenarios that might give rise to sales volume reductions, deteriorating operating margins and increases in interest rates. Alongside the current supply chain challenges that are causing shortages of both materials and labour, the current Risk Register identifies external market demand as being the key medium-term risk. None of the individual sensitivities applied impact the Directors' assessment of viability.

A significant stress test sensitivity has been run at the end of 2021 against the base medium-term forecast. Material and labour shortages are currently leading to significant cost inflation and, consequently, it is possible that if this continues and leads to increases in interest rates this could lead to a softening in market demand. The impact on demand of external market factors continues to be a key medium-term risk. The stress test assumes a sales revenue sensitivity of 20 per cent over each of the next two years (cumulatively 60 per cent against 2021 revenue) – with current growth rates assumed to apply on the revised base position from 2024.

In the wake of COVID-19, the stress testing has used sales volume and margin sensitivities that aim to replicate the impact of the last sustained recession, and are similar to the reductions that took place between 2007 and 2009. This sensitivity leads to a reduction in revenue of around £350 million over 2022 and 2023 and, over the same two-year period, leads to a reduction in operating margin to 5.8 per cent in 2023. This is well in excess of the reduced revenue experienced in 2020 as a consequence of COVID-19.

Even under the deep stress test, all bank covenants are met and the gearing and net debt/EBITDA metrics remain sustainable. The Group would undertake significant mitigation measures in a deep downturn, and this would create additional contingency.

The risk of cyber-attack continues to be one of the Group's highest rated risks. The Group maintains a comprehensive response and recovery plan to ensure critical business systems can be restored within a designated period in the event of an attack. In respect to cyber protection, we employ a multi-layered approach to ensure we have more than one level of defence. We also employ an independent IT security company to perform regular penetration tests and vulnerability scans on our internal and external facing IT environment. From a detection perspective we employ a tier one IT managed security service company to provide a 24/7 detection and response to ensure we react quickly and effectively to any security incidents. A detailed Risk Register is maintained to assess both the likelihood of an incident occurring and its impact on the business. This register is reviewed on a six-monthly basis to ensure it is kept current and we undertake independent annual cyber security audits to ensure we keep abreast of the ever increasing and changing threat landscape.

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.

Marshalls continues to have strong market positions and a strategy of targeting those market areas where growth prospects are greatest. The potential impact of wider economic and political uncertainties has been considered in the assessment of risk 1 below. This assessment has included significant stress testing of financial models and risk mitigation measures within the Group's supply chain. The Group has developed a detailed plan to mitigate the risk of raw material shortages.

Links to strategic corporate objectives

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

Find our strategy on ***pages 30 and 31***

Impact on business model

- Sourcing
- Manufacturing
- Distribution
- Customers

Find our business model on ***pages 18 and 19***

Scenario	Nature of scenario planning process	Outcome of scenario stress testing
1. Macro-economic factors 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. These include:** • 20 per cent reduction in sales revenue over two years. • This amounts to around £350 million in lost revenue, which is greater than the 2008/09 downturn and significantly more severe than that experienced during the COVID-19 pandemic in 2020. • Interest rates increase to 5 per cent.	**Outcomes** • PBT reduces to around £20 million in year two. • Operating margin reduces to 5.8 per cent. • Net debt increases to around £100 million – which is well within current facility limits – with gearing increasing to around 30 per cent. • Bank covenants continue to be met.
2. Cyber security breach A cyber security breach leading to an immediate and unexpected disruption to essential IT systems and infrastructure.	**The main elements of our stress testing are as follows:** • Penetration tests and vulnerability scans are performed by independent IT security companies. These are changed on an annual basis. • We run cyber-attack "play-book" exercises against different cyber-attack scenarios.	**Outcomes** • The "play-book" scenarios that we run on a regular basis ensure that we continue to be as ready as we can be to respond to security incidents. • All systems are categorised to ensure that the business critical systems can be recovered first in the event of an incident occurring.

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 36. 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, interest rates, volatility in world markets and any continuing issues associated with COVID-19. Material shortages and labour availability are causing significant cost inflation. Other factors include the increasing impact of wider geo-political factors (including the conflict in Ukraine) and unprecedented levels of Government borrowings.

Potential impact

The potential longer-term impact of macro-economic uncertainty and continued cost inflation 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. geo-political issues give rise to energy shortages, inflation and disrupted markets. Ongoing risk of interest rate increases.

Key risk indicators

- Further COVID-19 uncertainty and the emergence of new virus variants.
- Government policy failing to contain inflation.
- Reductions in consumer confidence and order pipeline.

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 proactive development of the product range continues to offer protection.
- The Group has developed detailed plans to support its supply chain, maintain inventory levels and mitigate the risk of raw material shortages.
- The Group undertakes scenario planning to support improved business resilience.
- The Group continues to target those market areas where growth prospects are greatest, e.g. New Build Housing, Road, Rail and Water Management.
- The Group focuses on its supplier relationships, flexible contracts and cost reduction and operational efficiency initiatives.

Change

No change in risk

The UK Government's stated objective is to support construction and significant investment support for infrastructure and housing has been planned. Economic slowdown would result in a loss of business and consumer confidence, leading to delays in investment decisions. However, demand in construction continues to be very strong and the outlook is positive.

Priorities

- Regular scenario planning to assess various market risks and disruptive events.
- Strategic reviews focusing on business resilience.

Links to strategic corporate objectives

Impact on business model

Principal risks and uncertainties continued

2. Cyber security risks

Nature of risk and potential impact

Fast growing and indiscriminate risk of cyber risk. 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 attacks and new cyber threats. Increasingly, all business is becoming more IT.

Potential impact
Operational disruption and financial loss.

Risk of data loss causing financial and reputational risk.

Key risk indicators

- Emergence of new cyber security risks.
- Increased examples of data loss and security breaches in the wider market.

Mitigating factors

- 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, and during 2021 an internal audit was undertaken by KPMG in respect of the Group's controls in relation to a ransomware attack. The Group's "cyber maturity assessment" score has continued to increase, and Marshalls is accredited with "Cyber Essentials" approval.
- 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.

Change

No change in risk
Cyber risk has increased during the COVID-19 pandemic and remains a high-profile area. Considerable focus continues to be given to promoting awareness of IT security policies, and we continue to extend mitigation controls. The risk is fast growing and indiscriminate and 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.

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

The post-COVID-19 recovery in market demand has significantly increased pressure on raw material and labour availability. There are increasing risks in relation to economic volatility, the security of raw material supply and the impact of shortages leading to cost inflation.

There are significant market capacity stresses for sand, cement and other raw materials and energy supplies. In addition, there continues to be a shortage of HGV drivers causing distribution and logistics challenges. Longer term there is a risk of "carbon taxation".

Potential impact
Cost inflation could reduce margins and create imbalances in the mix of regional activity. The risk of market demand exceeding raw material supply could lead to inefficient production, which could reduce margins.

Key risk indicators

- Temporary shortages and cost inflation, impacting materials and labour.
- Decreases in vehicle availability and labour/driver shortages.

Mitigating factors

- The Group benefits from the diversity of its business and end markets.
- Maintaining adequate, but not excessive, stocks.
- Continued development of our own haulage fleet which covers around two-thirds of deliveries from the Landscape Products business.
- Collaboration with all EU-based tier one and tier two suppliers to ensure any supply risks are minimised.
- The digitisation 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.

Change

Increased risk
The impact of raw material shortages and cost inflation has increased during the last year.

The risk of temporary shortages is mitigated by proactive supply chain management and the use of alternative suppliers.

Priorities
- Increasing 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

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*Find our strategy on **pages 30 and 31***

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*Find our business model on **pages 18 and 19***

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 consideration by investor and stakeholder groups.

Risk of allocating insufficient resource and investment to support the Science Based Targets initiative and other Environmental Protocols.

A summary of more specific environmental risks is included in the Sustainability section on pages 54 to 61.

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 Protocols" and mitigation programmes could lead to increasingly expensive processes.

Key risk indicators

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

Mitigating factors

- The Group utilises experienced, specialist staff to support the Group's focus in this area.
- Specialist third parties including The Carbon Trust and Verisk Maplecroft.
- Climate risk analysis.
- Agreed carbon reduction plan and a set of KPIs established.
- The Group is committed to the Science Based Targets initiative.
- Working groups established in all focus areas and controls being progressively embedded across the business.

Change

Increased 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
- Ongoing assessment of climate change and risks for production, facilities, products and distribution.
- Develop comprehensive strategic covering targets, products and business processes.

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.

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 62 and 63.

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.
- 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.
- 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

Increased risk
Significantly heightened focus from stakeholders, Government, customers and investors and increased operational and reporting requirements.

Priorities
- Develop strategic partnerships.
- Increase focus on the development of the Group's comprehensive strategy.

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.

The longer-term implications of climate change give rise to the transition risk to address the challenges quickly enough.

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

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, new manufacturing processes and new substitute products appearing.

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 developing digital strategy.

Change

No change in 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 and the risk is increasing.

Priorities
- Collaboration with universities to develop new products and processes.
- Increase pace of digital change and technological solutions.

Links to strategic corporate objectives

Impact on business model

Links to strategic corporate objectives

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Find our strategy on ***pages 30 and 31***

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Find our business model on ***pages 18 and 19***

8. Corporate, legal and regulatory

Nature of risk and potential impact

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 ethical 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 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 and increased costs and have a negative impact on the Group's reputation.

Key risk indicators

- Increased regulatory and compliance requirements.
- Integration requirements for new acquisitions.
- Significant increases in the penalty regime for health and safety and environmental incidents.

Mitigating factors

- Centralised legal and other specialist functions, the use of specialist advisers and ongoing monitoring and mandatory compliance training programmes.
- 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.

Change

No change in risk
The significant increase in governance 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 controls 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

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 through increased demand for imported natural stone products.

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.

Key risk indicators

- Threat from new competitors and new technologies.
- Less demand for traditional products and the increased emergence of new digital business models and product solutions.

Mitigating factors

- 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.

Change

No change in risk
The more uncertain market environment has not led to any significant changes in competitive pressure.

Priorities
- New product development.
- Research into green technologies.
- Review marketing and communications.
- Continue to review all elements of customer service.

Links to strategic corporate objectives

Impact on business model

Principal risks and uncertainties continued

10. Project delivery

Nature of risk and potential impact

Growth outstrips our ability to manage and stress test all aspects of our business model.

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.

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.

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.

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.
- Regular communication and support for employees, including those working from home. Mental health first aiders.
- Comprehensive five-year 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.

Links to strategic corporate objectives

Impact on business model

Links to strategic corporate objectives

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12. People risks

Nature of risk and potential impact

Availability of labour diversity – with risks around core skills, demographics, capability and changing working patterns.

Ongoing risks and requirements concerned with training, development and succession planning. Implications of technological change and automation.

Welfare and mental health related risks associated with the COVID-19 pandemic.

Potential impact
Inability to recruit and retain 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.

Key risk indicators

- Skill shortages and lack of diversity within the workforce.
- Increased stress levels within workforce leading to employee absenteeism.
- Increased levels of staff turnover.

Mitigating factors

- 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 and the newly-established Drivers' Working Party.
- Regular feedback questionnaires supported by a third-party provider.
- Independent "Safecall" employee helpline.
- Focus on training, apprenticeships and ongoing staff development and leadership potential – "Early Talent Programme".

Change

Increased risk
Increasingly competitive labour market.

The emergence of challenges for employees with changed 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.

Links to strategic corporate objectives

Impact on business model

Financial Review

Trading continues to **improve and order books remain strong**

"The Group has a strong balance sheet and a robust capital structure, supported by significant facility headroom."

Summary

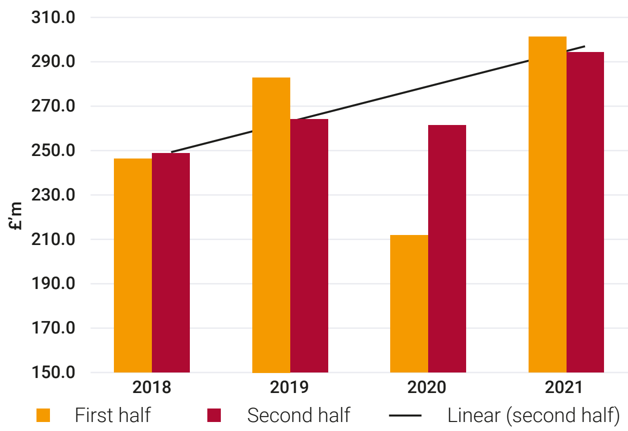
- Full year revenue of £589.3 million – 9% increase on 2019
- Domestic sales up 18% on 2019
- Public Sector and Commercial sales up 4% on 2019
- International sales up 23% on 2019
- Strong cash generation – debt free on a pre-IFRS 16 basis
- Significant headroom against bank facilities
- Capacity for investment – around £35 million planned for 2022
- Recommended dividend of 9.6 pence – 14.3 pence for the full year

Trading summary

Revenue

Group revenue for the year ended 31 December 2021 was £589.3 million (2020: £469.5 million; 2019: £541.8 million), which is 26 per cent ahead of the 2020 comparative. This represents an increase of 9 per cent compared with the same period in 2019, being the last comparative period which was unaffected by COVID-19. Revenue growth in the second half of the year was increasingly strong, and was 11 per cent ahead of the comparative figures for 2019.

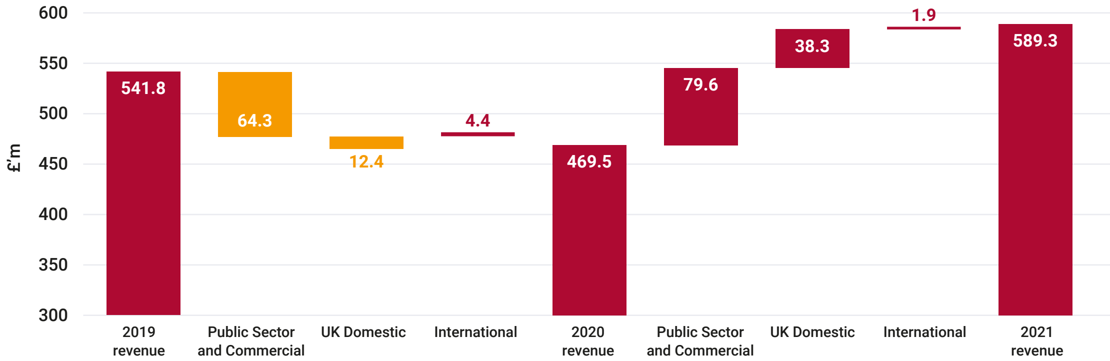
Revenue



Revenue analysis

Sales in the Domestic end market, which represented approximately 28 per cent of Group sales, were £167.0 million. This represents an increase of 30 per cent compared with the prior year, and is up 18 per cent compared with the same period in 2019. The survey of domestic installers at the end of February 2022 revealed a healthy order book of 17.4 weeks (2020: 19.4 weeks). This compares with 16.7 weeks at the end of October 2021.

Revenue variance analysis
2019–2021



Domestic

Our Domestic customers comprise DIY enthusiasts, professional landscapers and driveway installers. Our aim is to generate sales through the Marshalls Register of approved domestic installers which continues to provide competitive advantage. This comprises around 1,700 installer teams and the Group continues to receive good feedback for its consistently high standard of quality, excellent customer service and marketing support.

Private Housing "repair, maintenance and improvement" remains strong with consumers continuing to spend more time at home and choosing to invest in home and garden projects. Many households continue to have increased levels of saving due to lower cash outflows due to pandemic related restrictions. The GfK consumer confidence index has been improving steadily during 2021. The index for £50k+ households has increased by 7 points since November 2022 and is now at its highest level since February 2019.

Public Sector and Commercial

Sales in the Public Sector and Commercial end market were £389.1 million and represented 66 per cent of Group sales. This represents an increase of 26 per cent compared with the prior year, and is up 4 per cent compared with the same period in 2019. The comparison with 2019 increases to 6 per cent after adjusting for the impact on sales caused by the planned reduction in Marshalls Mortars and Screeds sites in the second quarter of 2020. We have a diverse end-customer base spanning local authorities, commercial architects, specifiers, contractors and housebuilders. The Group continues to focus on those market areas where future demand is expected to be greatest including New Build Housing, Road, Rail and Water Management. Infrastructure is expected to be a key element of construction growth in 2022 and 2023, driven by larger projects such as HS2 and additional focus on medium-term investment programmes. Housing demand remains strong with Private Housing starts forecast to increase by 5 per cent in 2022 and 3 per cent in 2023. Our aim is to generate demand through a brand and customer experience that drives product specification, and this is increasingly being used to underpin customers' commitments to sustainability, especially for lower embedded carbon, flood prevention and human rights.

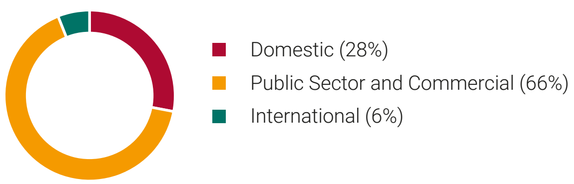
Analysis of sales by end market	**2021 £'m**	2020 £'m	2019 £'m	Change 21/20 %	Change 21/19 %
UK Domestic	**167.0**	128.7	141.2	30%	18%
Public Sector and Commercial	**389.1**	309.5	373.8	26%	4%
International	**33.2**	31.3	26.9	6%	23%
	589.3	469.5	541.9	26%	9%
	%	%	%		
UK Domestic	**28%**	27%	26%		
Public Sector and Commercial	**66%**	66%	69%		
International	**6%**	7%	5%		

A key part of our strategy, in both the Domestic and Public Sector and Commercial end markets, is to develop the customer experience by digitalisation, including the use of visualisation tools, and to promote and invest in innovation. Building on 15 years of experience in digital visualisation, our new augmented reality app gives architects, garden designers, installers and consumers state-of-the-art solutions. We increasingly use digital technology to communicate new concepts and designs and to facilitate the selection and specification of our ranges. Digital tools are a key feature of our new housebuilders website.

International

Sales in the International business, supported by strong growth from Marshalls NV in Belgium, were up 6 per cent compared with the prior period and 23 per cent compared with 2019. International sales represented 6 per cent of Group sales in the period. The Group continues to develop its global supply chains to ensure that international operations are sustainable and aligned with market risks and opportunities.

Revenue analysis: business area (%)



Revenue by area (%)

The Group's Landscape Products business is a reportable segment servicing both the UK Public Sector and Commercial and UK Domestic end markets. Those businesses that are not large enough to comprise separate operating segments include Marshalls Landscape Protection and Mineral Products and they continue to be a key strategic focus and a positive driver for growth.

EBITDA and operating profit

Adjusted EBITDA was £107.1 million (2020: £57.6 million; 2019: £103.9 million). This represents an increase of 3 per cent compared with 2019.

Adjusted operating profit increased to £76.2 million (2020: £27.2 million; 2019: £73.7 million).

Trading results	2021 £'m	2020 £'m	2019 £'m	Change 21/20 %	Change 21/19 %
EBITDA*	**107.1**	57.6	103.9	86%	3%
Depreciation/amortisation	**(30.9)**	(30.4)	(30.2)		
Operating profit*	**76.2**	27.2	73.7	180%	3%
Adjusting items	**–**	(17.8)	–		
Operating profit (reported)	**76.2**	9.4	73.7		

* Before adjusting items.

The reported operating profit for the year ended 31 December 2021 was £76.2 million after a number of adjusting items.

These adjusting costs combine to give a net charge of £8.8 million, which approximately aligns with the profit on the sale of the site at Ryton. The profit on the disposal of property, plant and equipment is disclosed in Note 4 on pages 142 and 143 and the main element of this related to the Ryton site. The site was sold in October 2021 for £13.5 million and generated a net profit on disposal of £8.8 million. The table below summarises the impact of the separately disclosed adjusting item costs, which are disclosed in Note 4 on pages 142 and 143.

Disclosed adjusting costs	£'m
The write-off of assets arising at our St Ives site to allow the construction of the dual block plant.	1.7
The cost of closure of Edenhall's site at Stoke following a network review. The site was used to manufacture cast stone and the Group has decided to exit this market.	1.2
The additional consideration payable to the CPM vendors represents a charge relating to the acquisition of CPM following the agreement reached with the vendors to release funds initially set aside in escrow, following the identification of an under-funded pension scheme of a related company. The risk is now considered to be remote and £3.7 million 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 review period of twelve months as set out under IAS.	3.7
Payment of a special bonus to employees as a thank you for their support during the pandemic.	2.2
Net total of disclosed adjusting costs	8.8

The construction of the dual block plant at St Ives is a major capital project for the Group, and represents a significant growth opportunity. The scale of the project has necessitated a significant reorganisation of the St Ives site, and certain buildings and equipment assets have needed to be scrapped in the initial phase of the project. These additional costs have amounted to £1.7 million and the project remains on track to be commissioned at the end of 2022.

In the final quarter of 2021, the decision was made, following a detailed review of Edenhall's product range and manufacturing network, to cease operations at its manufacturing site at Stoke. The total closure cost is £1.2 million, of which £0.8 million is a cash outflow. In December 2021, agreement was reached with the former owners of CPM to release an amount of £3.7 million from the monies set aside in escrow to reflect the additional consideration payable to the CPM vendors.

A special bonus of £600 was paid to all employees in December 2021 in recognition of the tremendous effort and contribution made by all colleagues across the Group over the last 18 months. The total cost for these bonus payments is £2.2 million.

Profit margins

The operating profit margin was 12.9 per cent in the year ended 31 December 2021, which compares with 13.6 per cent for the same period in 2019. This result was adversely impacted by the temporary effect of supply chain issues and by additional manning and increased levels of overtime required as a consequence of labour shortages and absenteeism during the COVID-19 pandemic. Proactive management continues to mitigate the impact of material shortages.

Margin analysis	Revenue £'m	Operating profit £'m	Margin impact %
2020	469.5	27.2	5.8%
Landscape Products	111.2	45.4	6.7%
Other	8.6	3.6	0.4%
2021	**589.3**	**76.2**	**12.9%**
2019	541.8	73.7	13.6%

Profit before tax

Adjusted profit before tax was £72.1 million (2020: £22.5 million; 2019: £69.9 million).

Profit before taxation	Adjusted 2021 £'m	Reported 2021 £'m	2020 £'m	2019 £'m	Change 21/19 %
Operational profit before adjusting items	**76.2**	**76.2**	27.2	73.7	3%
Adjusting items	**–**	**–**	(17.8)	–	
Operating profit (reported)	**76.2**	**76.2**	9.4	73.7	3%
Net finance costs	**(4.1)**	**(6.9)**	(4.7)	(3.8)	
Profit before taxation	**72.1**	**69.3**	4.7	69.9	3%
Taxation	**(15.1)**	**(14.4)**	(2.1)	(11.9)	
Profit after taxation	**57.0**	**54.9**	2.6	58.0	–
Earnings per share – pence	**28.6**	**27.5**	1.2	29.4	–

The reported profit before tax of £69.3 million is after charging the pension adjustment which has arisen as a consequence of a legal opinion received from leading Counsel in relation to the payment of certain specific member benefits. This is a non-cash adjustment to financial expenses, required under IAS 19, and does not impact the Group's operational trading performance. After adjusting items, including the additional interest cost of £2.8 million, adjusted profit before tax for the year ended 31 December 2021 is £72.1 million (2019: £69.9 million), which represents an increase of 3 per cent against the 2019 comparative.

Earnings per share was 27.5 pence (2020: 1.2 pence), which increases to 28.6 pence after adding back the impact of the adjustment to recognise an additional "non-cash" pension liability, required under IAS 19.

Net financial expenses

Net financial expenses were £6.9 million (2020: £4.7 million; 2019: £3.8 million), including £1.9 million (2020: £1.6 million) of IFRS 16 lease interest. This is after taking a charge to recognise an additional pension liability of £2.8 million. Net financial expenses were £4.1 million for the year ended 31 December 2021, before charging this item. The additional pension liability is a non-cash adjustment but, under IAS 19, leads to the requirement to book an additional finance charge to the Income Statement.

On a rolling annual basis interest, before the adjusting items, was covered 18.6 times (2020: 5.8 times). Interest charges on bank loans totalled £1.8 million (2020: £3.0 million) and, including scheme administration costs, there was a normal IAS 19 notional interest charge of £0.4 million (2020: £0.2 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.

Taxation

The adjusted effective tax rate was 20.8 per cent (2020: 23.1 per cent). The 2021 Budget announced that the UK corporation tax rate would increase to 25 per cent from 2023, and this rate change was substantively enacted on 10 June 2021. Consequently, the deferred tax liability at 31 December 2021 has been calculated at the rate at which the deferred tax is expected to unwind in the future, using rates enacted at the balance sheet date. This rate change has given rise to an increase in the deferred tax charge of £4.9 million. The impact of this on the tax charge has been partially mitigated by the temporary increases in capital allowances in the year arising from the announcement of a 130 per cent first year allowance for plant and machinery and the reversal of certain tax provisions made in prior years which are no longer required.

The Group has paid £13.5 million (2020: £4.6 million) of corporation tax during the year. A deferred tax charge of £6.6 million in relation to the actuarial gain arising on the defined benefit pension scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

For the eighth 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 £124 million.

Dividends

The Group's stated objective is that "the Group has a progressive dividend policy with the objective of achieving up to 2 times dividend cover over the business cycle. As earnings increase we plan to share the increase between strengthening cover and progressively raising the rate of dividend." A progressive dividend policy remains a key objective.

The Board is recommending that a final dividend of 9.6 pence be paid for 2021. This will be payable on 1 July 2022. When combined with the interim dividend of 4.7 pence, this results in a full-year dividend of 14.3 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 £41.1 million at 31 December 2021 (2020: £75.6 million; 2019: £60.0 million). On a pre-IFRS 16 basis, the Group was cash positive at 31 December 2021 at £0.1 million (2020: £26.9 million net debt; 2019: £18.7 million net debt). The strong cash generation reflects the continuing focus given to capital discipline. Operating cash flow for the twelve months to 31 December 2021 represented 80 per cent of EBITDA. This is lower than usual due to the operating decision to increase investment in imported inventory as a result of significant increases in shipping costs to ensure ongoing availability and maintain the desired high levels of customer service.

Strong cash management continues to be a high-priority area. The continuing strategy is to ensure that facility and covenant headroom remains at comfortable levels and that we have a range of competitively-priced funding lines in place, with different banks, at all times and with different maturity dates. The Group has total bank facilities of £165 million, of which £140 million are committed.

Net debt continued

The committed bank facilities have a spread of medium-term maturities that now extends to 2025.

The ratio of net debt to EBITDA was 0.4 times at 31 December 2021 (2020: 1.3 times) on a reported basis, and zero (2020: 0.6 times) on a pre-IFRS 16 basis. Both are comfortably within our target ranges, and well below covenant levels.

Cash generation

Cash generation remains strong, and reported net cash flows from operating activities were £68.3 million. Operating cash flow (before interest and taxation) was 80 per cent of EBITDA on a rolling annual basis.

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 with one of our partner banks. 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 flow	2021 £'m	2020 £'m
Net cash from operating activities	**68.3**	19.3
Net cash from investing activities	**(7.1)**	(3.3)
Net cash from financing activities	**(32.2)**	(16.5)
Movement in net debt in the year	**29.0**	(0.5)
Adjusting items	**(2.8)**	(6.9)
Foreign exchange	**0.6**	(1.2)
IFRS 16 lease liabilities	**7.7**	(7.0)
Net debt at beginning of year	**(75.6)**	(60.0)
Net debt at end of year	**(41.1)**	(75.6)

Cash outflow on capital expenditure in the year was £21.9 million (2020: £14.7 million). This is lower than the £30 million of planned capital expenditure for 2021, due to delays to certain capital projects during the year caused by ongoing supply chain issues and material availability. We are now targeting £35 million of capital investment for 2022 due to significant cash outflows in respect of the dual block plant at our St Ives facility.

Analysis of cash utilisation	2021 £'m	2020 £'m	Last 5 years (pre-IFRS 16 basis) £'m
Net cash from operating activities	**68.3**	19.3	259.0
Capital expenditure	**(21.9)**	(14.7)	(109.4)
Proceeds from the sale of surplus property assets	**14.9**	11.4	32.3
Lease payments	**(10.8)**	(13.8)	–
Acquisition of subsidiary undertakings	**–**	–	(60.9)
Payments to acquire own shares/ share issues	**(3.6)**	(2.7)	(11.8)
Dividends	**(17.9)**	–	(104.4)
Movement in net debt in the year	**29.0**	(0.5)	4.8

The chart also provides a medium-term five-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 £259.0 million. The Group has invested £109.4 million back into the business to generate growth, improve productivity and provide industry leading manufacturing facilities. The Group has also invested £60.9 million in the targeted acquisitions of CPM and Edenhall. Dividends to shareholders over the last five years have totalled £104.4 million, which equates to 40 per cent of net cash generated from operating activities.

Return on capital employed ("ROCE")

ROCE was 20.6 per cent (2020: 8.2 per cent; 2019: 21.4 per cent), on a reported basis, at 31 December 2021. The consistently high ROCE reflects the Group's tight control and management of inventory and monetary working capital.

Balance sheet

Net assets at 31 December 2021 were £344.3 million (2020: £287.8 million). The Group has a strong balance sheet with a good range of medium-term bank facilities available to fund investment initiatives to generate growth.

Group balance sheet	2021 £'m	2020 £'m
Non-current assets	**332.7**	324.4
Current assets	**263.2**	290.0
Current liabilities	**(150.6)**	(157.2)
Non-current liabilities	**(101.0)**	(169.4)
Net assets	**344.3**	287.8
Net cash/(debt) (pre-IFRS 16)	**0.1**	(26.9)
Net debt (reported)	**(41.1)**	(75.6)
Net debt: EBITDA (pre-IFRS 16)	**–**	0.6
Net debt: EBITDA (reported)	**0.4**	1.3
Gearing (pre-IFRS 16)	**–**	9.3%
Gearing (reported)	**11.9%**	26.3%

Pension

The balance sheet value of the Group's defined benefit pension scheme was a surplus of £25.8 million (2020: £2.7 million; 2019: £15.7 million). The amount has been determined by the scheme actuary. The fair value of the scheme assets at 31 December 2021 was £392.1 million (2020: £402.7 million; 2019: £368.9 million) and the present value of the scheme liabilities is £366.3 million (2020: £400.0 million; 2019: £353.1 million). The surplus was determined by the scheme actuary using appropriate assumptions which are in line with current market expectations. The surplus is after allowing for the additional pension liability of £2.8 million referred to previously. During the last year the AA corporate bond rate has increased from 1.40 per cent to 1.90 per cent and this is the primary driver of the increased surplus. The expected rate of CPI inflation has increased from 2.20 per cent to 2.70 per cent. The scheme's LDI asset portfolio continues to hedge protection against volatility in interest rates and inflation.

These changes have resulted in an actuarial gain, net of deferred taxation, of £19.8 million (2020: £10.6 million actuarial loss) 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 2018 and resulted in a surplus of approximately £20 million which was a funding level of 106 per cent. The actuarial valuation as at 5 April 2021 is currently in progress, and the expectation is that this will continue to be in surplus and that the scheme continues to require no Company contributions.

Capital allocation

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

- to prioritise organic capital investment (£35 million investment planned for 2022), supported by an increase in new product development and research and development expenditure;
- to continue to target selective strategic acquisition opportunities in New Build Housing, Water Management and Minerals. Bolt-on acquisitions of up to £50 million are considered to be the current strategy, but larger acquisitions would be considered if there was a suitable strategic driver;
- to continue the payment of dividends on the basis of a dividend cover of two times earnings in 2022 and beyond. This will see dividends grow, in absolute terms, over the medium term;
- to maintain a capital structure that recognises cyclical risk and volatility by continuing to maintain an appropriate level of bank headroom; and
- to maintain a target net debt:EBITDA ratio of up to 1.5 times EBITDA on a pre-IFRS 16 basis. This will be subject to ongoing review.

Clear and consistent capital allocation policy

1. Organic growth
2. R&D new product development
3. Ordinary dividends
4. Selective acquisitions
5. Supplementary dividends

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 £35 million is planned for 2022. This includes the flagship dual block plant project at our St Ives site, which will be the first facility of its kind in the UK, and the planned investment over the next three years will be around £24 million. This project will significantly increase capacity, improve efficiency, enable multiple secondary finishing and facilitate the launch of added-value new products.

We are committed to providing sustainable, high-performance product solutions. These include investment in technologies to enhance the development of cement-free product solutions. We are already using up to 60 per cent cement replacement in our paving. Our ESG strategy supports capital projects which improve operational efficiency and better utilisation of resources and raw materials. We are committed to reducing the environmental impact of our products, reducing packaging and the recycling of water at our sites. Our plastic consumption has reduced by over 30 per cent since 2013 and 100 per cent of concrete and natural stone products are now fully recyclable. In the last five years our permeable paving has prevented 322,000 cubic metres of flood water, which is equivalent to 192 Olympic sized swimming pools.

Investment in research and development covers a number of areas including the development of the Group's project engineering and manufacturing capabilities, concrete and other materials technology innovations and extending the new product pipeline. New products are driven by sustainability, performance, aesthetics, operational efficiency and improvements in installation. In the last three years the Group has developed 142 new product ranges. Further investment continues to be made to develop our wide-ranging digital strategy, encompassing digital trading, digital marketing and digital business.

Borrowing facilities

The total bank borrowing facilities at 31 December 2021 amounted to £155 million, of which £114 million remained unutilised. The bank facilities are unsecured save for inter-company guarantees between the Group and its subsidiary undertakings in favour of the facility banks. The continuing strategy is to ensure that headroom remains at comfortable levels, and that we have a range of competitively-priced funding lines in place (with different banks) at all times and with different maturity dates. The Group's committed bank facilities have a spread of medium-term maturities that now extend to 2025.

At 31 December 2021, on a covenant test basis (pre-IFRS 16), the relevant ratios were achieved comfortably and were as follows:

- EBITA: interest charge – 54.0 times (covenant test requirement – to be greater than 2.5 times); and
- net debt: EBITDA – 0 times (covenant test requirement – to be less than 3.0 times).

Banking facilities	Facility £'m	Cumulative facility £'m
Committed facilities		
Q3 2025	20	20
Q3 2024	35	55
Q1 2024	25	80
Q3 2023	20	100
Q2 2023	20	120
Q4 2022	20	140
On-demand facilities		
Available all year	15	155
Seasonal (February to August inclusive)	10	165

Conclusion

Trading continues to improve, and order books remain strong. The Group has a strong balance sheet and a conservative capital structure, supported by significant facility headroom. We will continue to monitor any risk to demand due to the continuing impact of cost inflation and further developments in relation to raw material and labour shortages. We are well placed to introduce any necessary measures to mitigate any adverse impact.

Justin Lockwood
Chief Financial Officer

What ESG Means to Marshalls

Creating **better net positive futures**

Dear stakeholder

When we say sustainability is at the heart of what we do, we mean it. We have been on our sustainability journey for over 20 years, and we are committed to the principles of running a responsible business. That's why we joined the Ethical Trading Initiative in 2006 and became a signatory of the UN Global Compact in 2009. We knew that the rights of all workers should be respected and that having a values-based approach was key to our future. When carbon wasn't part of the conversation more than 15 years ago, we started reporting our carbon emissions and labelling our products with carbon footprint information. Four years ago, we listened to the leading climate scientists and started working on setting science-based carbon reduction targets, which were approved by the Science Based Targets initiative. Sustainability is simply part of The Marshalls Way of doing the right things, for the right reasons, in the right way.

Here we are in 2022, after a challenging couple of years and with much global focus on how we shape our world and the places around us. 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.

Our science-based targets

"We commit to reduce Scope 1 and 2 greenhouse gas emissions 40 per cent per tonne of production by 2030 from a 2018 base year. We also commit that 73 per cent of suppliers by emissions, covering purchased goods and services and upstream transport and distribution, will have science-based targets by 2024."

Environment

Last year's COP26 served as a timely reminder that we need to take climate change seriously and that we need to act now. Business has its part to play and I'm proud to say that Marshalls is well placed to take on the challenge. Last year, we committed to being a net zero business by 2030 as part of our plan and we are well on our way to achieving this. We're already making changes, with focus on reducing plastic packaging, using lower emission fuels in our manufacturing sites and installing more solar panels.

Social

The global pandemic reminded us of the value of our public services – and why it's so important to pay our fair share of tax. It also shone a light on the need to work together in respecting all people and we continue to take the lead in supporting and upholding human rights at home and overseas in our supply chains. In 2021, we were proud to play an active part in the International Year for the Elimination of Child Labour. Our CEO, Martyn Coffey, spoke out against child labour at two global United Nations leadership events. He also engaged with a former child labourer, and now youth advocate, in an open discussion about the role of business in tackling child labour. This is true leadership which demonstrates the firm stance we take on human rights.

Governance

As focus on ESG rightly continues to gain momentum, we ensure we have structures in place so that our environmental, social and governance processes are at the core of our decision making and reporting. In 2021, an ESG internal audit was undertaken by a third party to look at our processes and controls. It also looked at our preparedness for the future and our alignment to reporting frameworks. The feedback was positive and we are in a strong position to embrace the changes in this space.

Vanda Murray OBE
Chair

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 on our activities in the key areas of human rights, labour, the environment and anti-corruption.

The Marshalls Way of doing the right things, for the right reasons, in the right way underpins our sustainability model along with the UN Sustainable Development Goals.

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.

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).

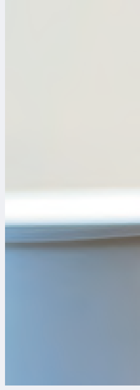
Reporting requirements	Relevant policies	Section within Annual Report
Environmental matters	Environmental Policy Statement* Energy and Climate Change Policy* Timber and Paper Policy Transport Policy	Sustainability strategy (pages 56 and 57) Sustainability commitments relating to the environment (page 54)
Social	Code of Conduct* Social Community Investment Policy Corporate Responsibility Policy* Tax Policy* Human Rights Policy* Modern Slavery and Anti-Human Trafficking Policy Children's Rights Policy	Responsible business (page 50) Charitable donations (page 64) Health and safety (pages 68 and 69) Stakeholder engagement (pages 22 to 29)
Governance	Anti-Bribery Code* Tax Policy* Trading Policy* Schedule of matters reserved for the Board* Board Committee Terms of Reference*	Governance and compliance (pages 72 to 83) Corporate Governance Statement (pages 72 to 83) Corporate Governance Statement (pages 72 to 83) Corporate Governance Statement (pages 72 to 83)
Employees	Health and Safety Policy Serious Concerns Policy Diversity and Inclusion Policy Drug and Alcohol Policy Mental Health and Wellbeing Policy	Headcount (pages 68 and 69) People engagement (pages 64 to 67) Board diversity (pages 70 and 71) Gender diversity (pages 110 and 111) Stakeholder engagement (pages 22 to 29)
Principal risks		Description of risk process (page 35) Risk framework (page 35) Principal risks and uncertainties (pages 37 to 43)
Business model		Our business model (pages 18 and 19)
Non-financial KPIs		Key performance indicators (pages 32 and 33) Strategy (pages 30 and 31)

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***

* Key policies referred to in this Annual Report.

Our **sustainability journey**

How our journey began...



2000
Began trading in imported stone

2004
Carbon reporting started

2005
Marshalls joined the FTSE4Good index of sustainable shares

2006
Joined the Ethical Trading Initiative

2008
Product carbon footprint started

2009
Marshalls became UN Global Compact signatory

2010
First disclosure to Carbon Disclosure Project ("CDP")

2011
First time achievement of BES 6001 for sustainable procurement

2014
First time Living Wage employer

2015

First Fair Tax Mark accreditation

2016

Joined UNGC UK Modern Slavery Working Group

2017

First to achieve Ethical Labour Standard BES 6002

2019

Superbrand status for ten years running

2020

Carbon Reduction Plan approved by Science Based Targets initiative

2021

Signatory to Women's Empowerment Principles ("WEPs")

To find out more, please visit
www.marshalls.co.uk/sustainability

2022...

Moving into the future, Marshalls aims to create better net positive futures.

Sustainability – materiality matrix

Materiality matrix

We base our materiality matrix on stakeholder engagement, the SASB Standards for Construction and the UN Sustainable Development Goals. The ESG materiality matrix complements our risk heatmap (on page 35) and whereas the heatmap looks at impact and likelihood, the materiality matrix focuses more specifically on sustainability and ESG stakeholder interest and impact on the business.

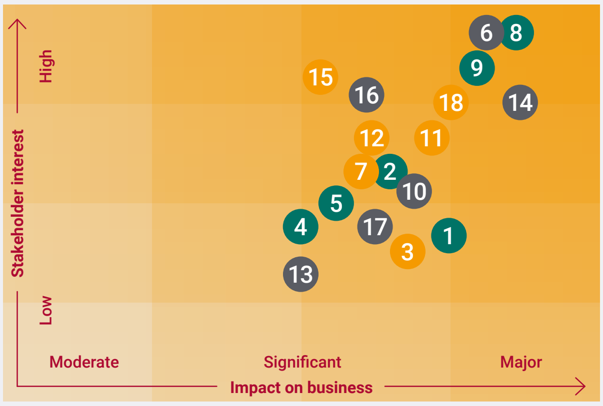
Review process

Building on the process we put in place in 2020, we started with a review of materiality topics through desk research, analysis of industry issues, and feedback from stakeholders including customers and colleagues. A quantitative process was then taken to our ESG Committee, a group of 19 senior colleagues from different areas of the business, in order to review the positions of each materiality topic. This was followed by consultation with our Employee Voice Group.

Outcome of review

Further to the review, our key material issues still broadly fall into the categories of environment, people and responsible business. However, there have been additions and changes. We have added talent and development, as well as natural capital in order to differentiate from biodiversity. Circular economy now encompasses waste management, and responsible sourcing has become sustainable procurement. With the impact of climate change becoming more prevalent, human rights due diligence has evolved into human rights and environmental due diligence.

In 2022, we will revisit and update the ESG materiality assessment procedures by defining each material issue in the context of Marshalls and developing a process where each material issue is assessed on a risk basis and appropriately linked and recorded within the risk registers (where appropriate).



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 review process

Stage 1	Stage 2	Stage 3
Desk research	Quantitative and qualitative review process with ESG Committee	Final review
SASB Standards for Construction	Review process with customer-facing colleagues	Presentation to Executive team and Board
Analysis of industry issues	Consultation with Employee Voice Group ("EVG")	Publication in Annual Report
Feedback from customers		

ESG audit

In 2021, the Audit Committee commissioned KPMG to undertake an audit in order to assess the controls in place in relation to ESG at Marshalls. This also included consideration of our preparedness for the future, particularly in relation to aligning reporting frameworks and meeting the challenges associated with future changes. Following this audit, areas of focus for 2022 include formalising processes, completing skill assessments and aligning ESG metrics and reporting.

"Overall, the control environment in relation to ESG processes was found to be working well. With a dedicated sponsor appointed and a steering group in place, the governance, oversight and reporting of ESG matters and activities have significantly improved."

Sustainable Development Goals ("SDGs")

Materiality

Last year, we outlined our engagement with each of the four UN SDGs that we have identified as material to our business and our strategic objectives – SDG 8 for Decent Work and Economic Growth, SDG 11 for Sustainable Cities and Communities, SDG 12 for Responsible Consumption and Production and SDG 13 for Climate Action. While we understand the SDGs are very much aimed at countries and nations globally, we also know that business has a role to play in contributing to the future of the planet and its people.

Contribution to the SDGs

In 2021, we undertook a review to further delve into the goals at target level as each of the 17 goals have associated targets and indicators. This process enabled us to see where we contribute, focusing on tangible actions. In our commitment to being transparent, we wanted to be clear and specific about the elements of each SDG we do and don't contribute to.

Reporting

Our review also encouraged us to put a process in place for SDG reporting. By the end of 2021, we have further understood the SDGs and their targets, prioritised the SDGs that are material to our business, and analysed our contribution at target level.

We look forward to taking our process further in 2022, where we will be setting objectives and defining metrics, selecting disclosures and starting the process of collecting and analysing relevant data. We will also be joining the UNGC Network UK Global Goals Working Group.

Case study

Goal 8.4: Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation

Though this is a global goal, our contribution is based on our ongoing move towards circularity. We have waste management strategies and metrics to measure our waste to landfill. In 2021, we further reduced our reliance on plastic by removing plastic packaging from some of our kerb and edging products. We continue to monitor our water use by measuring water harvesting and recycling at our manufacturing sites, and we have processes in place for quarry restoration.

Link to strategic objective: **Sustainable materials supply**

SDG	Targets	How we contribute positively	Related strategic priorities
8 Decent work and economic growth	8.2, 8.4, 8.5, 8.6, 8.7, 8.8	• Business and human rights roadmap • Code of Conduct and ETI Base Code • Living Wage and Fair Tax employer • UN Target for Gender Equality and signatory to Women's Empowerment Principles ("WEPs") • Apprenticeship programme • Safecall independent whistleblowing service	• Digital transformation • Logistics excellence • Customer centricity • Operational excellence • Growth in the emerging businesses
11 Sustainable cities and communities	11.2, 11.3, 11.4, 11.5, 11.6, 11.7, 11.7a 11.7b	• Net zero commitment and climate change mitigation and adaptation strategy • Tactile paving, natural stone and permeable paving products • Product information including carbon footprints and Environmental Product Declarations ("EPDs") • Focus on placemaking and social value • Landscape protection products and anti-terrorism kerbs	• Brand preference for product specification • New product development and innovation • Sustainable supply
12 Responsible consumption and production	12.1, 12.2, 12.5, 12.6, 12.7, 12.8	• Renewable energy at sites • Water monitoring programme, including water harvesting and recycling at sites • Focus on biodiversity and natural capital • Waste management and move towards circularity • Active participant of UN Global Compact • Ethical Risk Index for natural stone products	• Digital transformation • Logistics excellence • Sustainable supply • Operational excellence
13 Climate action	13.1, 13.3	• Net zero commitment and climate change mitigation and adaptation strategy • Science-based targets for carbon reduction • Product carbon footprints for over 5,000 products • Permeable paving products	• Brand preference for product specification • Sustainable supply • New product development and innovation • Operational excellence

What ESG Means to Marshalls continued

Sustainability progress

The Group's sustainability pillars are aligned with the UN Global Compact principles. They sit alongside the Group's strategic objectives set out on pages 30 and 31, and ensure that the Group's priorities and actions take full account of the longer-term sustainability priorities.

	Theme	Achievements in 2021	Stakeholder engagement
Environment	Climate change and carbon reduction	• Mitigation and adaptation strategy • Reporting progress on TCFD reporting recommendations • Recognised as European Climate Leader by Financial Times and Statista • CDP B score • Re-accreditation to Carbon Trust Standard	• Working with the Carbon Trust to update product carbon footprints • Climate change awareness education and training with colleagues and customers • Engagement with UNGC Network UK TCFD Working Group
Environment	Pollution and resources	• Solar panels at second manufacturing site • Removal of non-essential packaging on standard kerb and edging ranges • Launch of virtual sample service	• Active membership of Mineral Products Association ("MPA") and MPA Precast • Collaboration with Cambridgeshire County Council on renewable energy project
Environment	Biodiversity	• Working towards providing biodiversity net gain • Quarry restoration • Move to FSC®-certified wood in the products we design and manufacture	• Working with the Royal Society for the Protection of Birds ("RSPB") on twite project • Community engagement for geodiversity projects
Environment	Water use	• Focus on water monitoring (including harvesting and recycling) • Permeable paving and Sustainable Drainage Systems ("SuDS") product solutions to alleviate flooding	• Collaborative working as members of Construction Industry Research & Information Association ("CIRIA") and susdrain
Social	Supply chain and responsible sourcing	• Re-accreditation of BRE BES 6001 and BRE ELS 6002 • Sustainable procurement human rights due diligence system and processes • Gold membership of Supply Chain Sustainability School	• Active membership of Supply Chain Sustainability School • Collaboration with UK and overseas suppliers • Engagement forum with solar panel suppliers
Social	Human rights and modern slavery	• Active engagement with the International Year for the Elimination of Child Labour • Independent Modern Slavery Threat Assessment programme • Enhanced supply chain mapping using Traffik Analysis Hub big data	• Active engagement with the UN and ILO Child Labour Platform • Engagement with UK Government on aligning overseas aid with private sector modern slavery efforts • Engagement with UNGC Network UK Modern Slavery and Child Labour Working Groups
Social	Anti-corruption and anti-bribery	• Code of Conduct cumulative training for 80 per cent of staff • Core programme of compliance training on modern slavery, anti-bribery and GDPR • Corporate Criminal Offence ("CCO") training programme	• Collaboration with internal teams to review policies
Social	Responsible business	• Sustainability materiality review • Review of internal ESG processes • £103,500 donated to Macmillan and Mind • Fair Tax Mark • Disclosure to Workforce Disclosure Initiative • Drug and Alcohol Policy training programme	• Charity partnership with Macmillan • Member of Made in Britain • Engagement with UNGC Network UK Global Goals Working Group
Social	People	• Women's Empowerment Principles ("WEPs") signatory • 102 apprenticeships • Over 8,200 training courses completed • Over 72 per cent of colleagues using Marshalls NOW employee benefits • Living Wage employer	• Engagement with UNGC UK Network on Diversity and Inclusion • Actively asking for feedback via Your Voice employee survey • Accredited new driver apprenticeship programme • Employee Voice Group • Drivers' Working Party
Social	Health and safety	• Over 18,000 hours spent on health, safety and environmental training • 53 new Mental Health First Aiders • 7.8 score for health and wellbeing in employee survey • Highly Commended for the Safer Through Improvements in Health and Wellbeing Award at the MPA and British Precast Health and Safety Awards	• Working with Mental Health First Aiders to support our people • Cross-team development of mental health support process • Implementation of SLAM ("Stop, Look, Assess, Manage") with colleagues

→ **On track** = meeting regulation and mandatory requirements

↑ **Exceeding** = engaging in activity that goes beyond regulation and mandatory requirements

Targets	Progress	Legislation, certification and membership
• Executive remuneration for carbon reduction targets • Reduce absolute emissions by 15 per cent by 2025 (from a 2018 base year) • Commitment to net zero by 2030 • Certification to the Carbon Trust's Route to Net Zero Standard • Updated product carbon footprints	→	• Science Based Targets initiative • Carbon Trust Standard • Carbon Trust Route to Net Zero Standard • ISO 50001:2018
• 2.7 per cent reduction year on year of kWh/tonne of product • Solar panels at every major manufacturing site • Euro 6 standard for entire fleet • Implementation of ISO 9001 Circular Economy • Re-accreditation to ISO 50001	→	• FORS (Fleet Operators Recognition Scheme) membership • ISO 14001:2015 • ISO 50001:2018 • ISO 8001
• Biodiversity roadmap • Tree planting project	→	• FSC certification for Landscape Protection products • Mineral planning legislation
• Water product footprints • Rollout of automatic meter reading for water usage • Re-accreditation to ISO 14001	→	• Environment Agency • ISO 14001:2015
• ETI Base Code video for overseas suppliers in four languages • Implementation of ISO 20400 Sustainable Procurement • Re-accreditation of BRE ELS 6002 for ethical labour sourcing	→	• BRE BES 6001 • BRE ELS 6002 • ISO 20400
• Continue to deliver pledge in support of the International Year for the Elimination of Child Labour • Launch Everyone's Business app • Launch Safecall whistleblowing hotline to overseas supplier operations	↑	• Modern Slavery Act 2015 • Modern Slavery Statement
• Code of Conduct training for 100 per cent of staff • Set up of Compliance Steering Group • Compliance training refresher • Development of CCO training programme	↑	• UK Bribery Act 2010
• Fair Tax Mark re-accreditation • Social value measurement and reporting • Reporting alignment to Global Reporting Initiative ("GRI") • Reporting to Ethical Trading Initiative ("ETI") and UNGC Communication on Progress revised frameworks • Re-accreditation to ISO 9001	↑	• Corporate Governance Code • Fair Tax Mark • UN Sustainable Development Goals • UNGC Communication on Progress • Sustainability reporting frameworks • ISO 9001:2015
• Living Wage re-accreditation • Strengthen and evolve the Driver Academy • Increase number of apprentices • Rollout of inclusive leadership and diversity awareness programme for Marshalls leaders	→	• Employment and equality legislation • Living Wage • Gender pay gap reporting
• Set up of Steering Committee for Mental Health and Wellbeing • Rollout of Fair & Just Approach framework • Recruit and train more Mental Health First Aiders • Re-accreditation to ISO 45001	→	• Health and safety legislation • ISO 45001:2018 • RIDDOR • SafeContractor • Achilles BuildingConfidence

Task Force on Climate-related Financial Disclosures (TCFD)

Marshalls has publicly committed to being a supporter of the TCFD and last year we reported our progress on compliance for the first time. According to TCFD recommendations, we are reporting on climate-related governance, strategy, risks and opportunities, and metrics and targets.

We believe our disclosure is consistent with the TCFD's recommendations. Information on our disclosures can be found in this Annual Report and in our recently published Climate Action Report. In both reports, we provide more detail on our strategy and processes, and the risks and opportunities related to climate change for our business. Next year's disclosure will include more detail on scenario analysis, financial impact of climate change and reporting of Scope 3 emissions. In compliance with FCA LR 9.8.6 (8), our disclosure is consistent with the four recommendations and eleven recommended disclosures.

We continue to disclose to the CDP Climate Questionnaire, which is aligned with TCFD, and we scored a B for our 2021 disclosure for 2020 data.

Recommendation	Recommended disclosures	Additional information
Governance *Disclose the organisation's governance around climate-related risks and opportunities*	The Board has ultimate responsibility for climate-related risks and opportunities. The CEO has overall responsibility for climate-related issues and has responsibility to the Board for reporting on climate-related issues. The Sustainability and Energy teams, led by the Group Sustainability Director and the Group Operations Director, work collaboratively with other teams and sites to identify risks and opportunities, monitor performance, report on progress and share best practice. **2021 progress: Appointment of Sustainability Improvement Director to drive implementation of our sustainability strategy, and plans for executive remuneration for carbon reduction.**	Climate Action Report (pages 4–5)
Strategy *Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material*	Our mitigation and adaptation strategy focuses on the actions we need to take to both reduce our emissions and adapt to climate change. We continue to focus on reducing our carbon emissions and driving manufacturing efficiencies, whilst ensuring our product offering evolves. This strategy is aligned to our purpose of creating better net positive futures for everyone. We recognise that customers are interested in low-carbon products and more sustainable solutions, and there are opportunities for our industry to work together to achieve carbon reduction targets. **2021 progress: Mitigation and adaptation strategy and appointment of Head of Product Sustainability to identify opportunities in product portfolio.**	Climate Action Report (pages 6–9, 10)
Risk *Disclose how the organisation identifies, assesses and manages climate-related risks*	Climate change is a principal risk and we have a formal ongoing process to identify, assess and analyse risks. These form part of the Group Risk Register, which is compiled by the Executive team. Using Verisk Maplecroft data, we have identified acute and chronic physical risks which could affect our sites. We have also looked at risk in terms of our products and availability of materials, along with risks relating to reputation and the market. There are, however, also opportunities around our sustainability credentials, the development of our water and flood management business and our drive to give our customers the information they need to make informed buying decisions. **2021 progress: Climate risk analysis of all sites and creation of first Climate Action Report.**	Climate Action Report (pages 5–9)
Metrics and targets *Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material*	Metrics used to assess climate-related risks and opportunities include climate data, climate risk and environmental profiling data, energy use and carbon emissions. These are in line with our strategy and risk management process. We continue to report our greenhouse gas ("GHG") emissions – see page 60 for Scope 1 and Scope 2 GHG emissions and science-based targets. See pages 56–57 and 60–61 for targets used by Marshalls to manage climate-related risks and opportunities and performance against targets. **2021 progress: SECR reporting and ESG data sheet in Sustainability Report covering carbon emissions data.**	Climate Action Report (pages 5 and 11)

Net zero by 2030

When we started our sustainability journey over 20 years ago, we understood that sustainability would play a big part in how companies do business. We watched and learned – and we believed the climate science. So in 2018, we gathered our data in order to set science-based targets for carbon reduction.

These targets were approved by the Science Based Targets initiative in 2020 and we are still the only construction materials listed company in the UK to have approved targets.

In 2021, we were proud to announce that Marshalls has committed to being net zero by 2030. Our original science-based target was based on a well-below 2°C scenario. As part of our commitment to net zero, we have updated this to a 1.5°C pathway and alignment with the Paris Agreement. This target is due to be approved by the Science Based Targets initiative in 2022.

Mitigation and adaptation

As we aim for net zero by 2030, our journey focuses on the twin goals of mitigation – actions needed to reduce emissions that cause climate change – and adaptation – actions we need to take to manage the risks of climate change impacts.

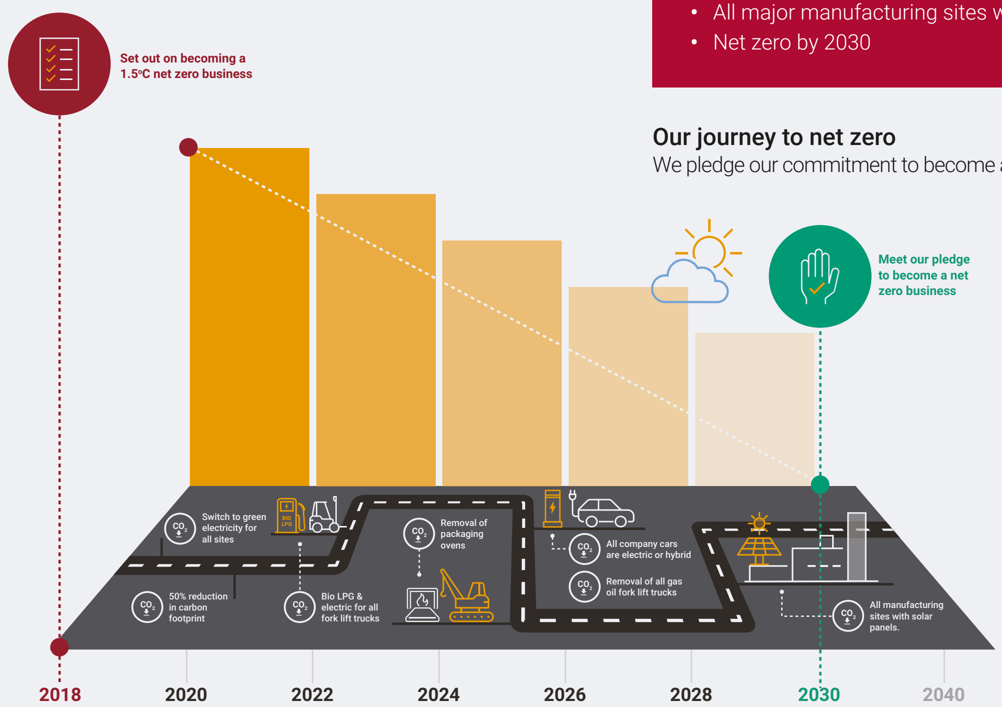
In order to mitigate against the effects of climate change, we are focusing on manufacturing efficiencies, our product mix design and achieving our science-based targets. Adaptation will look much more at the products and infrastructure required to alleviate flooding and heat in urban environments.

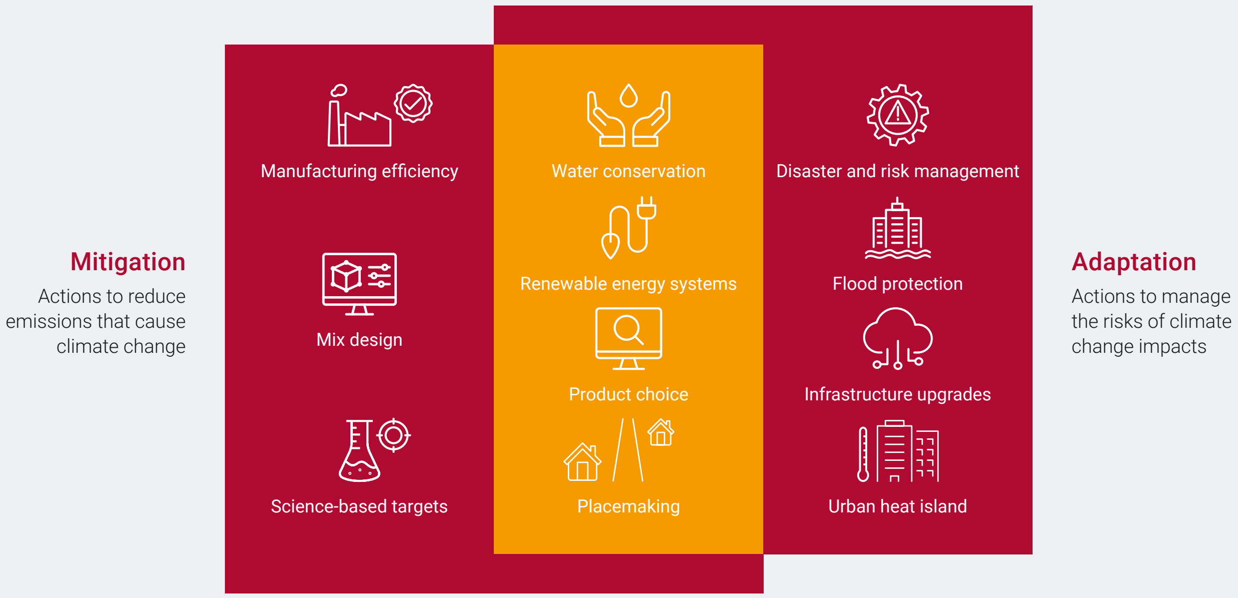
Our journey to net zero by 2030

- Green energy for all forklift trucks
- Removal of packaging ovens
- All company cars powered by electric or green energy
- All major manufacturing sites with solar power
- Net zero by 2030

Our journey to net zero

We pledge our commitment to become a net zero business by 2030.





What ESG Means to Marshalls continued

Carbon reduction

Our Energy and Climate Change Policy Statement confirms our commitment to reducing the energy and carbon impact of the business.

As we reported last year, we reduced our total carbon footprint by 50 per cent between 2008 and 2020. We re-baselined our targets in 2018 and our interim science-based targets are to reduce absolute emissions by 15 per cent by 2025 and 27 per cent by 2030. For relative (intensity) emissions, the targets are 23 per cent by 2025 and 40 per cent by 2030. Next year, we will report on our new targets aligned with our net zero commitment.

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 the Task Force on Climate-related Financial Disclosures ("TCFD"), which can be found on pages 58–60 and in our Climate Action Report.

In 2021, we achieved re-certification of the Carbon Trust Standard for all UK and Belgium operations. In 2022, we will work on certification to the Carbon Trust's Route to Net Zero Standard.

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, and we were re-accredited in 2021.

Measuring carbon emissions

We measure carbon emissions by looking at Scopes 1, 2 and 3.

Scope 1 refers to all direct emissions of carbon. For Marshalls, this means our fuel usage and includes diesel, petrol, gas oil, liquefied petroleum gas ("LPG"), bio LPG, kerosene and natural gas.

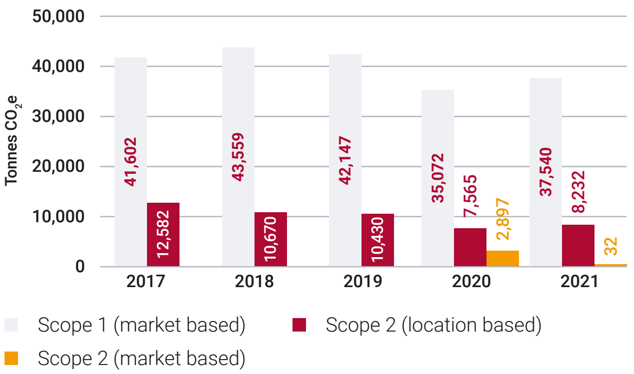
Scope 2 covers our indirect emissions of carbon, so this would be electricity that we have purchased. In 2021, we reported our Scope 2 emissions in two different ways – location based (using Government emission factors) and market based (using supplier emission factors) – and we continue to do so.

Scope 3 refers to supplier emissions including cement, aggregates, shipping and transport.

Our carbon and energy data has been externally verified.

Absolute Scope 1 and 2 emissions

This chart illustrates the Group's absolute CO_2e emissions in tonnes (including Belgium).

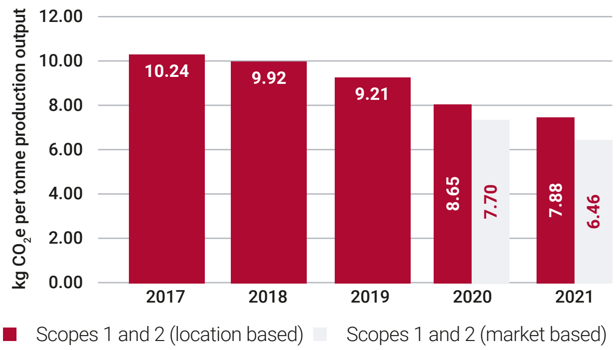


As production has increased in 2021 so have our Scope 1 and 2 absolute emissions; however, they remain within our science-based target.

Marshalls has used bio LPG rather than condition LPG for heating and to power some of the forklift truck fleet since September 2021. While we can declare these using the lower emission factor published via DEFRA, we must also declare the possible outside of scope emissions (215 tonnes CO_2e) from using this fuel source.

Relative Scope 1 and 2 emissions

This chart illustrates the Group's CO_2e intensity emissions as a proportion of production output (including Belgium).



Though our absolute emissions have increased in 2021, our intensity emissions have reduced.

Scope 3 target

Our Scope 3 science-based target is that 73 per cent of suppliers by emissions, covering purchased goods and services and upstream transport and distribution, have science-based targets by 2024.

Case study

The carbon footprints we provide for all of our concrete and natural stone products are calculated for us by the Carbon Trust according to methodology outlined in PAS 2050. We were the first company in our sector to provide such data back in 2008 and we revised the numbers in 2011 and 2016. We are in the process of updating the footprints to include all of our new products. We have always published full cradle to grave analysis which reflects all emissions across the full lifecycle of the product. This includes material extraction, production, packaging, transportation to site, emissions in installation and use, and even end of life treatment. We believe that this is the most honest and transparent approach, giving our customers a true and easily comparable reflection of the carbon impact of the products they buy from us.

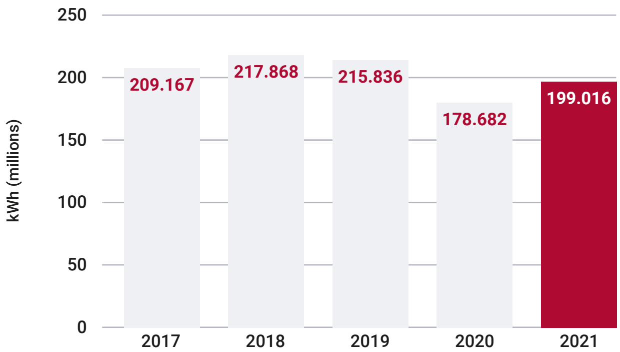
Link to strategic objective: **Brand preference for product specification**

Streamlined Energy and Carbon Reporting ("SECR")

In accordance with the SECR framework, we are reporting underlying energy use, which includes self-generated energy from renewables.

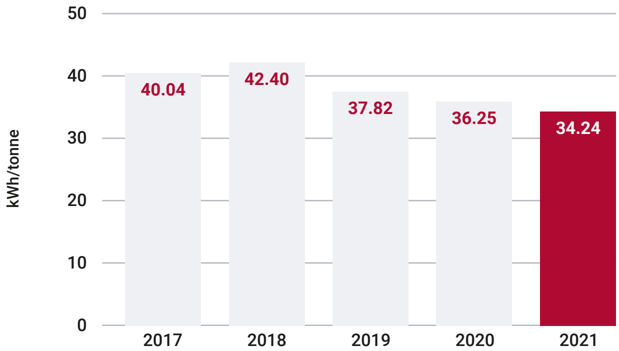
Energy performance in the UK

The chart below shows underlying UK energy use. Belgium's energy use for 2021 was 1.936 mkWh (2020: 1.717 mkWh).



Relative energy performance in the UK

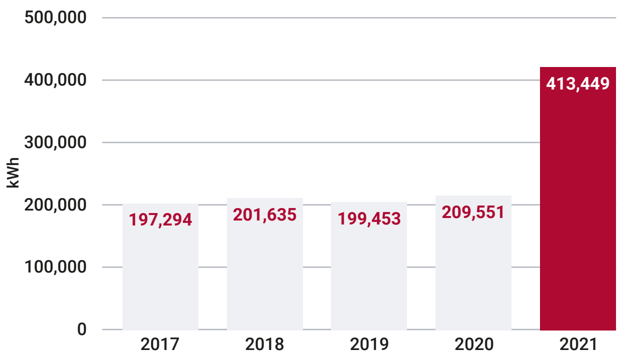
This chart shows Marshalls' energy use in the UK in relation to product. Whilst our energy use has increased in 2021, our relative performance remains strong.



Note: The intensity ratio for 2021 is 34.24 kWh per tonne of product and this 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 Sandy and Sittingbourne manufacturing sites.



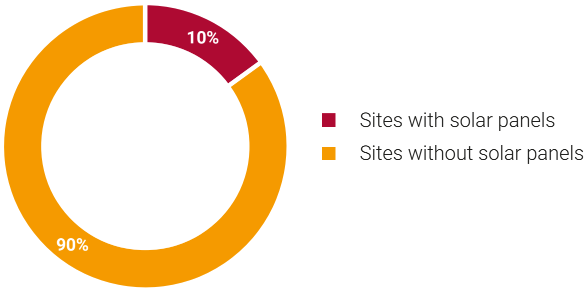
Energy reduction

Energy reduction is a big part of our plans to get to net zero. As well as engineering high-emission fuels like gas oil out of the business, we are focusing on operational controls and building management systems to reduce energy.

Since 2018, we have installed eleven building management systems saving over 4 GWh and over 1,000 tonnes of CO_2. We have also ensured that our 18 packaging ovens, which are fuelled by a mixture of LPG and natural gas, switch off automatically when not in use.

We continue to work on reducing plastic packaging and in 2021, we announced plastic reduction for our kerb and edging products, which reduces gas consumption. We also installed solar panels at a second site, increasing solar energy to 10 per cent of all major manufacturing sites. We continue to upgrade our fleet to comply with Euro 6 standards and in 2022, we are updating our product carbon footprints.

Solar energy at major manufacturing sites in 2021



Case study

For some years, we have investigated different types of energy for our business operations, including wind and solar. Our solar energy project is now well underway and in 2021, we installed solar panels at our Sittingbourne site in Kent. All our major manufacturing sites have had solar energy assessments in order to evaluate potential for solar panel installation and we have a target of one major solar panel project every year. Our new dual block plant project in St Ives has been designed to be compatible with solar energy supply with the aim of using solar power for all forklift trucks and electric car charging points.

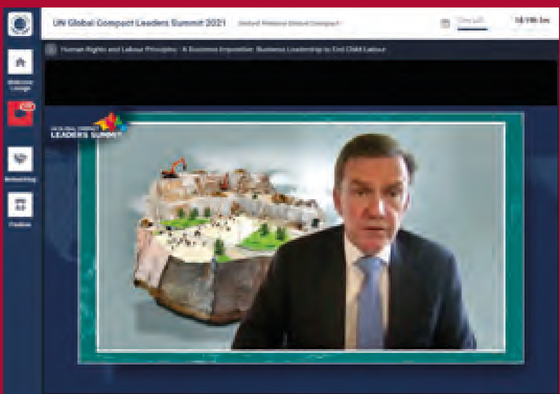
Link to strategic objective: **Operational excellence**

What ESG Means to Marshalls continued

Business and human rights

We have been an active member of the International Labour Organisation ("ILO") Child Labour Platform since 2015. 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.

UN Global Compact Leaders Summit



Our CEO, Martyn Coffey, stood together with leaders from Coca Cola, Ferrero and Louis Dreyfus to speak out in support of children's rights. The session marked the tenth anniversary of the UN Guiding Principles on Business and Human Rights and spoke to the imperative of businesses to respect human rights and the requirement for human rights due diligence.

Children's Rights and Business Principles Report

As part of our work on promoting children's rights, we commissioned an independent agency to undertake an audit of the impact of our business operations on children in India, China, Vietnam and the UK, against the Children's Rights and Business Principles Framework. This is the third such report that we have undertaken and we will share our findings in 2022.

The World Day Against Child Labour

As members of the ILO Child Labour Platform and an Alliance 8.7 partner – the global partnership for eradicating forced labour, modern slavery, human trafficking and child labour around the world – we made a public International Year for the Elimination of Child Labour Action Pledge in 2021.

As part of the World Day Against Child Labour, a series of connections were made between high-level speakers and youth advocates on highlighting efforts made to implement International Year pledges. Our CEO, Martyn Coffey, addressed a question from Amar Lal, a youth advocate and former child labourer in the sandstone sector in Rajasthan, and now a child rights lawyer. The focus of the conversation was on sharing perspectives and finding solutions to accelerate the elimination of child labour in the sandstone sector in Rajasthan.

BRE Ethical Labour Sourcing 6002

Marshalls has achieved BRE Ethical Labour Sourcing Standard 6002 for the fifth consecutive year. We have opted to engage with the accreditation to drive our continual improvement and to deliver back on our Modern Slavery Statement KPIs and commitments. Against the trajectory of business and human rights milestones, legal developments, and the introduction of goods sanctions firmly linked to "hot goods" with high risk of child and forced labour, the global pandemic has most definitively presented a tipping point for business and human rights. For us, independent third-party assurances are an integral part of our journey.

Advanced supply chain mapping

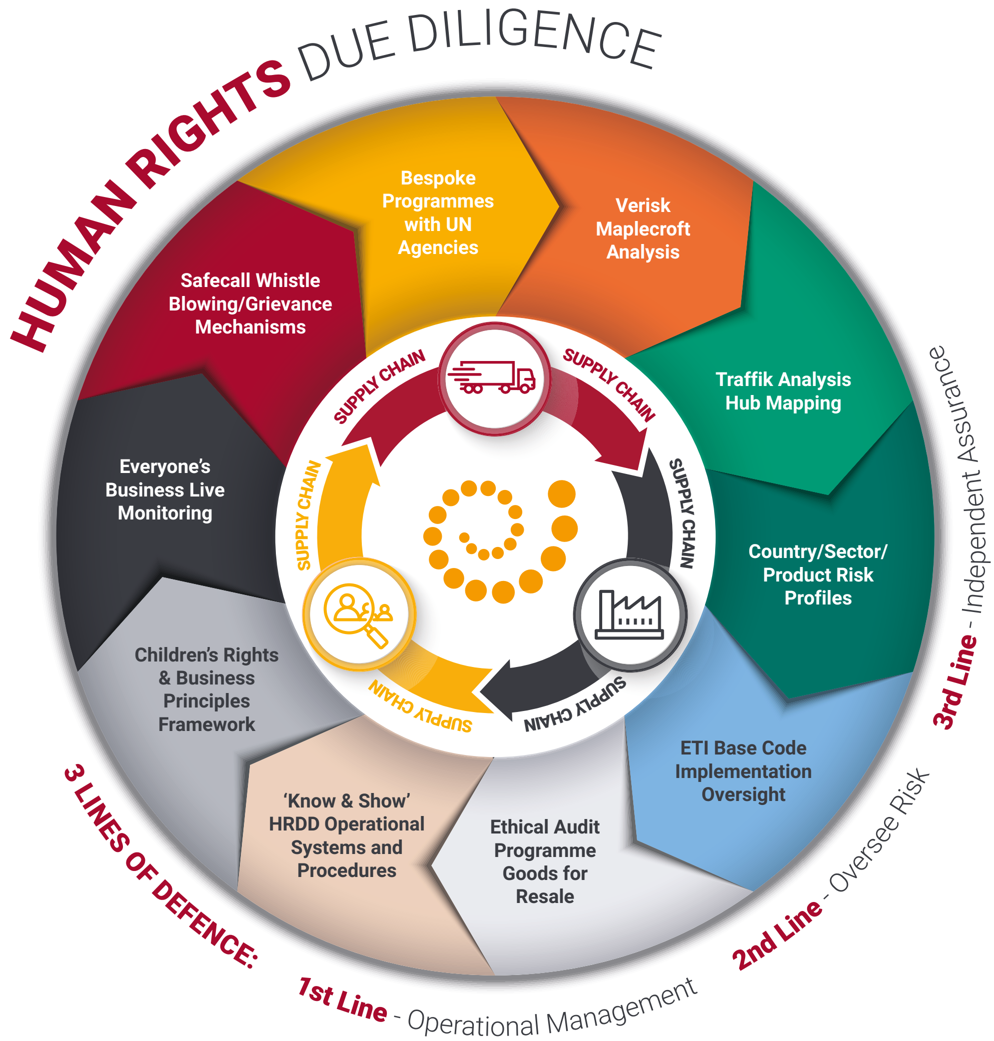
We were the first in our sector, and one of the first globally, to engage with Traffik Analysis Hub ("TAH") in 2019. TAH is a multi-partner global big data platform, initially funded by IBM but now a not-for-profit enterprise in its own right. The platform consumes information on human trafficking and instances of modern slavery which can then be analysed in multiple ways.

Marshalls has been working with TAH to develop a specific supply chain tool which allows organisations to view their own supply chain data in the global, national, regional and local contexts. This in turn can be harnessed to help inform business and human rights strategy, as well as human rights due diligence approaches. It also makes plain the context in which an organisation's supply chain, and the wider sector, operates.

Offering job opportunities to victims of modern slavery in the UK

Marshalls has been a member of Bright Future, now a co-operative of which we are a founding member, since 2018. We continue to make available work placements, with the opportunity of full time employment. We are also looking at the possibility of ring-fencing opportunities specifically for survivors of modern slavery.

Human rights due diligence



Our human rights due diligence approach is thorough and incorporates rigorous analysis via Verisk Maplecroft, enhanced supply chain mapping using the Traffik Analysis hub platform, and our own country risk analysis using the best available global data. This information is supplemented with knowledge gained from our extensive networks and partners in the UK and overseas.

We work continuously with higher risk suppliers to embed and implement the Ethical Trading Initiative Base Code. We recently produced a training film in Mandarin, Chinese, Vietnamese as well as English, which is currently being rolled out, together with further supplier training on our Code of Conduct.

During 2021 we introduced a human rights due diligence 'filter' within our procurement process based on the Slavery & Trafficking Risk Template ("STRT"). This has allowed us to further understand and manage our risks. We also utilise the full STRT within our audit process, and in tender processes.

A revised and enhanced ten-stage ethical audit process has been put in place and our business & human rights team is being strengthened in the UK and the EU. We have committed to further human rights programmes in both India and Vietnam to continue our human rights due diligence work and support suppliers.

We continue to look at all of our activities through a child rights lens and have made good strides in delivering against our International Year for the Elimination of Child Labour Action Pledge.

Live monitoring will become increasingly important alongside our Safecall grievance mechanism for supply chain workers.

We continue to make our annual Modern Slavery Statement in accordance with the spirit of the act, which for us is a platform to further the human rights agenda.

Underpinned by **people and talent development**

A message from our EVG Board sponsor

I'm really pleased to have taken over as the Board sponsor of the Employee Voice Group ("EVG") at Marshalls, and to help the business further its focus on employee engagement and the Marshalls people agenda. This focus continues to be an important topic for the Board, which is essential while businesses continue to work through the challenges of COVID-19 and Brexit.

I've seen first-hand the valuable role the EVG plays, and have witnessed this elected group represent its colleagues in a meaningful and constructive way. This team has grown to be a valuable asset to Marshalls, providing a sounding board and feedback on the key topics outlined in this section of the report.

In other areas, work continues to enhance our position as an employer of choice through the development and growth of the people strategy. We've made further strides in 2021, and we're confident in our plans to shift the dial even more in 2022.

Angela Bromfield
Non-Executive Director

COVID-19
As the COVID-19 pandemic continues to pose challenges to everyday life and to businesses, we maintained our support for employees and continued to put health and safety first. Our health and safety protocols at all sites exceeded the minimum UK Government requirements – for example, maintaining two-metre social distancing and mask wearing around all of our sites, and no mandated return to the office.

Our communications gave clear information on working safely and staying safe outside of work, and received positive feedback from employees. We recognised not everyone wanted to return to the office spaces, and our ambition is to create a more modern and hybrid-working environment, so we also introduced an Agile Working Policy and issued hybrid working guidance. To succeed in our new hybrid-working world, we supported managers and leaders to empower and enable their teams to work effectively through utilising technology and providing relevant guidance and advice.

2,700
employees (2020: 2,500)

7 years
of Living Wage accreditation

102
colleagues in apprenticeship programmes (2020: 99)

8,287
training courses completed (2020: 5,648)

£103,500
raised for Macmillan and Mind (2020: £183,000)

7.6
eNPS score – 0.3 above the industry benchmark (2020: 7.6)

761
new people in 2021

35%
of women in leadership roles

Diversity, equity, respect and inclusion (“DERI”)

We are focused on developing our DERI agenda and formulating our ambitions in this area. While we have started measurement activities, we have not yet set measurable targets.

In 2021, we collected diversity data from our existing employees and new starters. Around 40 per cent of our employee base voluntarily shared details about their gender identity, sexual orientation, ethnicity, religious beliefs, generation, caring responsibilities and disabilities.

In 2022, we plan to increase measurement activity with the introduction of new HR technology.

Although the majority of our workforce is white, cis and male, we do have representation from diverse minority communities:

- colleagues who identify as non-binary and trans;
- 13 different beliefs;
- 24 different countries of origin/nationality;
- colleagues who identify as asexual, bisexual, gay, lesbian, queer, heterosexual and pansexual; and
- 2 per cent of our colleagues have shared that they have a disability.

Generations at Marshalls (%)

- **18%** Baby Boomer Generation (1946–1964)
- **8%** Gen Z (1995–2012)
- **40%** Generation X (1965–1979)
- **34%** Millennials/Gen Y (1980–1994)
- **0%** The Silent Generation (1925–1945)

All of our job advertisements now include our very clear equal opportunities statement:

Whoever you are and whatever your background, at Marshalls you’ll find a fair and supportive workplace. You are unique and we want you to bring every part of who you are to work, every day.

We’re committed to ensuring equal opportunities for everyone. To us, this is more than a legal, moral or ethical necessity – it’s the right thing to do! We call this doing business The Marshalls Way.

We want our team to reflect the diverse nature of society and the communities we serve. Marshalls is a workplace where you are valued for the contribution you make, and where you can grow and develop by being entirely yourself!

We have built the Marshalls DERI strategy with the aim of influencing the culture, behaviour and awareness of our employees and leaders. This change programme started in 2020 with a tactical plan to open the conversation, involve and educate our people and address what we discover. The initial focus was on developing gender equality and social mobility, and engaging people from ethnic backgrounds without excluding the need to recognise intersectionality.

We have continued working with the United Nations Global Compact (“UNGC”) on our Target for Gender Equality, taking action to advance women’s leadership (defined as Executive team and their direct reports) and representation in our business. We put in place an action plan to further our commitment to supporting and promoting the rights of women and girls by becoming a Women’s Empowerment Principles (“WEPs”) signatory. With this public commitment, we are working towards upholding and implementing the principles across our own business and our supply chain. Our Talent Director also sits on the UNGC Network UK Diversity and Inclusion Working Group. Our DERI agenda is sponsored by Shiv Sibal, Marshalls’ General Counsel and Company Secretary.

In our most recent employee engagement survey, we included a DERI-specific question about being treated fairly and our employees scored this at 8.5 out of 10, which is 0.8 above the industry benchmark.

In 2022, we plan to grow our DERI agenda through the rollout of a comprehensive education and cultural change programme for all Marshalls leaders focusing on inclusive leadership and diversity awareness. We are also working to create additional Employee Resource Groups to represent the different diverse groups within our business and within the communities we serve.

Early careers

Attracting and developing early talent

We encourage and support young people into fulfilling careers at Marshalls through our various apprenticeship and development programmes. We know that workforce sustainability is essential to our long-term success, and we have an ambitious plan to focus on early talent and promote our industry as a destination of choice for younger people.

Marshalls took part in the summer 2021 issue of Jobs & Careers magazine to showcase the diverse career opportunities in manufacturing. The magazine aims to appeal to young people and gives a great insight to those starting out on their career path. A study of 520 young people who had read the magazine placed Marshalls in eighth place out of 97 organisations.

Leading the Marshalls Way

Throughout 2021, 202 leaders have attended our "Leading The Marshalls Way" development course. This development programme focuses on equipping leaders with the skills they need to manage in The Marshalls Way at all times.

Working with best in class external training providers, we delivered a bespoke learning and development plan that gave leaders an immersive training opportunity to understand how to excel at leading and managing. Leaders who attended this training said that they saw a 46 per cent increase in their knowledge and ability, and now feel more confident as a Marshalls leader.

Leadership development apprenticeship

We launched our leadership development apprenticeship programme last year with 62 aspiring, frontline and departmental leaders undertaking an apprenticeship qualification to improve their knowledge, skills and behaviours around being a great leader. Each programme not only focuses on the models and tools required to be a great leader and manager, but also tailors that content to The Marshalls Way. In 2021, we have seen 16 people graduate with more to come in 2022. Of those graduating, 94 per cent felt that the programme had really helped them improve their leadership skills within The Marshalls Way framework.

Some of the comments from the graduates' line managers cited an increase in confidence and a controlled, thoughtful approach to handling problems, which has significantly boosted their teams and outputs.

Growing talent through apprenticeships

2021 has been another successful year for apprenticeships at Marshalls, with 102 employees engaged in apprenticeship programmes (Levels 3 to 7), and 19 employees successfully graduating from their apprenticeship programme. 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 has focused on engineering, digital and technology solutions, digital marketing, leadership and management, LGV drivers (new) and business administration. This proactive development strategy has enabled us to build career development pathways that are underpinned by apprenticeships. This has helped us to bring new talent into the business while growing existing talent and creating internal mobility.

Our ambition for 2022 is to continue growing our own talent through increasing the number of apprentices. We are working to ensure apprenticeships are a recognised and valued development option for all employees, regardless of age, tenure or skillset. Future apprenticeship programmes will further align to our business strategy and workforce sustainability strategy, and will continue to be a commercially funded initiative to ensure equal access to development for all employees.

Addressing industry challenges through our new Driver Academy

In response to industry challenges, and as part of our apprenticeship and workforce sustainability strategies, towards the end of 2021 we introduced a Driver Academy with the goal of increasing our driver population through growing the skillset of existing employees.

This development programme is a collaboration between Logistics, Operations, HR and Health and Safety. Despite a tough and competitive market, six people have been recruited so far as apprentice drivers and they are on track to be qualified by June 2022. As part of this training, the apprentice drivers are learning how to operate key equipment such as forklift trucks and lorry cranes and are proving to be valuable assets by covering a variety of roles within the Logistics team. This approach to driver training will give them a breadth of knowledge that will be invaluable when qualified and fulfilling a driver role.

Our 2022 goal will be to strengthen and evolve the Driver Academy in line with our strategic objectives and with input from the Drivers' Working Party representatives.

Employee engagement and experience

Putting employee wellbeing first

In 2021, we expanded our focus on employee wellbeing to create a more holistic strategy that caters for the diverse needs of our workforce. We know the pandemic and other wellbeing issues have affected our people in different ways, and so our wellbeing strategy aims to provide support that meets our people where they are. This strategy has been formulated with input, needs and wants from our colleagues via a number of feedback channels.

In May 2021, we further enhanced our regular employee wellbeing communications through the introduction of Marshalls NOW, a news, employee benefits and wellbeing platform. The wellbeing resources available through Marshalls NOW cover four key topics of move, munch, money and mind. The resources available have been accessed more than 3,000 times by employees and have received excellent feedback.

The employee benefits and reward strategy has been boosted by the implementation of Marshalls NOW and we have been able to offer colleagues benefits that encourage better overall personal wellbeing. Our Cycle to Work scheme and Healthcare Cash Plan have seen record uptake numbers, and our focus on pensions has increased knowledge on saving for later life – this is evident in the colleague comments we receive through our numerous feedback channels.

Employee engagement measurement

Our programme of measuring employee engagement continued throughout 2021, with surveys conducted in April and October. We continued to ensure a broad depth of questions within the surveys to help us measure and understand employee engagement across key topics such as wellbeing and Company strategy. We are pleased to report a significant increase in participation rate, with 74 per cent of colleagues now giving us their feedback. The most recent survey gave us an employee net promoter score ("eNPS") of 7.6, which is 0.3 above the benchmark for our industry.

Employee Voice Group ("EVG")

Throughout the year, we have continued to engage with our elected Employee Voice Group ("EVG") representatives. Executive team member Louise Furness and Board member Angela Bromfield (taking over from Janet Ashdown) sponsor this activity to ensure it is a valuable forum for all employees.

The EVG has held eight official meetings during 2021 and it has been invited to steer the business on a number of areas including our ESG activity, our employee engagement strategy, and our HR and people activity.

The EVG has also contributed to decisions and discussion on people change at Marshalls, most notably the "standardisation programme", which aims to create fairness and consistency in the terms and conditions of employment at Marshalls.

Drivers' Working Party ("DWP")

We employ our own fleet of HGV drivers, which gives us a strategic advantage. While Marshalls has been affected by the nationwide shortage of HGV drivers, we have also taken significant steps to ensure this impact was minimal. We formed a Drivers' Working Party where we invited Marshalls drivers to input into decisions and give their feedback on what it means to be a driver in our business and industry. Through this group, we were able to put steps in place to improve the driving role and set a new standard of what it means to be a Marshalls driver. These steps included retention bonuses for drivers, a significant pay increase of 21.58 per cent, as well as other changes to improve driver wellbeing, engagement and development.

Marshalls was shortlisted for an Engagement Excellence Award under the category of "Most impactful business transformation to support their workforce". This is in recognition of the work we have done to improve engagement for all Marshalls employees and to develop our culture.

"It has been another significant year for the development of our people agenda at Marshalls. I'm proud of how the Marshalls HR team and the wider business have focused on delivering changes and developments that really make a difference for employees. While we continued to work through the impact of COVID-19, we were also able to make significant strides in other key areas.

Talent attraction is a top priority, and winning the battle to attract and retain employees in a volatile job market has been a constant focus for us. Our people strategy sets the foundations for developing Marshalls into an employer of choice, so that we create a sustainable and future-fit workforce. As part of our drive to develop a sustainable workforce, we've increased our diversity, equity, respect, inclusion ("DERI") activity to create a more modern and diverse place to work.

2021 also saw us introduce new technology and people resource to increase the focus on our wellbeing, communications and total reward offerings. Wellbeing – including financial, physical and mental wellbeing – has been more important than ever in recent years. We recognise the part we play in supporting employees to have all-round healthier lifestyles.

We've continued to make progress on modernising the way we engage and reward colleagues. Towards the end of 2021, we started a programme of work to create consistent employment terms across Marshalls and to introduce new and modern contracts of employment. The employee experience was a leading priority for this programme of change. The developments in how we engage employees have been crucial in helping us accelerate change and build trust in everything we do. The ways in which we support agility and change will accelerate in 2022 to help us drive innovation and improvements for our colleagues, customers and key stakeholders.

We firmly believe that purpose fuels performance. We continue to ensure that we are creating a sense of purpose across the Group in everything we do to grow our Marshalls culture. Our ongoing investment in developing The Marshalls Way, and the underpinning behaviours, has helped us to define our culture further. This investment into learning and development, as well as in other career growth areas, sets us up for a strong and successful future where individuals can find career satisfaction and thrive.

We're well placed for another successful year of people strategy development and delivery in 2022."

Louise Furness
Group HR Director

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 92 to 112.

The headline target for 2021 was to maintain days lost resulting from workplace incidents at a figure no higher than the average over three years (2018–2020). This excludes the impact of acquisitions within a period of three years from purchase, therefore our Bricks and Masonry division is excluded.

23.31

lost days injury frequency rate per million hours worked (target: 28.05)

Managing risk and wellbeing through the pandemic

2021 presented all industries with risk management challenges during the COVID-19 pandemic and Marshalls was no different. We stood firm when faced with making tough decisions to balance operations and people safety, with our absolute priority being the welfare of all people involved in our activities.

We closed the majority of our office-based operations during 2020 and 2021, and homeworking became the norm. We provided all homeworkers with digital communications and home office equipment as well as ensuring they had the right support from peers and managers to continue to work effectively in a very different environment.

The majority of our factories and logistical operations have continued to operate under the strictest COVID-19 protocols, including the use of Government testing schemes. We continue to regularly monitor our controls and track infection rates so that we can act swiftly on any hotspots.

2021 achievements

- Trained 16 new Mental Health First Aiders ("MHFAs")
- Wellbeing section on our intranet with a dedicated area for MHFAs
- Implementation of SLAM in Logistics division
- 7.8 score for health and wellbeing on employee survey (0.2 above manufacturing benchmark)

2022 targets

- Recruiting and training more MHFAs
- Set up Steering Committee for mental health and wellbeing
- Rollout of Fair & Just Approach Framework

	2019	2020	2021
Lost days injury frequency rate (per million hours worked)	32.8	28.8	**23.3**
Fatalities	0	0	**0**

Note: the above data covers employees and contractors.

Mental health and wellbeing

We recognise the mental and physical challenges to homeworkers who may at times feel isolated and lonely or struggle to juggle their working time with family responsibilities, home life distractions and working longer hours.

In 2021, we launched our Health and Employee Wellbeing Strategy with a vision to provide and deliver a holistic approach to wellbeing, which creates an employee experience that enables people to be at their best.

In 2022, we will be introducing a new mental health and wellbeing programme. This includes setting up a new Steering Committee represented by a member of the Executive team to help steer the strategic direction of employee wellbeing, as well as collaborating with our HR team to review how we best manage the mental health support and resources for our colleagues.

Our goal is to ensure that we work together to identify early recognition of employee ill health and provide the best support to helping our colleagues manage their recovery and return to the workplace.

Highly commended

for the Safer Through Improvements in Health and Wellbeing Award at the MPA and British Precast Health and Safety Awards 2021

Behavioural safety

Our work on behavioural safety continued throughout 2021 with a clearer understanding of human behaviours and root cause analysis. We have been working on a new Fair & Just Approach Framework that sets out how to deal with acceptable and unacceptable behaviour which is key to developing and sustaining a positive safety culture. We will be rolling out this programme in 2022.

SLAM ("Stop, Look, Assess, Manage") programme

In early 2021, we rolled out a new safety programme called SLAM in our Logistics division. SLAM is a recognised toolkit in our industry and was developed by the construction industry's Leadership and Worker Engagement Forum, hosted by the Health and Safety Executive. The technique acts as a reminder to workers to stop work and take action if they think their health and safety is at risk.

Accreditation

The Group has maintained accreditation to the Health and Safety Management System Standard ISO 45001:2018 and Environmental Management Systems Standard ISO 14001:2015. In 2022, we will be starting the implementation of these standards to our Bricks and Masonry division, formerly known as Edenhall. This was scheduled for completion in 2021 but the global pandemic meant this fell behind schedule and will now commence in 2022.

53 Mental Health First Aiders (2020: 42)

Case study

2021 has been a challenging year for our logistics operation, with driver shortages and supply chain disruption. We continue to focus efforts on the many different elements of the logistics operation in order to drive excellence and efficiency. The Driver Academy has demonstrated our support for drivers joining the business, and our attention to safety through our SLAM programme has resulted in raising awareness with our colleagues, who are much more likely to stop work if a task appears unsafe. Environmentally, we are close to achieving our target of having all our fleet adhering to Euro 6 standards, which reduces harmful emissions.

Link to strategic objective: **Logistics excellence**

Board of Directors

A **diverse, experienced and well-balanced** Board

The Board is diverse, well-balanced, experienced, committed, forward thinking and agile.

It has great depth of experience and skill covering leadership, construction, finance, M&A, product development, technology, marketing, business change and retail.

The Board acts boldly, decisively and collectively, applying its skill, knowledge and experience in ensuring the long-term sustainability and profitability of the Group whilst bringing constructive challenge and debate to the table. Driving the strategic plan in The Marshalls Way, doing the right things, for the right reasons, in the right way, enables the Board to continually improve operational effectiveness, drive culture change, invest in new sites to deliver long-term sustainable shareholder value and maintain the Group's market leading position.

Committee membership

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

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 2021.

Experience
Fellow of the Chartered Institute of Marketing with extensive experience of corporate leadership 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.

Key skills
Leadership, manufacturing, construction, marketing and international

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 2021.

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.

Key skills
Leadership, finance, manufacturing, distribution and international

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 2021.

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 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.

Key skills
Leadership, banking, retail, FMCG, charities and public sector

Alignment with strategic corporate objectives

External appointments
Chair of the Royal Orthopaedic Hospital.

Angela Bromfield
Non-Executive Director
A N R I

Date of appointment
1 October 2019. Re-elected in May 2021.

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.

Key skills
Leadership, marketing, manufacturing and distribution

Alignment with strategic corporate objectives

External appointments
Non-Executive Director and Chair of the Remuneration Committee of Churchill China PLC. Non-Executive Director and Chair of the Remuneration and ESG Committees of Harworth Group PLC.

* The Nomination Committee considered Tim Pile to be independent in thought and judgement in spite of his length of service.

Justin Lockwood
Chief Financial Officer

Date of appointment
26 July 2021.

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.

Key skills
Leadership, finance and manufacturing

Alignment with strategic corporate objectives

External appointments
None.

Graham Prothero
Senior Independent Non-Executive Director

A N R I

Date of appointment
10 May 2017. Re-elected in May 2021.

Experience
Chartered Accountant and Chief Operating Officer of Vistry Group PLC (appointed January 2020). Previously Chief Executive of Galliford Try plc. Also on the board of the Jigsaw Trust, a charitable trust. Extensive senior management experience in the sector, including with leading property developer Development Securities PLC (now U+I), 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.

Key skills
Leadership, finance, construction, property, operations, professional and charities

Alignment with strategic corporate objectives

External appointments
Chief Operating Officer of Vistry Group PLC.

Avis Darzins
Non-Executive Director

A N R I

Date of appointment
1 June 2021.

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.

Key skills
Leadership, retail, business transformation, change management, digital and management

Alignment with strategic corporate objectives

External appointments
Non-Executive Director of Grafton Group plc. Co-chair of the Ambassadors Group of retailTRUST. Senior Independent Trustee and Trustee Board Member of Barnardo's. Director of Avis Business Consulting, a provider of industry leading technological solutions.

Shiv Sibal
Group General Counsel and Company Secretary

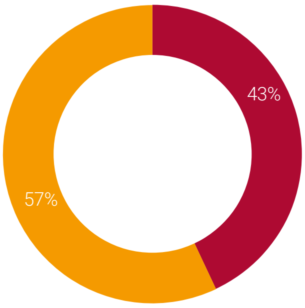
Date of appointment
26 May 2020.

Experience
Experienced corporate finance lawyer by trade 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.

Key skills
Corporate finance, M&A, equity capital markets, governance, legal, leadership and retail

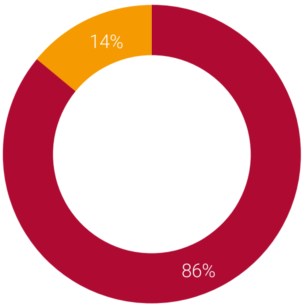
Alignment with strategic corporate objectives

External appointments
None.

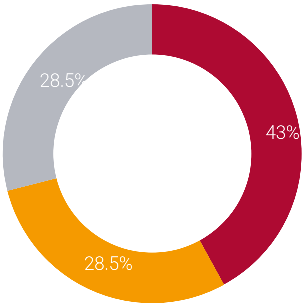


Gender composition
- Female (3)
- Male (4)*

* Female Chair and Remuneration Committee Chair.



Ethnic diversity
- White (6)
- Mixed Asian and white (1)



Length of service
- 0–2 years (3)
- 3–4 years (2)
- 5+ years (2)

Dynamically navigating change **with a clear focus on the longer-term sustainability of the business**

Dear shareholder

2021 has been another challenging year but one in which, I'm proud to say, the business has shown great resilience and delivered a record performance. Our culture and our people have successfully steered the Group through the challenges the COVID-19 pandemic continues to present, whilst keeping a close eye on the longer-term sustainability of the Group, particularly its ESG commitments.

Dynamic decision making at both Board and senior management team level has been critical to our success during a time of significant external challenges. Consideration of COVID-19 is now embedded into Board and day-to-day business processes.

The Board has continued to support the strategic ambitions of the business. The Board's approval of a multi-million-pound investment in the new dual block plant at our St Ives factory supports the Group's priority of driving innovation in our product ranges. As we've set out on page 28, the Board's consideration of this investment was measured and thoughtful, ensuring the business considered the interests of all relevant stakeholders.

In addition to supporting evolution and investment in the business, the Board has changed during 2021, with the retirement of our former Group Finance Director, Jack Clarke, and our Senior Independent Non-Executive Director and Remuneration Committee Chair, Janet Ashdown.

We thank Jack and Janet for their commitment to the business during a period of strong performance and growth. These retirements have provided us with the opportunity to introduce further diversity and new skills to the Board through the appointment of our new CFO, Justin Lockwood, and our new Non-Executive Director, Avis Darzins. We provide further detail in our Nomination Committee Report on pages 84 to 87, but these appointments mean the composition of our Board complies with anticipated changes to the Listing Rules that will require UK listed companies to disclose on a "comply or explain" basis against set diversity targets.

Balanced decision making 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 84 to 112, seeks to demonstrate our commitment to high standards of governance that are recognised and understood by all.

> "The Board's approval of a multi-million-pound investment in the new dual block plant at our St Ives factory supports the Group's priority of driving innovation in our product ranges."

Our governance framework

Board
- Board meetings
- AGM
- Annual strategy day
- Regular business engagement
- Designate NED for EVG
- Investor engagement

Audit Committee
Read more on ***pages 88 to 91***

Nomination Committee
Read more on ***pages 84 to 87***

Remuneration Committee
Read more on ***pages 92 to 112***

- Committee meetings

Executive Committee
- Monthly meetings
- Weekly update calls

Diversity and Equity Taskforce

ESG Committee

Business Unit Management Teams

Employee Voice Group
Read more on ***page 67***

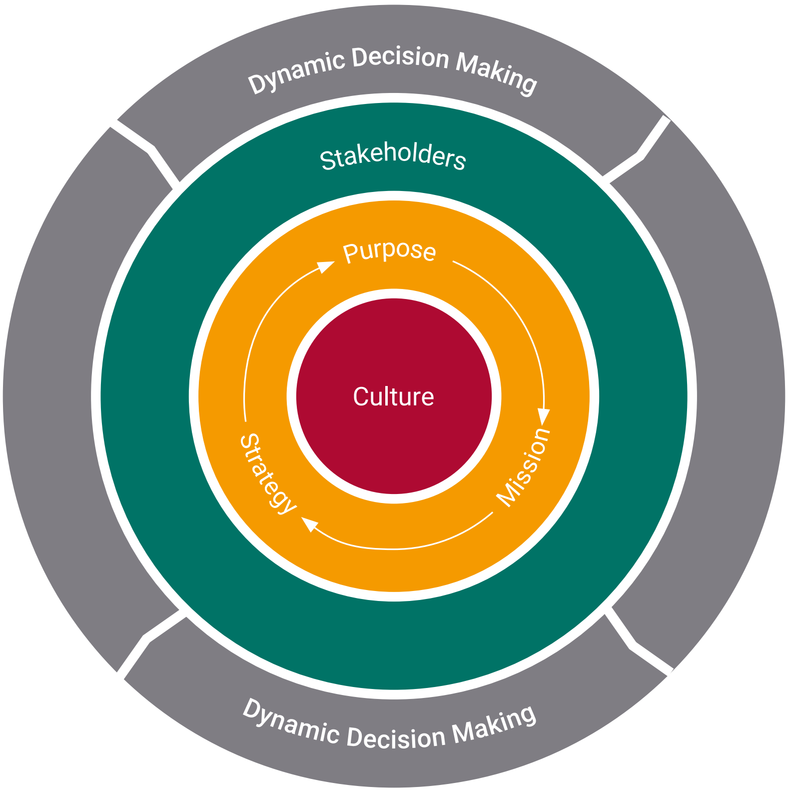
- Monthly business reviews
- Bi-monthly ESG Committee meetings
- Regular EVG meetings

Programme of activities

(See activities listed against each level of the governance framework above.)

Governance at Marshalls

Our **Culture** is at the heart of everything we do. 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 2021

- We've driven and supported the business to a record year of performance, navigating unprecedented raw materials inflation, HGV driver shortages and soaring shipping costs, all amid an ongoing pandemic.
- In November, we comprehensively reviewed the Group's 5 year Strategy, ensuring it positions us to capitalise on high-growth sectors, having considered the contextual, societal and macro-economic trends that may be risks or opportunities to the business.
- We've successfully managed the succession of our CFO and Senior Independent Non-Executive Director ("SINED"). Whilst the Board retained a core, experienced, multi-skilled group of Directors, notably benefiting from Tim Pile agreeing to further extend his term, we acted on the opportunity to further strengthen our Board by introducing new skills, experience and diversity through the appointments of Justin Lockwood and Avis Darzins.
- Having reported extensively in 2020 on our ESG commitments and having made disclosure against the TCFD recommendations ahead of these becoming mandatory, we've listened to our shareholders and other stakeholders. We've refined our ESG programme and disclosures to show how the programme will drive competitive advantage and the measures we'll use to monitor our progress. Annual targets supporting our commitment to being net zero by 2030 are now incorporated in the measures in our incentive schemes.
- When Government guidance permitted, we combined virtual engagement with the business with the recommencement of "in person" engagement predominantly through site visits. These provide the Board with very valuable insight into the opportunities and challenges presenting themselves to the Group. They also enable the Board to listen to the thoughts and views of those colleagues working at our manufacturing sites, which are the "beating heart" of our business.
- We've continued to reflect on the Board's performance. Our internal evaluation concluded that the Board has been engaged, resilient and supportive during the last year, dynamically navigating change whilst not losing sight of our longer-term strategy. In addition, we have addressed the objectives we set ourselves last year, with further objectives in place for the current year based on the responses we received during the evaluation. See page 82 for further details.
- The Board has reflected upon and updated the matters reserved for the Board's judgement to ensure they reflect the growth of the business in recent years. This will provide appropriate and proportionate operational flexibility for the business to respond to the day-to-day challenges it faces, whilst continuing to ensure the Board has appropriate oversight to give assurances over the Group's internal control and risk management frameworks.
- There has been Board representation at each of the Employee Voice Group ("EVG") meetings with Angela Bromfield succeeding Janet Ashdown as our designated Director for employee engagement. The EVG has broad representation and its agenda continues to evolve and now supports discussion of some of the Group-wide challenges we face.
- We've invested in our people, making a number of senior hires, to drive the change agenda the business faces. In addition to our new CFO and Chief Information Officer, these investments include a new Health and Safety Director, the creation of a process optimisation team and investment in our legal and company secretarial team. These investments support the evolution of our environmental, social and governance agendas.

Priorities in 2022

- To support the execution of our strategic plan as the impact of the pandemic hopefully subsides. Measuring progress will be critical to the long-term sustainability of the Group.
- To challenge the business to be relentless in its customer focus given the criticality of maintaining our strong brand preference, which is a key differentiator.
- To ensure that our ESG programme and commitments drive not only commercial and competitive advantage but also our ability to attract and retain the best talent. How we communicate these and measure performance against our targets, and link these to our incentive schemes, will be areas of focus.
- To give additional focus and time to succession planning. The "war" for talent means recruiting and retaining the best people will be extremely challenging, particularly when trying to build a more representative and diverse business.
- To carefully monitor 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.

> "Ensuring we promote diversity, equity, respect and inclusion and maintaining a zero-tolerance approach to discrimination through the application of our policies is key as well as ensuring there is equality of opportunity for every role we recruit. Our commitment is supported by our Code of Conduct and central to our Group HR strategy."

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. The Marshalls Way guides everything we do and our ESG commitments and credentials demonstrate this clearly.

- Environmental — we take our environmental impact seriously and, in 2021, we published our roadmap to net zero by 2030.
- Social — we respect and value the dignity, wellbeing and rights of employees, their families and the wider community, as well as their safety.
- Governance — strong governance supported by effective leadership helps nurture our healthy corporate culture and our processes and controls enable us to operate ethically and responsibly.

Our continuing response to COVID-19

The Group's response to COVID-19 during 2020 has enabled both the Board and senior management team to manage its considerable continuing impact within our existing governance framework. The Board has been committed and made itself available throughout the year to support the business and to act decisively where needed. Safety has remained our number one priority, with a number of the measures put in place during 2020 retained during 2021 even though Government guidance had been relaxed.

The Health and Safety Executive has conducted a number of unannounced COVID-19 audits at our sites with the business being commended for its management of COVID-19 related risks and for putting the safety of colleagues first. The nature of the pandemic has meant that we've not been immune to the challenges, which include increased absence and self-isolation in the workforce, particularly during spikes in case numbers and transmission. Although these have impacted our operations, the Board has given the senior management team its full backing in implementing measures to ensure we can continue to serve our customers safely, including the temporary recommencement of operations at our factory in Falkirk (which has been earmarked for closure) and additional investment in short-term labour to manage peaks in demand when colleague absence was high.

These steps clearly demonstrate how dynamic decision making is central to the way the Board and senior management team have managed the ongoing impact of the pandemic, alongside ensuring the Group is well positioned for future growth. 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. As part of our initial response to the pandemic during 2020, the consideration of our people, performance, capital structure and controls was central to the Board's decision making. This structured approach has been the foundation for our resilient performance during 2021.

Diversity

The Board recognises the opportunity greater diversity in the business represents but acknowledges the challenge this presents in our sector. Ensuring we promote diversity, equity, respect and inclusion and maintaining a zero-tolerance approach to discrimination through the application of our policies is key, as is ensuring there is equality of opportunity for every role we recruit. Our commitment is supported by our Code of Conduct and central to our Group HR strategy.

At Board level, we have achieved greater gender and ethnic diversity during 2021 and, in addition to myself, a female Chair, we have 43 per cent female representation on our Board overall and one Director from an ethnic minority background. Whilst we have acted upon the opportunity that greater Board diversity presents, we recognise there is much more work to do at senior management team level and throughout the business to realise the benefits that greater diversity brings. This will take time, particularly given the challenges in our sector, but the Board has approved the Group-wide Diversity and Inclusion Policy and will work closely with the CEO and Group HR Director as we begin to implement our longer-term strategy. This will be supported by our newly created Diversity and Equity Taskforce, which has broad colleague representation from across the Group, including our Group Trading Director and General Counsel and Company Secretary, who are both members of our senior management team.

Following our agreement during 2020 to participate in Target Gender Equality (which is a gender equality accelerator programme that involves setting and reaching ambitious corporate targets for women's representation and leadership, starting with the Board and Executive Management levels) our General Counsel, Shiv Sibal, participated in a UN Global Compact Roundtable at which we gave an open and transparent account of our progress and the challenges we face. Challenging ourselves in this way is at the heart of The Marshalls Way.

Board evaluation

I conducted, with the support of the Company Secretary, an internal evaluation of the Board and its Committees using a tailored online questionnaire that considered both performance during the year and future priorities for the Board. It measured both Board behaviours and process. Having redesigned the internal evaluation in 2020 with the Company Secretary's support, I conducted this year's evaluation on a consistent basis to enable the Board to reflect on its year-on-year performance and on the achievement against the specific objectives agreed last year. As required by the UK Corporate Governance Code, the Board will conduct an externally facilitated evaluation during 2022. Page 82 of this report gives more detail on the most recent evaluation and the extent to which the objectives from 2020 were achieved.

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 115 and 116 and 117 to 124 respectively.

Vanda Murray OBE
Chair
17 March 2022

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 2021. We have complied with the principles and provisions of the UK Code throughout 2021.

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

- Led by an experienced female Chair who drives collaboration and challenge
- Experienced, diverse and multi-skilled Board with clear focus on long-term sustainability
- 2021 focus on our culture, ESG, strategy and succession
- Our culture, "The Marshalls Way", and purpose, "creating better spaces for everyone", are at the heart of all decision making

*Read more on **pages 78 and 79***

2. Division of responsibilities

- Effective, transparent communication and information supporting dynamic decision making
- Collaborative and constructive relationship between Board and senior management team
- Robust challenge and support provided and well received by management
- Clear, proportionate decision-making parameters balance Board control and operational flexibility

*Read more on **pages 79 and 81***

3. Composition, succession and evaluation

- More diverse Board with greater breadth of experience, knowledge and skills
- Majority of independent Directors
- Further term extension providing stability, strongly supported by shareholders
- Renewed and more consistent approach to internal effectiveness review enabling measurement of progress and reflection
- Engagement with shareholders ensuring the Board evolves to reflect their priorities

*Read more on **pages 81 and 82***

4. Audit, risk and internal control

- Clear oversight of external and internal audit functions and planning
- Strong focus on effectiveness of internal control environment, with prospective governance reforms in mind
- Detailed consideration of climate related financial disclosures, addressing new regulatory requirements
- Oversight and participation in Risk Register reviews and determination of risk appetite
- Ensuring clear accountability for actions with outcomes monitored to preserve continuous improvement culture

*Read more on **page 83***

5. Remuneration

- Well-established, UK Code compliant, Remuneration Policy
- Incorporated annual target, forming part of our 2030 net zero roadmap, into our incentive schemes
- Engaged with shareholders to understand their views on our application of the Remuneration Policy
- Remuneration outcomes aligned with interests of all stakeholders
- Committee discretion to override formulaic outcomes

*Read more on **page 83***

Role of the Board

The Board currently comprises an Independent Non-Executive Chair, four independent Non-Executive Directors and two Executive Directors. Their biographical details are on pages 70 and 71.

Our Schedule of Matters Reserved for the Board, reviewed annually and available on our website, includes:

Delegation to Board Committees

The Board delegates specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report on pages 88 to 91 provides details of the Board's application of UK Code principles in relation to financial reporting, audit, risk management and internal controls. The Nomination Committee Report on pages 84 to 87 reports how Board and senior management composition (including diversity), succession and development are managed to reflect UK Code principles. The Remuneration Report on pages 92 to 112 explains how the Group's Remuneration Policy has been implemented and shows Directors' remuneration for 2021. The Remuneration Report also provides gender pay and balance information. Ad hoc Board Committees are established for particular purposes: for example, during 2021, Board Committees were established to approve 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 73) 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 two Executive Directors. The Executive Directors and other Executive Committee members give regular briefings to the Board in relation to business issues, developments and, most importantly, progress against our strategic priorities. 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 including 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.

1
Board leadership and Company purpose

Leadership and purpose

Our resilient corporate culture and strong leadership, both at Board and senior management team level, are the driving forces behind our approach to governance at Marshalls and underpinned the Group's record performance during the year.

The Board is committed to building its understanding of how our business model creates value and how our strategy must evolve to ensure the long-term success and viability of the business. 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 regularly engage with shareholders and employees, not allowing the practical challenges of COVID-19 to be an obstacle. Technology has supported and enhanced Board engagement, particularly when combined with in-person meetings that took place during 2021, when Government guidelines permitted.

Our Strategic Report on pages 1 to 69 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 on a day-to-day basis, enabling the Board to steer our strategy and business model towards a sustainable future.

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 in volatile market conditions has enabled us to respond to the challenges we've faced whilst ensuring we have a stable platform for the execution of our long-term strategy.

We've given renewed focus to our long-established sustainability programme, with our commitment to a 2030 net zero target epitomising our sector leadership in ensuring our business minimises its environmental impact.

Having emerged from a difficult period during 2020 in which we restructured the business, we've made significant investments in our operations and our people. Most notably, we approved a multi-million-investment in the installation of a dual block plant at our St Ives site, further details of which are set out on page 28.

Having completed a review of the Group's strategy in November, the Board is confident the Group's application of the UK Code principles during 2021 will drive its long-term sustainable success by providing a platform to execute the strategic plan the Board approved in 2019. That strategic plan remains well balanced and considers the interests of all of our key stakeholders. The Board and senior management team do recognise, however, the importance of ensuring our ESG and commercial objectives operate in harmony to drive competitive advantage and differentiation. This will, in turn, drive brand preference. Our environmental and social reports on pages 50 to 69 provide further information of our progress and commitments in this respect.

The Board receives regular updates from the Executive Directors on the agreed KPIs set out on pages 32 and 33 that enable it to determine whether the Group's objectives are being met and to provide additional challenge and support where necessary.

Our people strategy is core to our long-term sustainability and we've continued with its implementation in spite of the challenges during the last year. Our Group HR Director engages regularly with the Board on our progress with improving recruitment, retention, development and progression. This is supported by an aligned reward strategy centred around diversity and inclusion.

During the year, we undertook a Group-wide project to standardise employment terms and introduced more user-friendly employment documentation. Fairness and transparency were at the heart of this exercise, the goal being to provide certainty as to terms and how these progress as careers develop in the business. We undertook a full consultation exercise as part of this. This project epitomises our commitment to The Marshalls Way.

We've introduced new benefits such as a Healthcare Cash Plan and a Cycle to Work scheme in addition to awarding a grant under our Sharesave Scheme. We made a thank you award of £600 in December 2021 to all employees (with the exception of the Executive Directors) with colleagues able to take the award as cash, shares or a contribution to their pensions. Facilitating all of these developments and awards has been our Group reward platform that acts as a central hub for all key employment and reward related information.

Our internal communications team has worked tirelessly to develop this channel and our social media channels to ensure we create forums in which colleagues feel empowered to speak up and share their views about any aspect of the business. The team has helped colleagues navigate the ever-changing COVID-19 guidance throughout the year, ensuring we operate safely and legally.

The development of our Employee Voice Group as an effective and representative colleague engagement forum, the outcome of our annual employee engagement survey and the Board's engagement have given the Board confidence that the Group's purpose, values and strategy remain aligned with our culture. Further details of how we engage with employees are set out in the ESG section on pages 64 to 67. Further developing the EVG's agenda and reach will be an area of focus in 2022.

We've consolidated our work on culture and begun to implement our diversity and inclusion strategy; the creation of 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.

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 in light of the additional challenges we've experienced during the last year including materials availability and inflation, labour shortages and logistics. Occupying the ground around all of our risks is the existential threat climate change presents, not only to Marshalls but to all of society. 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 approved by the Audit Committee.

Further details of our approach to risk identification and management are set out in the Strategic Report on pages 34 to 43.

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 diversity on ***page 65***

Read more about sustainability, ethics and climate change from ***pages 50 to 63***

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.

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 internal Board evaluation assesses the behaviours and processes of the Board including the quality, constructiveness and robustness of Board debates, the relevance and clarity of Board information and how the Board works as a team (including relationships within the Board). Our evaluation concluded that the Board continues to operate effectively and as a unit.

The Chief Executive has responsibility for all operational matters which include the implementation of strategy and policies approved by the Board.

The Senior Independent Director provides a sounding board for the Chair and also acts as an intermediary for other Directors and shareholders.

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's term of office has been extended until 2023, we are confident this has not affected his independence and further details of why we believe this to be the case are set out on page 80.

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.

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 70 and 71.

2

Division of responsibilities continued

Board meetings and attendance*

Key = ✓ Present ● Absent

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Vanda Murray OBE (Non-Executive Chair)	✓✓✓✓✓✓✓✓	–	✓✓✓✓✓	✓✓✓✓
Martyn Coffey	✓✓✓✓✓✓✓✓	–	–	–
Jack Clarke	✓✓●●●●●●	–	–	–
Justin Lockwood	●●●●●✓✓✓	–	–	–
Janet Ashdown (Non-Executive)	✓✓✓✓●●●●	✓●●●	✓✓●●●	✓✓●●
Graham Prothero (Non-Executive)	✓✓✓✓✓✓✓✓	✓✓✓✓	✓✓✓✓✓	✓✓✓✓
Tim Pile (Non-Executive)	✓✓✓✓✓✓✓✓	●●●✓	✓✓✓✓✓	✓✓✓✓
Angela Bromfield (Non-Executive)	✓✓✓✓✓✓✓✓	✓✓✓✓	✓✓✓✓✓	✓✓✓✓
Avis Darzins (Non-Executive)	●●●●✓✓✓✓	●✓✓✓	●●●✓✓	●●✓✓
Philip Rogerson (Non-Executive)	●●●●●●✓●	–	●●●●✓	–

* The Board held eight meetings during the year, with the management of the ongoing impact of the COVID-19 pandemic, and any decision in connection with it, forming part of the Board's scheduled meetings.

The Chief Executive and the Chief Financial Officer (formerly the Group Finance Director) are not members of the Audit Committee but normally attend Audit Committee meetings by invitation. Tim Pile stepped down from the Audit Committee in March 2021. 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 day with the senior management team, which during 2021 was held over two days in November. In addition, the Board participates in site visits, training sessions, the Employee Voice Group and other activities with operational teams where they have relevant expertise and experience. Historically, the Board has attended events like the Group's annual management conference but COVID-19 guidance at the time meant this was cancelled in 2021.

Justin Lockwood joined the Company as Chief Financial Officer in July 2021 (with Jack Clarke having stepped down as Group Finance Director in March 2021). Janet Ashdown retired from the Board at the end of the Group's 2021 AGM in May. Avis Darzins and Philip Rogerson joined the Board in June and September respectively, with Philip subsequently stepping down in December 2021 for health reasons.

Tim Pile's independence

We consider Tim Pile to be independent even though he has served more than eleven years as a Non-Executive Director. Tim originally intended to step down during 2021 but agreed to continue in light of the challenges presented by the pandemic, with the Board recognising the value of his skills and extensive knowledge and experience of the Group. Further details of these are set out in his biography on page 70.

With his intended successor, Philip Rogerson, stepping down for health reasons shortly after his appointment in September 2021, Tim has agreed to extend his appointment by a further year until 2023.

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 over a number of years. As we pursue a significant change and transformation agenda, we think his knowledge and experience will act a bridge to the Group's development in the short to medium term and this continuity will benefit his successor. In addition, we've listened to shareholder feedback, with Tim stepping down as a member of the Audit Committee in March 2021.

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.

The Chair has conducted an individual performance evaluation of all the Directors, including Tim, and has concluded that Tim's contribution remains extremely valuable, particularly given that his independence has been maintained. The Nomination Committee will again, during 2022, plan for Tim's succession.

Board meetings

There is an established format and programme for Board meetings, which, for the most part, were held virtually during the 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's consideration of the continuing impact of the COVID-19 pandemic has been within its existing schedule of meetings but the Board remains committed to ensuring it is always available to convene if urgent matters need to be addressed.

The Chief Executive and the Chief Financial Officer report on operational and financial 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.

Health and safety 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.

The Board participated fully in the Group's strategy day which was held across two days in November 2021. This involved engagement with key members of the senior management team and other senior leaders in the business in considering the continuing relevance and appropriateness of the Group's strategy particularly in light of the existential climate change challenges that affect all of society.

In addition to the standing items on the Board's agenda, the principal areas of focus discussed by the Board in 2021 were:

Strategy

- Group strategy including culture and purpose
- ESG: embedding good practice and measuring performance
- 2022 budget
- Major investments including our dual block plant
- Capital structure and dividends
- Customer experience and specification selling
- People and culture including succession and talent development review
- Operations strategy including a full manufacturing network review
- IT strategy including digital
- Emerging businesses strategy
- Market, sector and competitor updates and outlook

Operations

- Supply chain planning including procurement and logistics
- Manufacturing capacity
- Process optimisation and project management
- Health and safety
- COVID-19 maintaining operational safety and monitoring impact
- Management of major customer projects
- Employee engagement and morale

Governance and risk

- COVID-19 oversight of monitoring and management of risk
- Risk and internal control
- Board composition including diversity, skills and succession
- Board and Committee performance
- Annual shareholder governance meetings
- Employee Voice Group feedback
- Whistleblowing
- Ethical sourcing and modern slavery
- 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 2021, the Board considered the Group's wider talent pipeline and the initiatives supporting their development. The policies and process are commented on further in the Nomination Committee Report.

Organic development of future leaders is an important element of our Group-wide people strategy and something we see as critical to the long-term sustainability of the Group.

We believe our Board is diverse and has a good combination of skills, experience and knowledge. The Board reviews its own composition each year and assesses whether the current skills, experience and knowledge are aligned with the Group's strategy and expected future leadership needs. Further details of the Board and their skills are set out on pages 70 and 71.

In the same way the business recognises the importance of change, the Board acknowledges the importance of continually evolving and has a succession plan designed to ensure that Board members' terms expire or they retire over clearly defined periods, normally not exceeding nine years. We've explained the circumstances surrounding Tim Pile's term and, as we've explained, feel the value Tim brings, particularly given that his successor had to step down suddenly, far outweighs the fact he has served more than nine years. During 2021, we conducted an internal Board effectiveness review led by the Chair and the Company Secretary (as referenced in the Chair's introduction). We will carry out an externally facilitated effectiveness review during 2022.

All Directors stand for election or re-election (as appropriate) at every Annual General Meeting, and all current Directors will stand for re-election or election at the 2022 Annual General Meeting. The Directors' biographical details on pages 70 and 71 show their roles, date of appointment and length of service on the Board.

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.

3
Composition, succession and evaluation continued

How Board priorities were addressed during the year

Board and Executive succession planning

- We have successfully managed the succession of our Group Finance Director with the appointment of Justin Lockwood as Chief Financial Officer.
- We appointed two new independent NEDs, achieving our objective of bringing additional diversity, skill and experience to the Board.
- We secured the services of Tim Pile for another year, with shareholders almost unanimously supporting our belief that he remains independent even though he had served over ten years. Following the unexpected resignation of Philip Rogerson for health reasons, Tim has agreed to extend his term by another year until 2023.

ESG

- We have clearly and cohesively articulated our ESG programme, credentials and, most importantly, objectives and KPIs. This has been externally recognised by various ratings agencies.
- The importance of commercialising our ESG credentials to drive competitive advantage and margin is embedded in our 5 year Strategy. This will ensure our investments provide returns not only to society but to shareholders by driving business performance. It is also vital to attracting and retaining talent.
- We have included an annual carbon reduction commitment target, which is part of our 2030 net zero commitment, in the performance measures in our management incentive schemes.

Market-facing strategy

- We continue to operate in a strong market. 2021 has presented us with many significant operational challenges and cost headwinds, with Brexit and the prolonged impact of COVID-19 each playing a part.
- Our supply chain has, in particular, presented a number of challenges such as materials inflation, shipping costs and availability of HGV drivers.
- The Board has remained focused on ensuring the business is resilient in the face of these challenges and has undertaken an "in-flight" review of the Group's strategy to ensure it remains relevant given the turbulence of the last 18 months.
- The strategic review considered all investment and growth opportunities, both organic and through acquisitions, together with the enablers that underpin these.

Focus areas and actions to enhance effectiveness in 2022 (from 2021 review)

The 2021 Board evaluation was conducted internally by the Chair and Company Secretary using a comprehensive tailored questionnaire that evaluated Board behaviour and processes as well as providing the Board an opportunity to reflect openly on the Board and Group's strengths, weaknesses and opportunities, threats and strategic priorities. This year's review was carried out immediately after the Board's annual strategy review to ensure it captured the Board's view.

Having redesigned the internal evaluation in 2020 with the Company Secretary's support, the Chair conducted this year's evaluation on a consistent basis to enable the Board to reflect on its year-on-year performance and on the achievement against the specific objectives agreed last year.

During 2021, the Board made good progress against the priorities identified in 2020 against a backdrop of prolonged COVID-19 and Brexit related disruption. This was reflected in the scoring in the review. As previously outlined, succession, ESG and strategic development have all been on the Board's agenda this year with significant progress made but with a recognition that building on the momentum in ESG and effective execution of our strategic priorities are critical to capitalising on this.

The Board has remained focused and agile, balancing both short-term decision-making requirements and the need to reassess the longer-term strategic priorities of the business, ensuring they address, in particular, our approach and commitment to addressing global climate related challenges. The Board has continued to support the Group's investment programme with the approval of the £23 million plus dual block plant investment at St Ives being the best example of this.

2021 has also seen a welcome return to "in person" Board meetings and site visits, both of which remain critical to the Board's engagement with, and understanding of, the business. The induction process for new Directors has been comprehensively refreshed by the Company Secretary.

The specific areas identified for focus during 2022 are:

Executing our strategic plan

- Executing our plan and measuring progress are critical to the long-term sustainability of the Group.
- Additional time will be allocated so the performance, challenges and opportunities can be continually reviewed.

ESG

- In its most complete sense, ESG remains a key priority and will drive not only commercial and competitive advantage but our ability to attract and retain the best talent.
- Investors will focus on our objectives, how we measure performance against these and the link to pay.
- Given developing practice and increased stakeholder focus, the Board will consider whether a separate ESG Board Committee is required.

Customers

- Given the criticality of maintaining our brand preference, a relentless focus on the customer is required.
- Part of this will be ensuring we are future-fit. Being low carbon and digitally enabled are key parts of this.

Succession planning

- The "war" for talent means recruiting and retaining the best people will be extremely challenging, particularly when trying to build a more representative and diverse business.
- Comprehensive succession planning for our senior management team is a key priority in the medium 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 34 to 43) 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 reviews the effectiveness of the Group's risk management system and the system of internal control annually. The Risk Register was reviewed by the Audit Committee in March 2021 and the Non-Executive Directors carried out a standalone risk review in December 2021, 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 2021. Our approach underpins our commitment to transparency in managing risk and internal controls and lends additional efficacy to our procedures.

In addition to our scheduled reviews, our risks and controls have all been carefully assessed to take into account the continuing impact of the COVID-19 pandemic. Internal audits carried out during the year have also challenged whether the adjustments we made to the controls in the areas being reviewed (to address the pandemic's impact) remain effective.

The Audit Committee Report on pages 88 to 91 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. The Board is also considering the requirements set out in proposed changes to the UK corporate governance regime and the changes we need to make to ensure our control environment supports the assurances the Board needs to provide.

The Board acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

*Read the Audit Committee Report on **pages 88 to 91***

5

Remuneration

The current Remuneration Policy was approved by shareholders in 2020 and is set out in the Directors' Remuneration Report on pages 64 to 76 of our 2019 Annual Report and Accounts. It addresses the relevant requirements of the UK Code and was prepared in consultation with the Company's top 20 shareholders and external voting agencies.

The Remuneration Committee Report describes how the Remuneration Policy has been implemented during 2021 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 92 to 112***

Vanda Murray OBE
Chair
17 March 2022

Nomination Committee Report

Managing succession and change and **delivering on our diversity commitment**

> "2021 has seen a number of changes to the Board which have broadened its experience and skills base and enhanced Board diversity. These changes have supported the Board's re-evaluation of the Group's long-term strategy in light of the dynamic and challenging environment in which we're operating."

Members and attendance

	Meetings
Vanda Murray OBE – Chair	✓✓✓✓
Graham Prothero – SID	✓✓✓✓
Tim Pile	✓✓✓✓
Angela Bromfield	✓✓✓✓
Avis Darzins*	○○✓✓
Janet Ashdown**	✓✓○○

* Avis Darzins joined the Board in June 2021.

** Janet Ashdown retired from the Board at the end of the Group's AGM in May 2021.

Find our Terms of Reference and Nominations Policy at ***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 2021. I chair Nomination Committee meetings, but would not do so where the Committee was dealing with my own reappointment or replacement as Chair.

2021 highlights

- Following Jack Clarke's decision to step down and retire from the Board, the Committee conducted a comprehensive search for his successor with the support of executive search firm, Norman Broadbent (which is an independent executive search firm with no other connection to the Company), and with diversity as a core search objective. Following a thorough selection and assessment process, and interviews with members of the Board and Executive Management team, Justin Lockwood was appointed to the Board as Chief Financial Officer and joined in July 2021.
- With our Senior Independent Director and Remuneration Committee Chair, Janet Ashdown, also deciding to retire in May 2021, Graham Prothero was appointed Senior Independent Director, with Angela Bromfield being appointed as Chair of the Remuneration Committee. Graham is an extremely experienced Director, having served four years on the Board, and is also Chair of our Audit Committee. Angela is an experienced Remuneration Committee Chair and was also appointed as our designated Director for employee engagement.
- The Committee recommended the appointment of Avis Darzins to the Board and to each of our Board Committees. Avis is an experienced executive and brings valuable new skills to the Board. These include business transformation and change management skills that are relevant to our longer-term strategic goals. Avis was appointed following a comprehensive, and very focused, search process conducted by Norman Broadbent. Enhancing the Board's cognitive diversity was a critical component of the search mandate. Avis was interviewed by all of the continuing Board members.
- In the knowledge that the Company's longest-serving, and most experienced, Director, Tim Pile, intended to retire in 2022, the Committee also recommended the appointment of Philip Rogerson to the Board as a Non-Executive Director. Philip joined

the Board in September 2021 and brought extensive listed company and cross-sector leadership and strategic experience, in both executive and non-executive roles, as well as financial acumen, which were key attributes in our search mandate. Philip's appointment was supported by executive search firm Warren Partners (which is an independent executive search firm with no other connection to the Company). Unfortunately, we announced in December 2021 that Philip was stepping down from the Board for health reasons. We thank Philip for his contribution and wish him well for the future.
- In light of the challenges of our current operating environment and the macro-economic and strategic challenges we face, and given that Philip Rogerson has stepped down for health reasons, Tim Pile has agreed to extend his term of office until 2023. Retaining Tim's experience and knowledge, which are great assets to the Board and the Group, is of great value to the Group, particularly as we continue to pursue and develop our longer-term strategy.
- We reviewed and approved the Group's Nominations Policy, which includes our desire to introduce even greater diversity, at both a Board and senior management team level, by thinking differently given the sector-wide challenge this presents.
- We reviewed individual Director performance identifying areas for development.
- We reviewed succession planning, both for the Board and senior management team. Over the course of the last two years, a number of new appointments have been made to the senior management team that have addressed succession challenges, with significant planning and thought in advance to ensure we took the opportunity to not only acquire the skills we needed to achieve our strategic priorities but also to enhance the diversity of the team.
- We supported the establishment of the Group's Diversity and Equity Taskforce, whose mission is to make Marshalls an inclusive employer where everyone can thrive and belong.

This initiative is a key part of the Group's strategy to promote diversity and inclusion and will ensure there is a broad representation of views and ideas from across the Group.

2022 priorities

- Supporting the 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.
- Management of Board succession, including a further search for a successor to Tim Pile (with Philip Rogerson, who was appointed to succeed Tim, having stood down from the Board for health reasons in December 2021).
- Continuing to support the Group's diversity and inclusion strategy and the initiatives underpinning this which will include setting meaningful targets for greater gender diversity at the senior management team level and in key roles that report into this team. Greater gender, cultural and cognitive diversity are seen as key areas of opportunity for the Board and the Group, particularly as it looks to tackle its considerable change agenda. The Board currently comprises 43 per cent women and 57 per cent men, with a female Chair and one Board member from a non-white ethnic minority background. Although not yet implemented, we currently comply with the anticipated amendment to the Listing Rules that will require us to publish an annual "comply or explain" statement regarding the achievement of the proposed targets on Board diversity.
- Focus on succession, development and progression below Board level, particularly given a number of anticipated senior management team retirements in the next couple of years.

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 2021
• Recruitment and succession reflect the strategic needs of the business. • Recruitment contributes to desired values and culture.	• Nomination Committee carries out an annual skills review aligned with three to five-year strategic plans. • New Directors agree commitment to strategic direction and Group policies.	• Appointment of Avis Darzins to the Board as a Non-Executive Director bringing additional business transformation, change management and technology skills to the Board, these being critical to our strategic agenda. • Appointment of Philip Rogerson to the Board as a Non-Executive Director bringing extensive cross-sector leadership and strategic experience to the Board. Philip was intended as Tim Pile's successor but unfortunately had to step down for health reasons. • Further one-year extension of Tim Pile's term reflecting strategic needs at a time when experience and stability are critical and also the unexpected and unfortunate retirement of Philip Rogerson from the Board.
• 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 initial phase of the execution of the Group's diversity and inclusion strategy including our approach to recruitment and seeking to understand and improve the sector profile by becoming a founding signatory to a sector-wide diversity initiative. • All briefs to Norman Broadbent and Warren Partners emphasised the importance of diversity. • Began gathering more granular and specific, Group-wide, diversity related data on a voluntary basis. • Number of new appointments to the senior management team over the last two years with our new CFO and a new Chief Information Officer being appointed during 2021. • Carefully monitoring senior management team succession given number of potential retirements in the next couple of years. Carefully assessing any internal candidates and ensuring that, in the longer term, development opportunities for our high performers are identified and supported with investment.

Marshall's 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 a number of Board changes during 2021. • Individual Director evaluations were carried out in January 2022. • We select external search advisers for Board appointments based on relevant expertise and usually having asked them to participate in a competitive tender process for each role. Norman Broadbent is retained for senior management team recruitment and was 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 "overboarding". • Included in letters of appointment. • Director induction process comprehensively reviewed and revised by the Company Secretary and well received by incoming Directors. See page 87. • Board training is included as part of Director induction together with site visits which recommenced during the year. • 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 day. Engagement has been through a combination of in person and virtual meetings having assessed the circumstances and Government guidance at the relevant time.
• Compliance/good governance.	• Conflicts policy and register reviewed no less than six-monthly. • Annual re-election of Directors.	• Reviews in June and December 2021. • All Directors stood for election/re-election in May 2021 with the exception of Janet Ashdown, who stepped down from the Board at the end of the 2021 AGM.

The performance of the Committee was evaluated as part of the Board evaluation process in 2021 described on page 82. The Committee Terms of Reference were reviewed in December 2021. 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 four scheduled meetings, and there were additional meetings and discussions 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 was comprehensively reviewed and revised by our Company Secretary during the year). 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.

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 70 and 71.

Governance

The Committee has acted throughout 2021 in accordance with the principles of the UK Code. In addition, the Committee has assessed its effectiveness during 2021 against the UK Code as part of the annual Board evaluation process. The evaluation concluded that the Committee has been successful in securing 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
17 March 2022

Director induction

Our induction process was comprehensively reviewed by our Company Secretary during 2021 and 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 5 year Strategy
- Biographies of the Executive team
- Employee Engagement Survey
- UNGC 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 has a well-constructed and thorough induction programme that gave me the business insight needed to be effective in my role and to contribute to the sustainable long-term success of the business."
>
> **Avis Darzins**
> Non-Executive Director

Audit Committee Report

Delivering a robust control environment, **a focus on transparency and an ethos of continuous improvement**

> Marshalls continues to maintain a strong focus on control, risk management and governance."

Members and attendance

	Meetings
Graham Prothero – Chair	✓✓✓✓
Tim Pile*	●●●✓
Angela Bromfield	✓✓✓✓
Avis Darzins**	●✓✓✓
Janet Ashdown***	✓●●●

* Tim Pile stepped down from the Audit Committee in March 2021.

** Avis Darzins joined the Audit Committee in June 2021.

*** Janet Ashdown retired from the Audit Committee at the end of the Group's AGM in May 2021.

Find our Terms of Reference and Nominations Policy at ***marshalls.co.uk/about-us/corporate-governance***

Dear shareholder

In this report I set out the Audit Committee's objectives and responsibilities and also explain the activities undertaken during 2021 and the priorities for 2022. This report, which is part of the Directors' Report, explains how the Audit Committee has discharged its responsibilities during 2021 and provided focus and governance in relation to risk management, financial control and financial reporting.

2021 highlights

- Provided assurance to the Board on whether the 2021 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 2021 final audit.
- Reviewed the measures taken to ensure the maintenance of sufficient liquidity within the Group's capital structure.
- 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. This included the continued assessment of the adequacy of additional procedures introduced as a consequence of the majority of office staff working from home for most of the year.
- Continued to monitor progress with the implementation of key projects for the Group, including the new dual block plant at St Ives and the commencement of the implementation of the D365 ERP 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.
- Commissioned a number of other internal audit reviews by KPMG LLP in relation to business continuity, IT disaster recovery, GDPR compliance, payroll systems and controls, accounts receivable, digitalisation and ESG maturity.
- Justin Lockwood joined the Board as Chief Financial Officer in July 2021 and, since his appointment, has been undertaking a review of the Group's operations, considering both areas of strength and areas for potential improvement in financial control and reporting. This has included a review of inventory accounting and control. Justin has consulted with the Audit Committee and the Board to review and improve the quality of management information and reporting to the Board. The Committee is delighted with Justin's swift and effective integration into the Executive team and the Board.

2022 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 to monitor changes in external regulatory environment and best practice. The Committee will continue to oversee the disclosure of significant financial judgements made by management.
- To assess and improve cyber security controls and ensure that IT controls remain appropriate and robust. This will involve further cyber security audits.
- 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 2022, including projects covering cyber security, general IT controls, project delivery and inventory.
- The Committee will continue to monitor progress of the implementation of the D365 ERP systems update and the commencement of the UK phase of this project.
- The Committee is supportive of the objectives of the BEIS White Paper which set out options for strengthening the UK's internal controls framework. To this end the Committee will oversee a 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. KPMG has been engaged to ensure ongoing best practice and assurance and the Committee will monitor progress during the year.

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. The Group has maintained a strong balance sheet and a flexible capital structure containing significant liquidity headroom.

Despite the disruption to normal working practices, Marshalls maintained a strong focus on control, risk management and governance throughout the year.

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 72 to 83. 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 have been taken forward.

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 70 and 71.

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 2020 are analysed in Note 3 on page 142. Other than the half-yearly review of Marshalls plc, for which a fee of £25,000 was charged (2020: £30,000), no amounts were paid for non-audit work during 2020. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £236,000 (2020: £222,000).

Effectiveness of the external audit

An annual review of external audit effectiveness was undertaken by the Committee in 2021. 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

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 operates a self-certification internal control process to support the internal audit process throughout the year. The internal audit programme includes both regular audit checks and assignments to look at areas of critical importance. These assignments form part of a much wider programme of independently audited aspects of the Group's operations. 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.

During the year, in addition to the regular internal control process, KPMG LLP conducted specific reviews on business continuity, IT disaster recovery, GDPR compliance, payroll systems and controls, accounts receivable, digitalisation and ESG maturity.

Internal audit continued

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 enhanced its maturity in this area. There were no incidences of fraud that significantly affected the Group's business during 2021. A rolling programme of cyber security awareness training is undertaken, and external presentations are made periodically to selected groups of employees by specialists from the Group's banking partners.

The Committee's roles and responsibilities

During 2021, 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. An overview of the Committee's activities over the year is set out in the table below.

Responsibility area	Primary responsibilities	Activities undertaken during 2021

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 areas of judgement in relation to significant issues relating to the Financial Statements. The main areas of judgement were:
		  • disclosure of alternative performance measures, including the separate disclosure of adjusting items, in the Financial Statements; and
		  • judgements made in assessing the carrying value of inventory. The Committee reviewed the findings of the external auditor and considered the assessments and conclusions made by management.
		• Reviewed the trading updates issued during the year which provided regular communication to shareholders in relation to financial performance and the Group's response to COVID-19.
		• Approved the Viability Statement – and reviewed the assumptions and financial modelling underpinning the assessment, including the adequacy of scenario planning.
		• Reviewed the going concern statement – and made a recommendation to 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 34 to 43. • The Audit Committee reviewed and challenged management's assessment of the key risks during 2021. • Provided oversight into the risk process. Actions have been reported and detailed plans have been formulated to improve financial control, 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 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. • Inventory valuation continues to be a key focus area and internal controls have been reviewed during the year. This has included a review of stock counting procedures which has resulted in improvements to internal controls in certain areas.
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 auditors was approved during the year. The policy is in line with current legal requirements.

Responsibility area	Primary responsibilities	Activities undertaken during 2021
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.
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.

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 2021.

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 2022 plan.

The Department of Business, Energy and 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 is supportive of the objectives of the White Paper and the benefits of strengthening the UK's internal controls framework. To this end the Committee will oversee a 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. KPMG has been engaged to ensure ongoing best practice and assurance and the Committee will monitor progress during the year. 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 D365 ERP implementation project.

Fair, balanced and understandable

The Committee has considered whether, in its opinion, the 2021 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: (i) 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; (ii) the disclosures relating to the selection and presentation of APMs. The Committee has concluded that the APMs used in the Financial Statements are both helpful and necessary to aid the reader's understanding of performance without distorting the regulatory reporting; (iii) the adequacy of the disclosures made in relation to the measures undertaken by the Group to mitigate risk; (iv) the appropriate reporting of disclosed estimates and judgements.

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 2021 Annual Report and Financial Statements is fair, balanced and understandable.

Whistleblowing and bribery

The Audit Committee monitors, on behalf of the Board, any reported incidents under the Serious Concerns Policy (our Whistleblowing Policy), which all employees have the benefit of. A third-party organisation, Safecall, has been appointed by the Group to provide an independent and confidential channel for reporting and monitoring all concerns. This process for reporting serious concerns and our policy are embedded into the Code of Conduct and are relevant to all stakeholders including suppliers, partners and employees. The policy and the Safecall process are displayed on operating site noticeboards and on the Company's intranet. We clearly set out the procedure for employees to raise legitimate concerns about any wrongdoing and emphasise that they can do this without fear of criticism, discrimination or reprisal. The Committee receive bi-annual updates on matters reported under the Serious Concerns Policy via the Safecall service together with an annual report on the claims received during the year and details of how they have been investigated and resolved. In the financial year ending 31 December 2021, eight reports were received. This represented one report for every 325 employees compared with a construction industry average of one for every 379 employees and demonstrates the success we have had in raising awareness of Safecall. The reports cover a broad range of concerns but all are investigated thoroughly, involving subject matter experts where appropriate. If a material matter were reported and substantiated, the Board would be made aware of this as soon as possible rather than waiting for the next Committee meeting. 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 website and displayed on operating site noticeboards. Online training is available to all employees to reinforce the Anti-Bribery Code and procedures, and (when circumstances permit) classroom-based training sessions are also held periodically. There is a maintained register of employee interests and a gifts and hospitality record.

I would like to thank our shareholders for their continued support during the year. I will be available at the Company's 2021 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
17 March 2022

Rewarding strong performance that supports our **vision for the future**

> "Our Remuneration Policy rewards strong performance with a balanced set of measures that reflect our commitment to create better futures for everyone: socially, environmentally and economically."

Members and attendance

	Meetings
Angela Bromfield – Chair	✓✓✓✓✓
Vanda Murray OBE	✓✓✓✓✓
Tim Pile	✓✓✓✓✓
Graham Prothero	✓✓✓✓✓
Avis Darzins*	○○○✓✓
Janet Ashdown**	✓✓○○○
Philip Rogerson***	○○○○✓

* Avis Darzins joined the Committee in June 2021.

** Janet Ashdown retired from the Board and as Chair of the Committee at the end of the Group's AGM in May 2021.

*** Philip Rogerson joined the Committee in September 2021 and stepped down in December 2021 for health reasons.

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 Group Human Resources Director.

Find our Terms of Reference at ***marshalls.co.uk/about-us/corporate-governance***

2021 highlights

- Agreed incentive plan targets for 2022 using 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, and include meaningful ESG measures.
- Undertook a comprehensive review of Executive and Non-Executive Director remuneration, taking into account the growth in size and complexity of the business, the pay and benefits of colleagues across the Group and relevant comparator groups.
- Committee Chair consulted with the governance teams of key shareholders on remuneration matters as part of the Board Chair's annual programme of shareholder meetings.
- Oversight of a review of the wider Group remuneration and reward strategy looking at the alignment of pay policies and terms and conditions.
- Oversight of a targeted review of pay and conditions for HGV drivers across the Group in light of prevailing market conditions and to ensure the Group has the ability to attract and retain the drivers we need.
- Continued with the Employee Voice Group ("EVG"), holding eight virtual meetings in the year. EVG also now operates as a forum for feedback and consultation on 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, having taken over from Janet Ashdown when she retired.

2022 priorities

- Communicate change in measures for the 2022 incentive programme.
- Commence Remuneration Policy review (in readiness for this to be put to shareholders for voting at the Company's 2023 AGM).
- Set incentive scheme targets for 2023.
- Assess whether our engagement plan with employees and other stakeholders on remuneration remains effective.
- Continue to monitor alignment of Executive remuneration with pay policies and incentives for colleagues across the Group.
- Continue to monitor and support the development of reward strategy across the Group ensuring it is competitive and fair.
- Continue to use EVG to gauge organisational climate and engagement levels as well as how change programmes are implemented.

Dear Shareholder

As the new Chair of Marshalls' Remuneration Committee, I am pleased to set out in this report how the Committee has carried out its objectives and responsibilities during 2021.

I also want to thank my predecessor, Janet Ashdown, for her contribution in leading the oversight of the remuneration and engagement agendas in a professional way, and welcome Avis Darzins to the Remuneration Committee.

We have updated our Annual Remuneration Report to make accessing the key points of information as straightforward as possible.

The content consists of:

- this Annual Statement from me as the Committee Chair;
- an "at a glance" summary setting out key remuneration information for our shareholders; and
- the 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 across the Group.

The Remuneration Committee continues to believe that the Remuneration Policy approved at the 2020 AGM provides strong alignment with shareholders' interests and therefore is not planning any changes to its operation during 2022, with the exception of a modification to the non-financial metrics for our incentive schemes.

Business performance and outcomes for 2021

The Group's KPIs monitor progress towards the achievement of the Group's objectives. The Group's key strategic KPIs are shown on pages 32 and 33 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, net debt, customer service and health and safety are the measures currently used to determine awards under the MIP.

The Group has delivered a strong trading performance in 2021 with record sales and adjusted profit in a very challenging market. The resilience of the business in the face of significant supply chain challenges, and the continuing impact of the pandemic, is a credit to colleagues across the Group. Group revenue was £589.3 million (2020: £469.5 million; 2019: £541.8 million), adjusted EPS was 28.6 pence (2020: 8.6 pence; 2019: 29.4 pence), and adjusted return on capital employed was 20.6 per cent (2020: 8.2 per cent; 2019: 21.4 per cent).

MIP A outcomes for 2021

As a result of Company performance during the year the performance conditions for MIP A were fully achieved and as such a contribution to MIP A will be made in respect of 2021, equivalent to 100 per cent of maximum. Full details of the performance conditions, targets set, and level of achievement are set out in the "at a glance" section on page 96.

MIP B awards allocated in respect of 2021

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 Company performance, similar to MIP A, there will be an allocation of awards under MIP B in respect of 2021, equivalent to 100 per cent of maximum.

2021 MIP performance conditions

The table below shows how the Group performed against targets for the MIP in 2021. Performance measures and targets are linked to the key strategic objectives highlighted on pages 30 and 31 of the Strategic Report.

MIP Element A: 100 per cent of maximum (2020: 0 per cent of maximum) was awarded to the CEO, CFO and former Group FD.

MIP Element B: 100 per cent of maximum (2020: 0 per cent of maximum) was awarded to the CEO and CFO. The former Group FD is not eligible to receive a grant under the 2021 MIP Element B, in line with his leaver arrangements.

	Threshold (0% payable)	Maximum (100% payable)	Actual (2021)	Weighting outcome (% total award)	CEO £'000	CFO £'000	Former Group FD £'000
EPS (75% of maximum)	20.26p	24.34p	28.6p	100%	£996,724 max	£310,577 max	£88,396 max
Operating cash flow ("OCF") to EBITDA ratio (25% of maximum)	£59.6m	£76.1m	£85.4m	100%	£332,241 max	£103,526 max	£29,465 max
Non-financial targets (customer service/health and safety)				100%	No deduction	No deduction	No deduction

Performance conditions were set at the beginning of 2021 and the Committee took account of both internal budgets and external factors such as the market consensus of investors for the full year 2021. No discretion was exercised in determining incentive outcomes.

Definitions

Other than in respect of IFRS 16, the EPS and OCF ratio for 2021 were measured using IFRSs based on the audited results of the Group and subject to the discretion of the Committee with regard to adjusting items. The Committee determined that pre-IFRS 16 targets were to be used in 2020.

EPS

EPS relates to our strategic objective to grow profits. Adjusted EPS was 28.6 pence in 2021 (2020: 8.6 pence; 2019: 29.4 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 £85.4 million in 2021.

Non-financial targets

Our customers are at the heart of our business model, and our measurement of customer service has, in prior years, included factors such as product availability, on-time delivery performance and administrative and delivery accuracy, to assess performance. The supply chain and people challenges the Group (and others throughout the sector) faced during 2021, when combined with strong demand, meant that the Group moved from being a "make to stock" business to a "make to order" business. Product availability was therefore not a meaningful or relevant factor in measuring customer service as a whole. The Committee accordingly approved the inclusion of a quality factor in the customer service measurement in substitution for the stock availability factor. As with stock availability, the quality measure had a 25 per cent weighting in calculating the overall achievement of the customer service measure.

The Group's average customer service performance is assessed monthly. Taking into account the new quality factor, the Group's average customer service score was 98 per cent during 2021. This compared with the target score of 95 per cent. The Group continued to make good progress against its stated health and safety objective of keeping days lost to accidents to a minimum, by reference to the 2017 rate. Days lost to accidents year on year actually reduced by a further 21 per cent. Given this performance, no adjustment was necessary.

COVID-19 remuneration decisions

The COVID-19 pandemic continues to have implications for the business and how we operate, albeit, as set out in more detail in the Strategic Report on pages 1 to 69, our performance has now returned to, and indeed exceeded, pre-pandemic levels. Despite the impact that COVID-19 had on performance in 2020, the Committee set challenging targets for our MIP awards in 2021. These targets have remained in operation without the need for any adjustments, despite the significant, sometimes unexpected, cost headwinds the business absorbed during the last year. The Committee is satisfied that the outcomes for the 2021 awards are appropriate in light of the overall business performance, and reward the Executives for their resilient performance during the year.

Executive Director changes

As announced earlier in the year, the Group Finance Director, Jack Clarke, stepped down and retired from the Board and as Group Finance Director with effect from 1 April 2021. As previously announced, and in accordance with his service agreement, Jack will remain with the Group until 31 March 2022 to ensure a smooth and orderly handover and will be classified as a "good leaver". A summary of Jack's leaving remuneration arrangements is set out on page 100.

Justin Lockwood was appointed to the Board as Chief Financial Officer on 26 July 2021. The table below sets out a summary of the remuneration arrangements on appointment, which are in line with our Remuneration Policy:

Element of remuneration	Details
Base salary	£380,000
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. 2021 award was pro-rated for time in role.
MIP Element B	Maximum opportunity 100%of base salary. Did not receive a MIP B grant in 2021.
Buy-out awards	29,160 nil-cost options on 20 August 2021 to the value of £223,657.20, based on the share price on 26 July 2021 (his start date) of £7.67. This bespoke award, made to Justin in lieu of incentives forfeited on cessation of previous employment, is subject to continued employment. At the time that the award was granted, the Committee felt that it had insufficient information to calculate the value of awards being forfeited at the previous employment. Therefore, to provide a suitable estimate of the value, the Committee agreed to provide an award calculated as a pro-rated amount of the 2021 MIP award opportunity, had he been employed at Marshalls (to the number of days in the calendar year worked at his previous employer). The amount is no more generous than what he was expected to receive.
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 for 2021/22

Given the continuing uncertainty caused by the pandemic, the October 2020 Group-wide salary review was delayed until early 2021. When the CEO's salary was reviewed in March 2021, the Committee determined that, given the experience, high performance and increased responsibilities of the CEO, operating in a growing and increasingly complex business, a base salary increase would ensure his remuneration remains competitive and is commensurate with his role and determined on a basis consistent with the remuneration of the Group's new CFO. The Remuneration Committee considered awarding the entire increase in 2021 but felt it appropriate to apply the increase in two stages, with a 6 per cent increase effective from January 2021, and a further 8 per cent increase effective from January 2022.

The CFO's salary was set on appointment, and has not increased since. The Committee determined that the CFO's remuneration remains competitive and appropriate, and is therefore implementing an increase of 5 per cent, effective from January 2022, in line with the pay award for the majority of colleagues throughout the Group.

Chair and Non-Executive fees

Following the decision to delay the January 2021 pay awards to later in the year, the Board, on the basis of a recommendation from the Remuneration Committee, approved a 1.4 per cent increase in the fees of the Non-Executive Directors, backdated to January 2021. The Committee approved the same increase in the Board Chair's fee.

For 2022, the Remuneration Committee has approved an adjustment to the Board Chair's annual fee from £177,500 to £210,000, effective from January 2022. The Chair has historically been positioned below the lower quartile of the market, which the Committee does not consider to be appropriate given the growth in size and increasing complexity of the business and her experience. During her tenure, the Chair has successfully navigated the Group through the challenges it has faced, overseen record growth and led a comprehensive strategic review of the business.

The Committee has provided the Chair with increases aligned to those of the colleagues across the Group since her appointment, but feels that, at this time, it is appropriate to align her fee with the market to ensure that her strong leadership and performance are reflected in her remuneration. Further, the Committee is uncomfortable, given the Company's gender pay policies, that the Company's female Chair's fee is below the market of her predominantly male peers.

The Board has approved an increase of 5 per cent in the Non-Executive Director fees for 2022, which is in line with the increase applicable to the vast majority of the colleagues across the Group.

Group-wide considerations

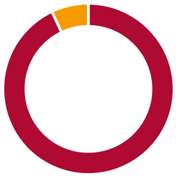
Marshalls is committed to creating an inclusive working environment and to rewarding its employees in a fair way. In making decisions on Executive pay, the Remuneration Committee considers remuneration and terms and conditions for colleagues across the Group. This report includes information on our pay 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.

During the year, the Committee has conducted a review of reward and talent development across the Group. Progress has been made in a number of areas, including the introduction, for the former CPM business (now Marshalls Civils and Drainage), of rates of guaranteed earnings (away from a productivity-based bonus with relatively low base pay levels). We have also created parity in overtime levels. A major focus on benefits has resulted in the implementation of a new benefits hub (Marshalls NOW) making our total reward offering much more visible and accessible to all colleagues. We have also launched three new benefits in year: Sharesave, Healthcare Cash Plan and Cycle to Work.

In addition, we are pleased to report that the Group gave a £600 thank you award to employees in December 2021, in recognition of their hard work and commitment throughout the pandemic.

Shareholders

We are pleased by the continued support shown by our shareholders through the vote on the Annual Remuneration Report at the 2021 AGM, and the Remuneration Policy at the 2020 AGM:



Remuneration Policy

- For – 93.0%
- Against – 7.0%
- Withheld – n/a

Votes cast: 154,260,365

Remuneration Report

- For – 97.8%
- Against – 2.2%
- Withheld – n/a

Votes cast: 151,569,081

Shareholder engagement

As part of our annual shareholder engagement programme, the Chair and I met with key shareholders in November and December 2021 to understand their current views on how we apply our Remuneration Policy, as well as remuneration matters more generally.

Those meetings were constructive and supportive with shareholders acknowledging the need for flexibility in the application of our Policy provided it is proportionate, justifiable and has regard to pay across our Group. Having consulted with shareholders and undertaken a strategic review in November 2021, we have modified the non-financial performance conditions in our incentive schemes. For 2022, we have included a carbon reduction target, which links to our net zero carbon pathway, in addition to the existing health and safety measure. This has replaced our historic customer service measure.

In conclusion

2021 has been a year of record performance for the Group against the backdrop of a continuing pandemic, supply chain and labour shortages and costs inflation. We've maintained our service to customers and operational focus to meet demand. We've achieved this whilst prioritising the health, safety and wellbeing of the employees. Having considered these achievements, the Committee feels the remuneration outcomes for 2021 are proportionate and well-deserved and we congratulate the business for this.

I would like to thank our shareholders for their continued support during the year. I will be available at the Company's 2022 AGM to answer any questions in relation to this Remuneration Report.

Angela Bromfield
Chair of the Remuneration Committee
17 March 2022

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

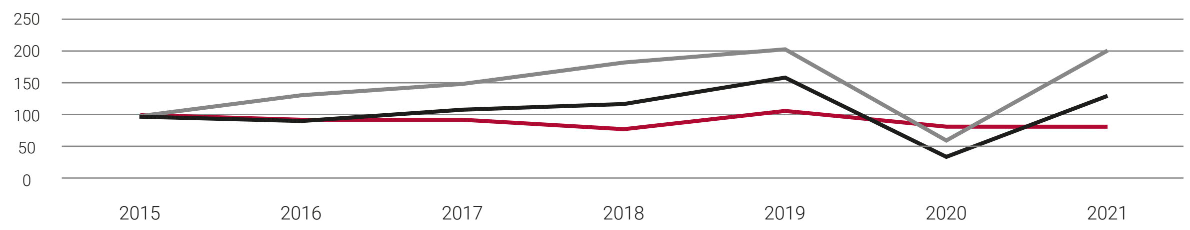
The use of EPS under the MIP as the main performance condition ensures that the Executive Directors are focused on driving profitable growth in accordance with the Company strategy. The OCF to EBITDA ratio ensures that this growth in profit is not at the expense of its quality and sustainability. The customer metric 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 service and employee wellbeing. This ensures that growth and profitability are not achieved in a way that is detrimental to the Company's customers and employees nor in a way that promotes short-term, high-risk behaviour. For 2022, we have substituted the customer service metric for a carbon reduction target which is aligned with our commitment to achieve net zero by 2030.

Full details of the Company's strategy are set out in the Strategic Report on pages 30 and 31.

2021 remuneration outcomes

Long-term performance

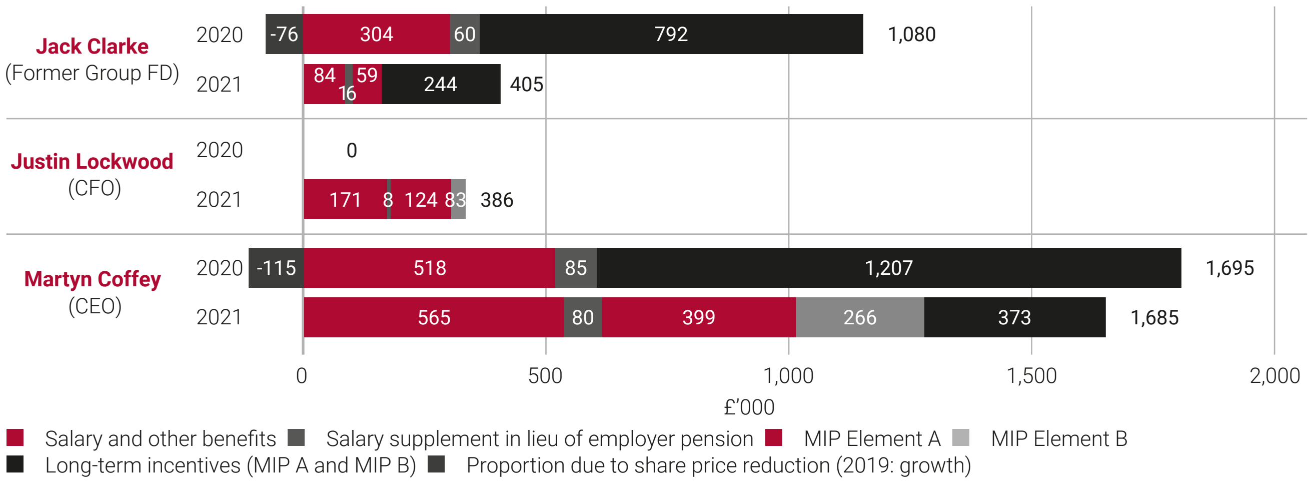
The following chart shows the single figure of remuneration for the CEO over the last five financial years compared to the Company's EPS and OCF over the same period. The EPS and OCF for 2021 have been disclosed on a pre-IFRS 16 basis in order to be consistent with prior periods. The chart demonstrates the correlation between Company performance demonstrated by these measures and the remuneration paid to the CEO.



2021 single figure

The following charts summarise the single figure of remuneration for 2021 in comparison with 2020 and with the minimum, target and maximum remuneration scenarios from the 2020 Remuneration Policy to show how the actual remuneration compares to the Policy remuneration. For those elements of remuneration provided in shares in 2020 and 2021, we have separated out their original value on grant and the additional value generated due to share price growth 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 101).



Notes:

a) Base salary, benefits and pension information is taken from the single figure remuneration table in the 2021 Annual Remuneration Report. The benefits value reflects a fully expensed company car, medical insurance and any other taxable benefits, and pension includes the level of salary supplement paid instead of contractual employer pension contributions.

b) At target, 50 per cent of the annual award under the MIP pays out.

c) The minimum assumes a performance that fails to meet the threshold for Element A and Element B so is the level below which no variable pay under the MIP is earned.

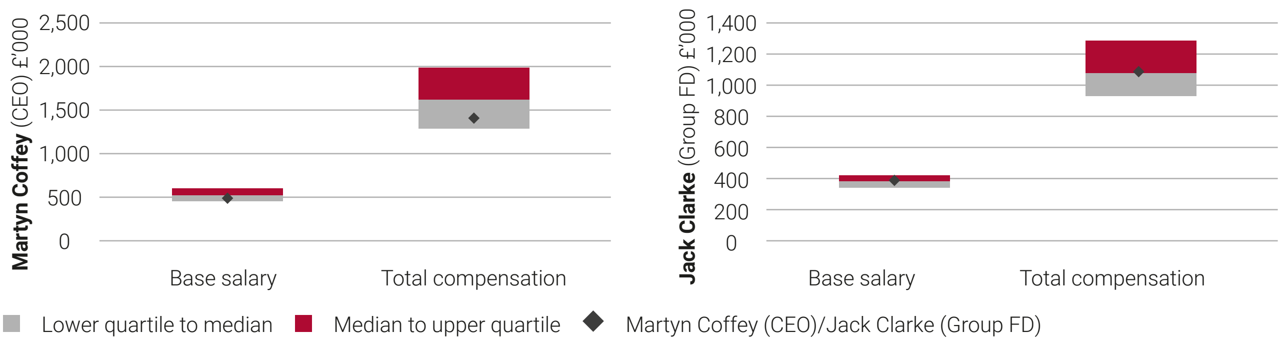
d) The maximum represents the full 250 per cent of salary potential under the MIP.

e) The maximum +50 per cent share price increase represents the full 250 per cent of salary potential under the MIP, as well as the maximum value assuming a 50 per cent increase in share price for MIP B awards.

2021 remuneration outcomes continued

Comparison to peers

The following chart shows the relative position of base salary and total compensation for our Executive Directors compared to our peers.

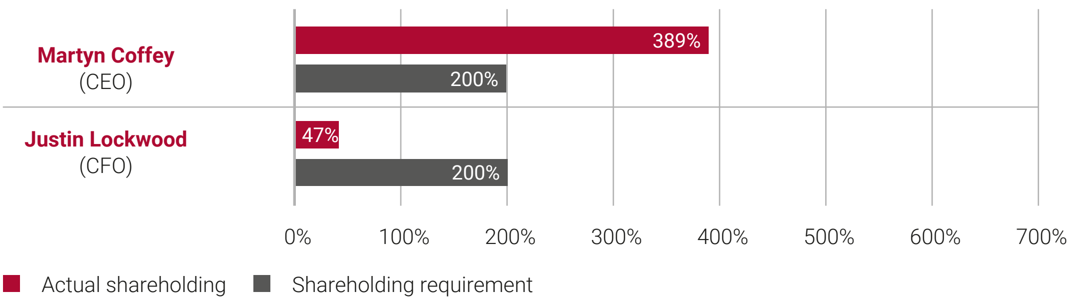


The charts demonstrate the Committee's policy that salary and benefits should be set at market level, with stretching but achievable variable incentives appropriately rewarding good performance. The variable element assumes an "on-target" performance under relevant incentive schemes. Paying at a median level is also consistent with the pay policy for the rest of the organisation.

As the business has grown, the scale, complexity and levels of responsibility of the Executive Directors have increased. This is reflected in the CFO's remuneration package on recruitment and the adjustment we have made to the CEO's remuneration, further details of which are set out on page 94.

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.



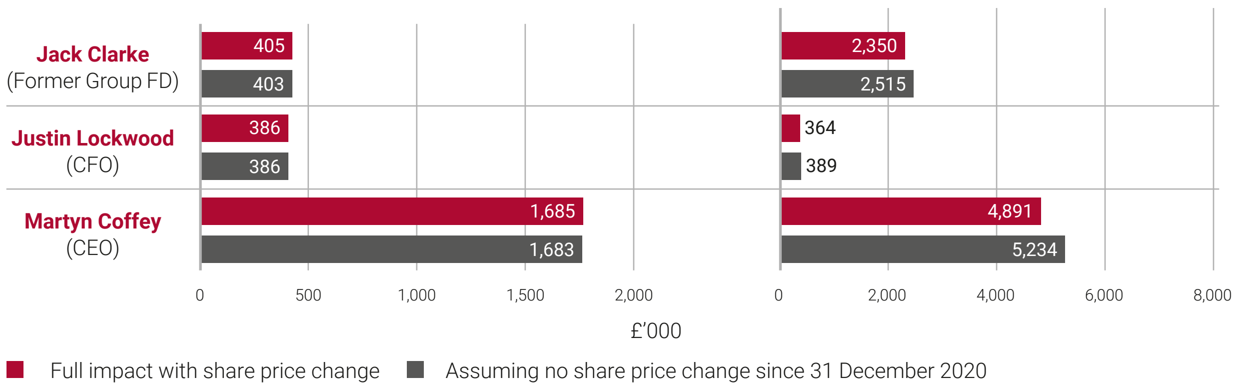
Under the 2020 Policy, the full shareholding requirement of 200 per cent of salary will continue to apply for one year post-cessation of employment and half of the requirement (being 100 per cent) for a further year.

Any vested MIP shares that remain subject to the holding requirement are held in an EBT until the holding period is complete.

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 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 discretion to adjust remuneration as a result of share price appreciation or depreciation, but this has not been required given the 2021 outcomes. The following charts set out the single figure for 2021 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*



At a glance continued

Implementation of the Policy in 2021 and 2022 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 2021; and
- how the Company proposes to implement the 2020 Remuneration Policy in 2022.

Element of pay	Summary of Policy	How we implemented the Policy in 2021	How we will implement the Policy in 2022
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).	Executive Director salaries for 2021 were as follows: • CEO – £531,586; and • CFO – £380,000. Due to the pandemic, the October 2020 salary review was delayed until early 2021. The above reflect the Executive Director base salaries effective, in the case of the CEO, January 2021 and, in the case of the CFO, on appointment. The CEO's salary was increased by 6% in March 2021 (effective Jan 2021).	Executive Director salaries for 2022 are as follows: • CEO – £574,113 (8% increase); and • CFO – £399,000 (5% increase). As referenced in the Chair's letter, the Committee conducted a review of the CEO and CFO's packages in October 2021. The Committee determined that the CFO's package remains competitive and appropriate, and therefore proposes an increase in line with the pay award for the majority of colleagues throughout the Group.
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 is 20% of salary; however, this will be reduced to align with the majority of employees (currently 5%) by the end of 2022. For any new Executive Director appointments, the maximum employer pension contribution or allowance will be in line with the majority contribution to UK employees.	The CEO's employer pension contribution was reduced by 2.5% to 15% of salary. The CFO's employer pension contribution was set at 5% of salary on appointment, in line with that of the majority of employees.	In line with our Policy commitment, the CEO's employer pension contribution will be reduced to align with the contribution for the majority of colleagues across the Group (currently 5%) by the end of 2022. The CFO's pension contribution will remain at 5% of salary.

Implementation of the Policy in 2021 and 2022 for Executive Directors continued

Element of pay	Summary of Policy	How we implemented the Policy in 2021	How we will implement the Policy in 2022
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 50% of the cumulative balance will be paid in cash. Any remaining balance will be converted into shares or share-linked units. 100% of the balance in the final 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. 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 2021 was as follows: • CEO – 150% of base salary; and • CFO – 150% 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 brand, customers and employees: • customer service (must remain at or above 95%); and • health and safety incidence: the rate of accidents must not fall below an agreed threshold, benchmarked by reference to the "base" year (2018). 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 93 for details of the targets, their level of satisfaction and the corresponding bonus earned.	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 brand, sustainability and our colleagues will apply as follows: • annual carbon reduction targets must be achieved (target to be net zero by 2030). The 2022 target is that carbon consumption be below 48,150 tonnes in the year; and • health and safety incidence: the rate of accidents must not fall below an agreed threshold, benchmarked by reference to the "base" year. If they are not met, there is a reduction of award value earned by 10% in relation to each of these additional conditions.

At a glance continued

Implementation of the Policy in 2021 and 2022 for Executive Directors continued

Element of pay	Summary of Policy	How we implemented the Policy in 2021	How we will implement the Policy in 2022
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. Contribution level for 2021 was as follows: • CEO – 100% of base salary; and • CFO – 100% 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.		

Group Finance Director leaver arrangements

As described in the Chair's letter, the Group Finance Director, Jack Clarke, stepped down and retired from the Board and as Group Finance Director with effect from 1 April 2021. As previously announced, and in accordance with his service agreement, Jack will remain with the Group until 31 March 2022 to ensure a smooth and orderly handover, and will be classified as a "good leaver". The table below sets out a summary of Jack's leaving remuneration arrangements.

Outstanding in-flight MIP Element B share awards	Pro-rated to 31 March 2022, and will only vest to the extent that the applicable performance conditions are satisfied, subject to the two-year holding requirement. Malus and clawback provisions will continue to apply.
MIP Element B award for the financial years ending 2021 and 2022	Not entitled to receive MIP Element B grants for these years.
MIP Element A for the financial years ending 2021 and 2022	Will receive MIP Element A for the financial year ending 31 December 2021. Will receive a pro-rated MIP Element A for the year ending 31 December 2022, to the period to 31 March 2022, to the extent that the applicable performance conditions are satisfied. Malus and clawback provisions will continue to apply.
Save As You Earn Scheme	Treated as a good leaver.
Legal fees	The Company will pay up to £4,500 in legal fees incurred by, and other payments due to, Jack.
Shareholding requirement	Jack is required to maintain a shareholding equivalent to 200% of his leaving salary for the first year following retirement and 100% of leaving salary for the second year following retirement.

Other than the above, no other remuneration payment, including for "loss of office", has been or will be paid to Jack Clarke after the termination date.

Implementation of Non-Executive Directors' fees in 2021 and 2022

Following the decision to delay the January 2021 pay awards to later in the year, the Board, on the basis of a recommendation from the Remuneration Committee, approved a 1.4 per cent increase in the fees of the Non-Executive Directors, backdated to January 2021. The Committee approved the same increase in the Chair's fee.

For 2022, the Remuneration Committee has approved an adjustment to the Board Chair's annual fee from £177,500 to £210,000, effective from January 2022. The Chair has historically been positioned below the lower quartile of the market, which the Committee does not consider to be appropriate given the growth in the size and increasing complexity of the business and her experience. This is also reflective of the fact that with increased complexity comes an increase in time commitment to fulfil duties to the high level of contribution we see from the Chair as she executes her duties. During her tenure, the Chair has successfully navigated the Group through the challenges it has faced, overseen record growth and led a comprehensive strategic review of the business.

The Committee has provided the Chair with increases aligned to those given to the majority of colleagues across the Group since her appointment, but feels that, at this time, it is appropriate to align her fee with the market to ensure that her strong leadership and performance are reflected in her remuneration. Further, the Committee is uncomfortable, given the Company's gender pay policies, that the Company's female Chair is below the market of her predominantly male peers.

Implementation of Non-Executive Directors' fees in 2021 and 2022 continued

The Board has approved an increase of 5 per cent in the Non-Executive Director fees for 2022, which is in line with the increase applicable to the vast majority of colleagues across the Group.

Director	1 January 2022 £'000	1 January 2021 £'000	Percentage increase
Vanda Murray (Chair, Chair of Nomination Committee)	**209.5**	177.5	18%
Graham Prothero (SID, Chair of Audit Committee) – Note a	**64.9**	58.4	5%
Angela Bromfield (Chair of Remuneration Committee) – Note b	**61.0**	49.8	5%
Tim Pile	**52.3**	49.8	5%
Philip Rogerson – Note c	**–**	49.8	n/a
Avis Darzins – Note d	**52.3**	49.8	5%
Janet Ashdown – Note e	**–**	65.7	n/a

Notes:

a) Graham Prothero became the Senior Independent Director from May 2021, and therefore his increase in fees is reflective of the additional fees received in relation to this role.

b) Angela Bromfield became the Chair of the Remuneration Committee from May 2021, and therefore her increase in fees is reflective of this increase in role.

c) Philip Rogerson became a Director of the Company effective 1 September 2021 and stepped down as a Director of the Company for health reasons effective 14 December 2021.

d) Avis Darzins became a Director of the Company effective 1 June 2021.

e) Janet Ashdown retired as a Director of the Company on 12 May 2021.

Annual Remuneration Report

This report covers the reporting period from 1 January 2021 to 31 December 2021 and explains how the Remuneration Policy has been implemented. Comparative figures for the 2020 financial year have also been provided.

Single total figure of remuneration in 2021 – 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	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Martyn Coffey	**532**	485	**33**	33	**80**	85	**399**	–	**266**	–	**375**	1,092	**1,685**	1,695	**645**	603	**1,040**	1,092
Justin Lockwood (Note e)	**166**	–	**5**	–	**8**	–	**124**	–	**83**	–	**–**	–	**386**	–	**179**	–	**207**	–
Jack Clarke (Note f)	**83**	300	**1**	4	**16**	60	**59**	–	**–**	–	**246**	716	**405**	1,080	**100**	364	**305**	716
Total	**781**	785	**39**	37	**104**	145	**582**	–	**349**	–	**621**	1,808	**2,476**	2,775	**924**	967	**1,552**	1,808
			Note a		Note b		Note c		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 annual bonus column shows 50 per cent of the total bonus contribution earned under the MIP Element A in respect of 2021 performance, and 50 per cent of the total value of Element B shares awarded which are deferred but are not subject to further performance conditions (other than continued employment). The remaining 50 per cent in respect of 2021 Element A is deferred into shares in the MIP account which are subject to performance and employment-based forfeiture for a further holding period. The remaining 50 per cent of 2021 Element B shares is subject to underpins and employment-based forfeiture for a three-year deferred period. These deferred elements will be disclosed in the long-term incentives column when the conditions are satisfied. The deferred shares in relation to both Element A and Element B may change in value during the holding period depending on Marshalls' share price. No MIP awards for 2020.

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 increase in the MIP account balances because of share price increase is £2,000 for Martyn Coffey and £2,000 for Jack Clarke.

e) Justin Lockwood joined the Board as Chief Financial Officer on 26 July 2021. His single total figure of remuneration elements therefore reflect his time on the Board since then. Justin Lockwood received 29,160 nil-cost options on 20 August 2021 to the value of £223,657, based on the share price on 26 July 2021 (his start date) of £7.67. This was a bespoke award made to Justin in lieu of incentives forfeited on cessation of employment only, and is subject to continued employment.

f) Jack Clarke's 2021 single total figure of remuneration elements are pro-rated based on his time in role, to his date of departure from the Board, 31 March 2021.

Annual Remuneration Report continued

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 increase capital investment to take advantage of market demand and 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 2021 the Group was re-accredited with the Fair Tax Mark.

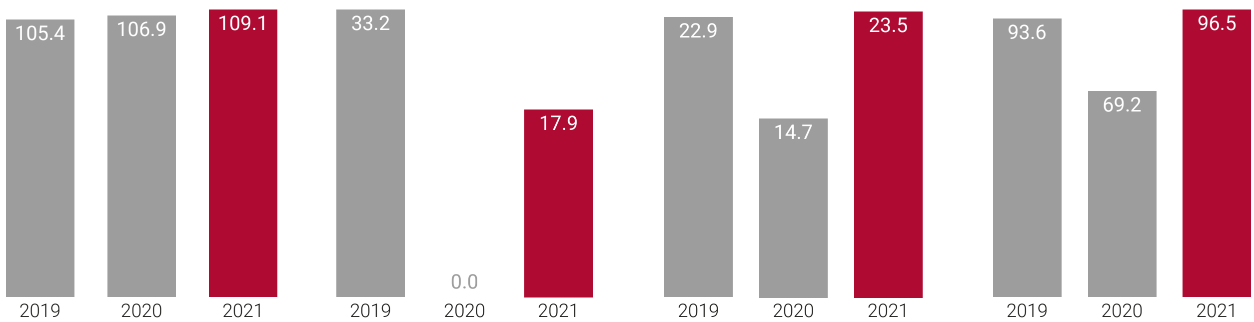
Relative importance of spend on pay (percentage change)

Staff pay (£'m) **+2.1%**

Distributions to shareholders (£'m) **£17.9m**

Capital investment (£'m) **+59.9%**

Tax (£'m) **+39.5%**



Outcomes of incentive schemes in 2021 (audited)

See page 93 for details of the satisfaction of the performance conditions under the MIP for 2021.

MIP awards 2021

A new MIP started in 2020. As performance conditions were not met in 2020, the opening balance in 2021 was still zero.

Element A

Plan accounts	Martyn Coffey	Justin Lockwood	Jack Clarke
Opening balance (number of shares) (Note a)	–	–	–
2021 contribution (% of salary earned)	150%	150%	150%
Value	£797,379	£248,462	£471,443
2021 element released (Note b)	£398,689	£124,231	£235,721
Closing balance (deferred into shares)	£398,690	£124,231	£235,722
Number of shares represented by closing balance (Note c)	57,188	17,819	33,812

Element B (2019 award in respect of 2018 performance)

The EPS forfeiture threshold applicable to the 2019 award was 14.32. The actual average EPS performance was 26.29 and therefore the forfeiture threshold was met and 100% of the award will vest. Note that Justin Lockwood was not granted a 2019 MIP B award.

	Martyn Coffey	Justin Lockwood	Jack Clarke
Number of shares awarded	97,745	–	64,118
Value of shares vesting	698,838	–	458,418
Value of dividends accrued over vesting period	25,140	–	16,479
Value included in single figure table (Note e)	374,559	–	245,688

MIP awards 2021 continued

Element B (2022 award in respect of 2021 performance)

Plan accounts	Martyn Coffey	Justin Lockwood	Jack Clarke (Note f)
Number of shares awarded	76,251	23,759	n/a
Percentage of salary	100%	100%	n/a
Value	£531,586	£165,641	n/a
EPS forfeiture threshold (Note d)	n/a	n/a	n/a

Notes:

a) 50 per cent of the earned Element A award is released to the participant as annual bonus; the remaining 50 per cent is deferred into the participant's MIP account and converted into shares. The table above shows the resulting closing balance value calculated by reference to the mid-market average value for the 30-day period ended 31 December 2021 and adding the value of dividends of 4.3 pence per share paid during 2021.

b) The earned Element A award for 2021 is added to the individual's plan account, and 50 per cent of the resulting balance is released to the participant as an annual bonus; the remaining 50 per cent is deferred into the participant's MIP account and converted into shares. The deferral is repeated in each subsequent year up to the final year. In the final year, subject to any forfeiture provisions, 100 per cent of any balance in the MIP account is released.

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 2021 (697.15 pence).

d) If the actual EPS falls below the forfeiture threshold over the three years before vesting, 50 per cent of the balance of the award is 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.

e) In accordance with the regulations, 50% of the Element B award is included in the single figure table on grant. The remaining 50% plus any dividends accrued are included on vesting.

f) In line with his leaver arrangements, Jack Clarke will not be entitled to receive a MIP Element B award for the financial years ending 31 December 2021 and 2022.

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 October 2021. 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* £'000		Total £'000	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Vanda Murray Chair, Chair of Nomination Committee and member of Remuneration Committee	**177**	169	**–**	–	**2**	8	**179**	177
Graham Prothero Senior Independent Director (from 13 May 2021), Chair of Audit Committee and member of Remuneration and Nomination Committees	**50**	47	**13**	8	**1**	–	**64**	55
Tim Pile Member of Audit, Remuneration and Nomination Committees	**50**	47	**–**	–	**1**	1	**51**	48
Angela Bromfield Chair of Remuneration Committee (from 13 May 2021) and member of Audit and Nomination Committees	**50**	47	**5**	–	**1**	–	**56**	47
Avis Darzins Member of Audit, Remuneration and Nomination Committees (from 1 June 2021)	**29**	–	**–**	–	**1**	–	**30**	–
Philip Rogerson Member of Audit, Remuneration and Nomination Committees (from 1 September 2021 to 14 December 2021)	**17**	–	**–**	–	**1**	–	**18**	–
Janet Ashdown Previously Senior Independent Director, Chair of Remuneration Committee and member of Audit and Nomination Committees	**18**	49	**6**	17	**–**	–	**24**	66
Total	**391**	359	**24**	25	**7**	9	**422**	393

Notes:

a) Benefits are travel and accommodation expenses.

Governance

Annual Remuneration Report continued

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 2021.

	Shareholding requirement (Note a)		Beneficially owned (Note b)	Shares that will vest following 2021 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	153,527	306,633	101,350	66,364	123,552	597,899
Justin Lockwood	200	109,747	5,000	–	–	46,979	51,979
Jack Clarke	200	90,771	132,163	66,480	18,524	52,336	269,503
Non-Executive							
Vanda Murray	–	–	22,000	–	–	–	22,000
Tim Pile	–	–	40,840	–	–	–	40,840
Graham Prothero	–	–	2,417	–	–	–	2,417
Avis Darzins	–	–	3,925	–	–	–	3,925
Angela Bromfield	–	–	3,000	–	–	–	3,000

Notes:

a) The closing price on 31 December 2021 of 699.5 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 306,699, by Justin Lockwood was 5,000 and by Jack Clarke was 132,229. Changes were due to share purchases under the Share Purchase Plan.

c) This comprises Element B awards granted in March 2019 (based on 2018 performance) that will vest three years from grant (i.e. March 2022) 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 2019 and 2020 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 100 per cent of Element B awards shown in this column may be forfeited if the financial condition is not satisfied. Justin Lockwood's deferred MIP Element A award amounted to 17,819 shares. In addition, he received 29,160 nil-cost options on 20 August 2021. Further details of this award are set out on page 101.

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 2021 (697.15 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.

It should be noted that Martyn Coffey has met his minimum shareholding requirement. Justin Lockwood currently holds 51,979 Ordinary Shares representing 47% of his salary. Justin only joined the Group in July 2021.

Statement of implementation of Remuneration Policy in the following financial year (2022)

See pages 98 to 100.

Payments to past Directors/payments for loss of office

As described in the Chair's letter, the Group Finance Director, Jack Clarke, stepped down and retired from the Board and as Group Finance Director with effect from 1 April 2021. As previously announced, and in accordance with his service agreement, Jack will remain with the Group until 31 March 2022 to ensure a smooth and orderly handover, and will be classified as a "good leaver". A table setting out a summary of Jack's full leaver arrangements can be found on page 100.

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 100
Performance graph and table	Page 96
Percentage change in remuneration of the Director undertaking the role of CEO	Page 107
Relative importance of pay	Page 107
Statement of implementation of the Policy in the following financial year	Pages 98 to 100
Consideration by the Directors of matters relating to Directors' remuneration	Pages 93 to 95
Statement of voting at Annual General Meeting	Page 95

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.

Process

The Committee fulfils its responsibility for the oversight and review of wider workforce pay, policies and incentives through a formal process. Reporting is prepared on an annual basis to show details of all elements of remuneration for all members of the workforce (excluding temporary and agency staff and consultants). The reports include 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).

This information is used to inform the overall reward strategy and action plans for the wider UK workforce.

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 new policy development around a range of topics including reward and remuneration policy. In 2022 there will be a specific focus on the Group's gender pay gap reporting as well as benchmarking and understanding the role of reward in attraction and retention (including Executive Director and senior leader pay). The meetings are chaired by the Group Human Resources Director and attended by a mixed group of employees from across the different parts of the Group. 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 now elected by their colleagues to be their representatives. A summary of the EVG's activities is set out in the Strategic Report on page 67.

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, 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.

Progress during 2021

The annual audit of wider workforce pay and conditions was completed. The Group has a clear strategy in place to develop this process and rectify any disparities revealed as a result of the review over the coming years.

Fairness, diversity and wider workforce considerations continued

Overview of findings

The key findings of the Committee's review for 2021 were as follows:

- there was support for the £600 thank you award the Group made to employees in recognition of their hard work and commitment throughout the pandemic. The award, made in December 2021, could be taken in the form of cash, shares or an additional employer contribution to the Company's defined contribution pension scheme;
- there was support for the planned extension of the Company's wellbeing strategy and support services to employees;
- the development of competency-driven pay models was recognised as a fair and transparent way of managing pay for skills and capability – these are being rolled out across various parts of the business;
- benefits remain competitive and, in response to the recognised need for more education, Marshalls NOW has been launched as a dedicated gateway for benefits information and access. Plans in 2022 include the launch of a dedicated app for pension planning through our pension provider Aviva. We will continue to drive communication through an "annual calendar" to build greater awareness across the employee populations of exactly what is open to them; and
- participation in certain benefits is becoming more standardised against the size and scale of an individual's role.

There was support for the exercise to standardise terms and conditions of employment thus ensuring consistency and full transparency across the workforce. This exercise has now largely been completed with the vast majority of consultations complete and new contracts of employment to be issued in early 2022. This will significantly reduce complexity across the Group and ensures fairness and equality across the Group with clarity on remuneration packages in each job role.

The Committee provided oversight in connection with the Group's comprehensive review of HGV driver pay during the year, which resulted in a significant pay increase for HGV drivers working in the Landscape Products business to ensure our remuneration packages fairly reward them and reflect current market pay levels effective from 1 January 2022.

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 wider Company pay policy.

The Company expects to continue with the EVG as a mechanism for fully engaging with the workforce on key matters and topics which relate to their employment and engagement in the business.

- 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 (2)	150% of salary	100% of salary	No	Yes
Executive Committee (8)	55% to 85% of salary	35% to 80% of salary	No	Yes
Senior management (10)	45% of salary	45% 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 Company is consistent with the Company's principles of remuneration. Further, in the Committee's opinion, the approach to Executive remuneration aligns with wider Company pay policy and there are no anomalies specific to the Executive Directors.

Widening employee share ownership

Equity participation is offered to all employees of the Company through the Share Purchase Plan and SAYE schemes and to managers and the Executives through the MIP or the BSP, each of which involves the award of nil-cost options over shares. It is the Company's policy to allow employees to share in Company success by means of equity participation. 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 introduced in 2015 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.

Widening employee share ownership continued

2021 thank you award

As disclosed earlier in this report, in December 2021, the Group awarded a £600 thank you award to employees in recognition of their hard work and commitment through an incredibly challenging year. The award could be taken in the form of shares (or cash, or an additional contribution to the Company's defined contribution pension scheme).

The Group intends to launch another three-year SAYE scheme for employees in 2023.

Real Living Wage employer

Marshalls is proud to be a Real Living Wage employer, underscoring its commitment to its employees. Marshalls achieved Living Wage accreditation in 2018 and has maintained its status throughout 2021.

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.

	CEO pay ratio				Employee salary				Employee total pay and benefits		
Financial year	25th percentile	50th percentile	75th percentile	CEO salary £'000	25th percentile £'000	50th percentile £'000	75th percentile £'000	CEO total pay and benefits £'000	25th percentile £'000	50th percentile £'000	75th percentile £'000
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
2018	58.1:1	44.1:1	37.1:1	445	27	35	42	1,602	28	36	43

The 25th, 50th and 75th percentiles have been calculated using actual pay for the year ended 31 December 2021, 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.

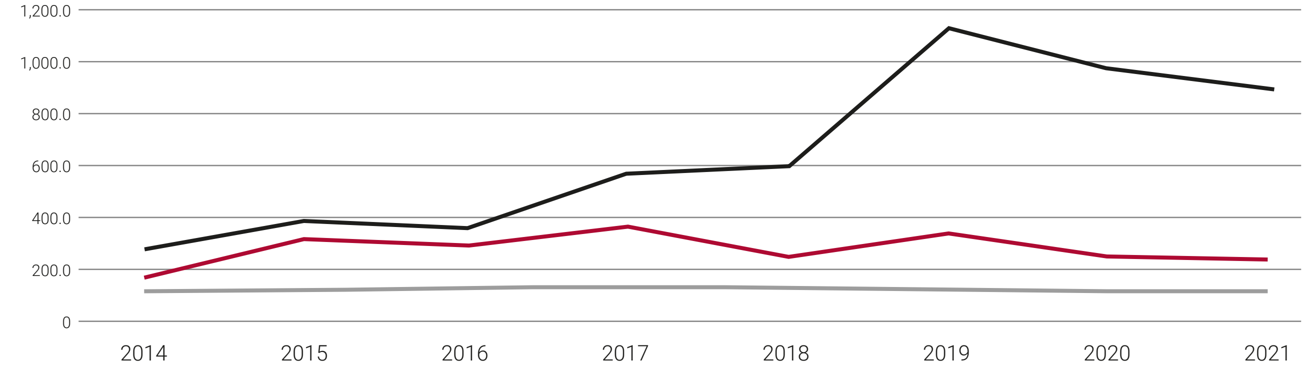
Shareholders expect the CEO to have a significant proportion of pay based on performance and paid in shares. It is this element of the package which provides the volatility in CEO remuneration and the variations in the ratio. The Committee is satisfied that the underlying picture does not show a divergence 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**
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**

- 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 2017. This increases the CEO pay in that year, again impacting the ratio for that year.
- Long-term incentives are provided in shares, and therefore an increase in share price during any deferral or vesting period magnifies the impact 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.

Fairness, diversity and wider workforce considerations continued

CEO/average pay against TSR



— CEO single figure — Average pay — Total shareholder return

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*		
	2021	2020	2019	**2021**	2020	2019	**2021**	2020	2019
Martyn Coffey (CEO)	**6.0%**	5.4%	3.3%	**n/a**	0%	3.1%	**n/a**	n/a	n/a
Justin Lockwood (CFO)	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Jack Clarke (Former Group FD)	**1.4%**	-0.7%	3.3%	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Vanda Murray OBE (Chair)	**1.4%**	-0.7%	3.3%	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Angela Bromfield (NED)	**1.4%**	-0.7%	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Tim Pile (NED)	**1.4%**	-0.7%	3.3%	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Graham Prothero (NED)	**1.4%**	-0.7%	3.3%	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Avis Darzins (NED)	**1.4%**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Philip Rogerson (Non-Executive Director)	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Janet Ashdown (NED)	**1.4%**	-0.7%	3.3%	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Employees	**0.3%**	5.4%	3.3%	**7.3%**	-8.8%	23.8%	**81.0%**	-85.1%	22.2%

Notes:

a) Martyn Coffey's salary was increased on 1 January 2021 by 6 per cent in line with the Remuneration Committee review of external benchmarking.

b) The bonus is the non-deferred amount earned for the relevant year taken from the single figure remuneration table on page 101.

c) A 1.4 per cent increase was awarded to the workforce on 1 January 2021.

d) UK employees have been used as the number of overseas employees is not significant (69) and pay conditions in the non-UK locations (Belgium, China, USA and Dubai) are different from those prevailing in the UK.

e) Jack Clarke stepped down from the Board and as Group Finance Director with effect from 1 April 2021. Justin Lockwood was appointed to the Board as Chief Financial Officer on 26 July 2021.

f) Janet Ashdown stepped down from the Board effective 12 May 2021.

g) Philip Rogerson became a Director of the Company effective 1 September 2021 and stepped down as a Director of the Company effective 14 December 2021.

h) Avis Darzins became a Director of the Company effective 1 June 2021.

CEO pay in the last ten years

This table shows how pay for the CEO role has changed in the last ten years:

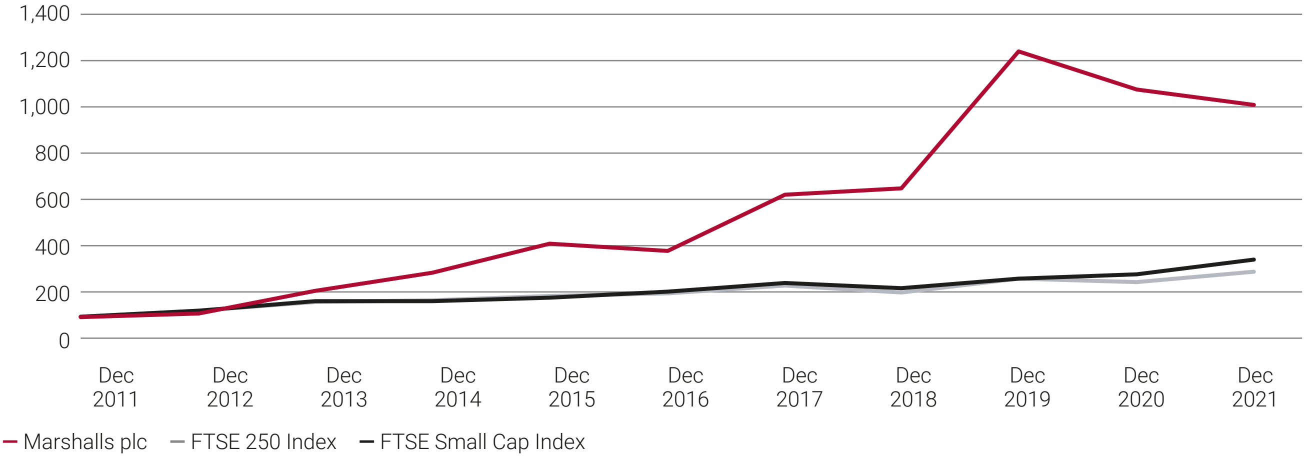
Year	2012[a] £'000	2013[a,b] £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	**2021 £'000**
Single figure remuneration	938	3,143	1,101	2,064	1,913	2,383	1,602	2,213	1,695	**1,685**
% of maximum annual bonus earned	33.0%	63.6%	99.3%	100.0%	96.9%	100.0%	98.0%	99.6%	—	**100.0%**
% of maximum LTIP/MIP awards vesting	—	63.0%	—	100.0%	100.0%	100.0%	98.0%	99.6%	—	**100.0%**

Notes:

a) The years up to 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 2021 of £100 invested in Marshalls plc on 1 January 2011 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.

Gender pay versus equal pay

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 2021 the Group's total UK workforce comprised 2,526 employees with the following gender balance:

	Male	Female
Total workforce	2,124	402
Senior managers*	6	1
Directors**	4	3

* Senior managers comprises the Executive Committee and Company Secretary.

** Directors includes the NEDs, CEO and CFO.

Our gender pay gap disclosure is based on amounts paid in the April 2021 payroll for UK employees. The gender bonus gap includes incentives paid in the year to 31 March 2021.

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.

Fairness, diversity and wider workforce considerations continued

Gender balance and pay continued

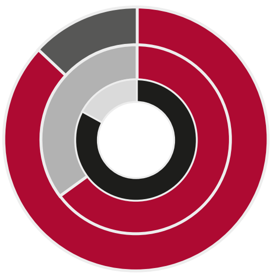
	Mean gender pay gap	Median gender pay gap	Mean bonus gender pay gap	Median bonus gender pay gap
2021 results				
Marshalls Group Limited	8.8%	12.9%	60.7%	40.7%
Marshalls plc	29.3%	38.8%	90.7%	31.8%
Consolidated (Marshalls plc and Marshalls Group Limited)	-5.8%	12.2%	78.9%	29.8%
2020 results				
Marshalls 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 split of male and female employees has stayed broadly the same: 86 per cent male and 14 per cent female. However, in the fifth year of reporting gender pay figures, Marshalls has achieved its lowest gender pay gap for both mean and median measures of gender pay. The mean average has reduced to -5.8 per cent and the median average has reduced to 12.2 per cent.

A number of key factors have combined to influence our outcome:

- The progression of women to the higher pay bands: 4 per cent more women are positioned in the upper quartile pay band and 4 per cent more women now sit in the upper middle quartile when compared to the previous year (see table below).
- Ultimately, gender pay gaps improve when the number of women in higher paid roles increases, a trend seen in 2021. Our data shows that not only has the number of women in higher paid jobs increased, but the average rate of pay for female workers has progressed at a faster rate than that of male workers.

Upper quartile

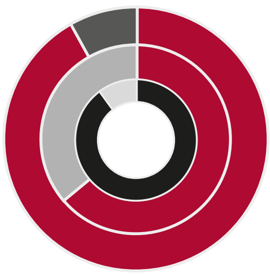


Marshalls Group Limited
Male 87.6% Female 12.4%

Marshalls plc
Male 65.1% Female 34.9%

Overall
Male 83.3% Female 16.7%

Upper middle quartile

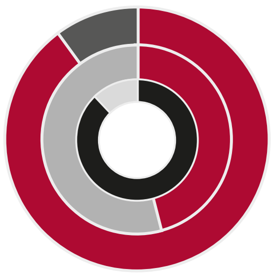


Marshalls Group Limited
Male 91.7% Female 8.3%

Marshalls plc
Male 64.3% Female 35.7%

Overall
Male 89.7% Female 10.3%

Lower middle quartile

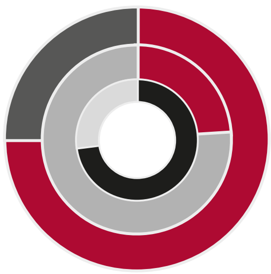


Marshalls Group Limited
Male 89.5% Female 10.5%

Marshalls plc
Male 46.5% Female 53.5%

Overall
Male 87.8% Female 12.2%

Lower quartile



Marshalls Group Limited
Male 75.5% Female 24.5%

Marshalls plc
Male 23.8% Female 76.2%

Overall
Male 72.8% Female 27.2%

Bonus gender pay gap

Both the mean and median bonus gender pay gaps have widened in 2021, in part due to the COVID-19 pandemic adversely impacting the 2020 financial year for a large number of UK businesses. Cash bonus payments were significantly reduced (or not paid) in 2021. This was reflective of the continued impact of COVID-19. Where bonuses were paid these were on individual sales performance and meeting relevant targets.

The table below shows that overall mean bonus pay gap increased from 54.0 per cent in 2020 to 78.9 per cent in 2021 and the median bonus pay gap increased from 21.8 per cent to 29.8 per cent.

	Male	Female
Percentage receiving bonus		
Consolidated	20.9%	26.4%
Marshalls Group Limited	15.3%	32.5%

	Mean bonus gender pay gap	Median bonus gender pay gap
Consolidated	78.9%	29.8%
Marshalls Group Limited	65.2%	25.1%

During this time the UK was in the midst of the COVID-19 pandemic and most of the UK had entered the first period of lockdown, which had a profound and direct effect on many UK businesses. Marshalls was no exception and in April 2020, over three-quarters of the UK workforce was placed on furlough. To support furloughed employees the Government introduced the Coronavirus Job Retention Scheme ("CJRS") wage support measure, designed to protect jobs in the wake of the pandemic. The scheme allowed employers to reclaim up to 80 per cent of the wage costs of furloughed employees up to a cap of £2,500 per month per employee. At this time Marshalls took the decision to "'top up" furloughed employees' pay to 100 per cent of their normal pay. For variable paid workers (who are predominantly male workers in production, engineering and logistics) this was based on their average earnings from the previous year, which were invariably higher than they would have been in April 2021. These exceptional circumstances taking place on and around the gender pay snapshot date will no doubt have had an influence on the average hourly rates for these groups of people and subsequently the gender pay gap itself.

Equity and diversity initiatives

The Group has policies that promote equality 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.

- The appointment of Avis Darzins as a Non-Executive Director further improved gender balance at Board level with Avis also being our first Board member from an ethnically diverse background.
- The Group's Diversity and Inclusion Policy is embedded within our recruitment processes supporting our goal of attracting a diverse range of applicants across all roles in the Group. We have doubled the number of female hires in 2021 (against 2020); we now have 38 per cent of roles in the senior leadership group (the levels below our Executive Committee) filled by women and our retention rate of females is 5 per cent higher.
- Our Diversity and Equity Taskforce, sponsored by a member of the Executive Committee, is challenged with taking actions to continue the work of making our workforce more diverse and representative of the communities in which we operate.
- In 2021 we proactively started to collate diversity data so we can set our baseline and then measure progress in subsequent years.
- Our Female Talent and Learning group has grown as women within the business have heard about the positive experience. We have identified relevant external speakers as well as broader development themes to work on throughout the year. The Group is fully self-directed but supported by specialists from the Human Resources function.

Fairness, diversity and wider workforce considerations continued

Directors' service contracts

	Executive Directors			Non-Executive Directors				
Element	Martyn Coffey	Justin Lockwood	Jack Clarke	Vanda Murray	Tim Pile	Graham Prothero	Angela Bromfield	Avis Darzins
Date of contract/appointment	September 2013	July 2021	October 2014	May 2018	October 2010 (renewed in 2013, 2016 and May 2019)	May 2017	October 2019	June 2021
Notice period in months								
Company	12	12	12	6	6	6	6	6
Director	6	12	6	6	6	6	6	6

Notes:

a) Philip Rogerson was appointed as a Non-Executive Director with effect from 1 September 2021. Philip stepped down as a Director of the Company effective 14 December 2021 for health reasons. On compassionate grounds, the Board waived his notice period.

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 Directors are permitted to hold one external plc board appointment and may retain any remuneration received in that capacity. Executive Director service contracts are not of a fixed duration and therefore have no unexpired terms.

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.

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. PwC also provided general consulting services to the Company during the year on pension matters. 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. PwC's work relating to Executive remuneration during 2021 included assistance with the preparation of the Remuneration Committee Report; advice on the operation of the MIP; total remuneration benchmarking of Non-Executive and Executive Directors; and general advice on remuneration trends, regulations and best practice. The amount paid to PwC in respect of remuneration advice received during 2021 was £38,000 (2020: £42,500).

Angela Bromfield
Chair of the Remuneration Committee
17 March 2022

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 70 and 71.

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 European Union or elsewhere (2020: £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 1 to 69. 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 152 to 156.

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 61.

Employees: Details of how the Directors have engaged with employees are set out on page 67. 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 64 to 67.

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 22 and 27, along with engagement channels used. Details of the Group's stakeholder engagement strategy are explained on pages 22 and 27. The statement by the Directors in relation to their statutory duties under S172(1) Companies Act 2006 is found on pages 20 and 21.

Corporate governance: Details of how the Group complies with and applies the UK Corporate Governance Code are set out on pages 72 to 83.

Post-balance sheet events of importance since 31 December 2021: 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 69.

Dividends

The Board is recommending a final dividend of 9.6 pence (2020: 4.3 pence) per share, which, together with the interim dividend of 4.7 pence (2020: £nil) per share, makes a combined dividend of 14.3 pence (2020: 4.3 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 1 July 2022 to shareholders registered at the close of business on 10 June 2022. The ex-dividend date will be 9 June 2022.

The dividend paid in the year to 31 December 2021 and disclosed in the Consolidated Income Statement was 9.0 pence (2020: 4.3 pence) per share, being the previous year's final dividend of 4.3 pence and the interim dividend of 4.7 pence per share in respect of the year ended 31 December 2021. No dividends were paid in the year ended 31 December 2020. The 2020 final dividend was paid on 1 July 2021.

Share capital and authority to purchase shares

The Company's share capital at 1 January 2022 was 200,052,157 Ordinary Shares of 25 pence each. No new Ordinary Shares were issued during the year ended 31 December 2021. Details of the share capital are set out in Note 23 on page 162.

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") 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. 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 2021 the EBT acquired 515,102 shares for a total consideration of £3,567,000.

At 31 December 2021 the EBT held 865,154 Ordinary Shares in the Company (2020: 1,289,376 shares) in respect of future incentive awards under the Company's employee share schemes. Details of outstanding awards are set out in Note 20 on page 160. 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 Yorkshire Building Society. Employees receive dividends on these shares and may give voting instructions to the Trustee.

At the Annual General Meeting in May 2021 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 2021 and 17 March 2022 under this authority, which will expire at the 2022 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 92 to 112.

Listing Rule requirements

The applicable requirements of Listing Rule 9.8.4R in respect of long-term incentive schemes (page 160) and contracts of significance (page 114) are included in this Annual Report.

Substantial shareholdings

The Company has no controlling shareholder. As at 17 March 2022, 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 2022 %	As at 31 December 2021 %
abrdn	**16.23**	16.19
BlackRock	**6.15**	6.15
Montanaro Investment Managers	**5.19**	5.21
Vanguard Group	**4.34**	4.35
AXA Framlington Investment Managers	**4.29**	4.24
JP Morgan Asset Management	**4.26**	4.25
Royal London Asset Management	**4.22**	4.26
Lansdowne Partners	**4.00**	4.01
Redwheel	**3.41**	3.41
Legal and General Investment Management	**3.33**	3.24

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
17 March 2022

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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and 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 113 and 114 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 2021 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
17 March 2022

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 2021 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 43.

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 ("FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the year are disclosed in Note 3 to the Financial Statements. 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 matter	The key audit matter that we identified in the current year was: • Valuation of the inventory provision Within this report, key audit matters are identified as follows: ! Newly identified ↑ Increased level of risk ↔ Similar level of risk ↓ Decreased level of risk
Materiality	The materiality that we used for the Group Financial Statements was £3.5 million which was determined on the basis of 5 per cent of profit before tax.
Scoping	Full scope audits were performed on all UK components. This accounts for 95 per cent of Group revenue, 100 per cent of Group net assets and 94 per cent of profit before tax generated by profit making entities.
Significant changes in our approach	We identified a key audit matter in relation to the valuation of inventory provisions. Whilst the absolute risk associated with this balance has not increased, on consideration of our overall audit strategy, the relative share of audit effort associated with this balance has increased resulting in its inclusion as a key audit matter within our report. We no longer have a key audit matter in relation to the presentation of restructuring costs as exceptional reflecting that there have been no significant restructuring exercises in the year. Our approach to determining materiality has changed from using a number of metrics with focus on net assets, revenue and profit before tax to using 5 per cent of profit before tax. This is as a result of the return to a more normal trading following the initial impact of COVID-19 during 2020. 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 ongoing impact of COVID-19, climate change and any ongoing strategic projects of the Group;
- assessing the historical accuracy of forecasts prepared by management against actuals achieved;
- testing of clerical accuracy of the model used to prepare the forecasts; and
- assessing the disclosures in the Financial Statements for consistency with our knowledge of the business.

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. Valuation of the inventory provision !

Key audit matter description	The Group is primarily involved in the manufacture and sale of landscape and natural stone products, selling to the Public Sector, Commercial and Domestic end users. Inventory is recorded at the lower of cost and net realisable value and the Group carries a large amount of inventory in order to meet customer needs on demand. The Group offers a wide range of non-perishable products that are manufactured and subsequently stored in large quantities at various locations, and therefore carries a high level of inventories at any given point. A risk exists that the sales price of inventories, particularly those which are aged or in excess of specific customer requirements, may need to be discounted before they can be sold. The risk of discounting, combined with potential costs to move the inventory to a location where demand exists, may result in the inventories being sold at below cost. The Directors are responsible for making judgements surrounding the future recoverability of inventory values based on inventory ageing and the quantities of inventory held compared to the future sales potential. Our audit of valuation of inventory provision, has involved a significant allocation of resources throughout the audit and has represented one of the key areas of focus in directing the efforts of the engagement team. It has become a more significant area of audit focus in the current year as it involves manual adjustments to the stock valuation utilising management judgement. It has therefore been included as a key audit matter. The carrying value of the Group's inventory is £107.4m (2020: £89.9m), as disclosed in Note 13 to the Financial Statements, and this is noted as an area considered by the Audit Committee in its report on page 90.
How the scope of our audit responded to the key audit matter	We have performed the following procedures: • Obtained an understanding of the relevant controls relating to management's process to record inventory provisions. • Tested the relevant general IT controls relating to the stock database. • Attended inventory counts at key locations and considered any signs of damage or obsolescence which would indicate a requirement for a provision. • Used data analytics to compare product lines' recoverable value to their cost value. • Assessed the adequacy of provisions recorded, including where relevant the potential impact on inventory carrying values arising from climate change factors.
Key observations	Based on our procedures the results of our testing were satisfactory. We concur with the basis of valuation of inventory and are satisfied that the level of inventory provisions is appropriate.

Report on the audit of the Financial Statements continued

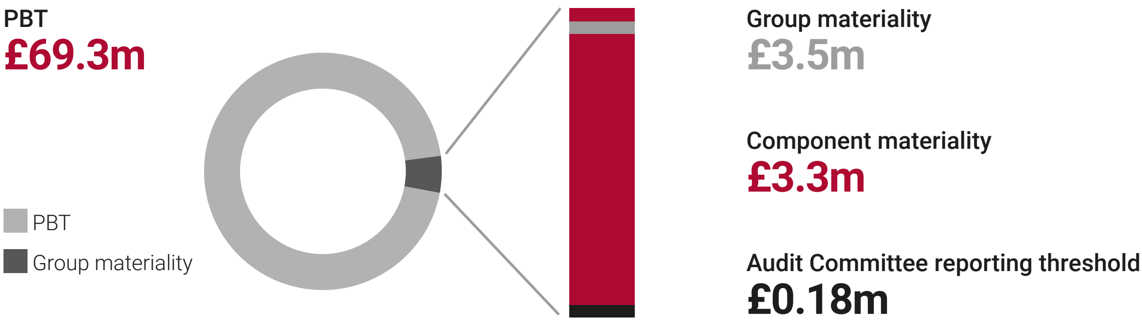
6. Our application of materiality

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	£3.5 million (2020: £2.9 million)	£1.7 million (2020: £1.8 million)
Basis for determining materiality	5 per cent of pre-tax profit. Materiality in the prior year was determined by considering a range of possible benchmarks with a particular focus on net assets, revenue and profit before tax, as well as the scale of the balance sheet and the overall size of the business. This represented approximately 1 per cent of net assets.	Parent Company materiality equates to 0.5 per cent of net assets (2020: 0.5 per cent of net assets).
Rationale for the benchmark applied	In our professional judgement, profit before tax is the principal benchmark within the financial statements that is relevant to the users of the financial statements when assessing 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 (2020: 70 per cent) of Group materiality	70 per cent of Parent Company materiality (2020: 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 whether we were able to rely on controls; b. the continued impact of COVID-19 and climate change on the business and its operating environment; and c. the history of there being no quantitatively 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 £175,000 (2020: £145,000), 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

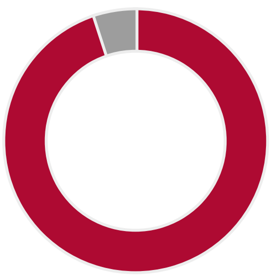
7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement both at the Group and component level.

The Group audit team performed the entire audit of the significant UK component of the group. The UK components accounted for 95 per cent (2020: 95 per cent) of Group revenue, 100 per cent (2020: 100 per cent) of Group net assets and 94 per cent (2020: 93 per cent) of Group profit before tax generated by profit making entities.

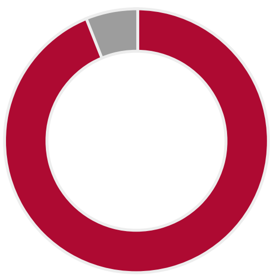
At the Group level, we also tested the consolidation process. The Group audit team carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

Revenue



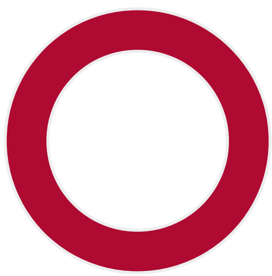
Full audit scope **95%**
Review at Group level **5%**

Profit before tax



Full audit scope **94%**
Review at Group level **6%**

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 IT environment, we have:

- tested 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. We have also tested 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 IT controls associated with these systems.

Controls reliance

During our audit we obtained an understanding and tested the relevant controls within key business cycles. We have taken controls reliance over the revenue and customer rebates business cycles as these are key accounts that impact the Group's profit.

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 has committed to being net zero by 2030 with a developed strategy in how this is to be achieved. Management has 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 50 to 61, the principal risks set out on pages 34 to 43. Management 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.

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.

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;
- 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, pensions, IT and climate and sustainability specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

In common with all audits under ISAs (UK), we are 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, tax legislation and health and safety regulations.

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.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

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 and external 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 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 regard to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 116;
- 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 116;
- the Directors' statement on fair, balanced and understandable set out on page 91;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 37;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 76; and
- the section describing the work of the Audit Committee set out on page 88 onwards.

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 seven years, covering the years ending 31 December 2015 to 31 December 2021.

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
17 March 2022

Consolidated Income Statement
for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Revenue	2	**589,264**	469,454
Net operating costs	3	**(513,041)**	(460,081)
Operating profit	2	**76,223**	9,373
Financial expenses	6	**(6,903)**	(4,730)
Financial income	6	**2**	10
Profit before tax	2	**69,322**	4,653
Income tax expense	7	**(14,424)**	(2,095)
Profit for the financial year		**54,898**	2,558
Profit for the year			
Attributable to:			
Equity shareholders of the Parent		**54,806**	2,370
Non-controlling interests		**92**	188
		54,898	2,558
Earnings per share			
Basic	8	**27.5p**	1.2p
Diluted	8	**27.4p**	1.2p
Dividend			
Pence per share	9	**14.3p**	4.3p
Dividends declared	9	**28,484**	8,562

All results relate to continuing operations.

	Notes	2021 £'000	2020 £'000
Profit before adjusting items			
Profit before tax (reported)		**69,322**	4,653
Adjusting items	4	**2,748**	17,809
Profit before tax (before adjusting items)		**72,070**	22,462
Profit for the financial year (reported)		**54,898**	2,558
Adjusting items (net of tax)	4	**2,142**	14,708
Profit after tax (before adjusting items)		**57,040**	17,266
Earnings per share before adjusting items			
Basic	8	**28.6p**	8.6p
Diluted	8	**28.4p**	8.5p

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Profit for the financial year before adjusting items		**57,040**	17,266
Adjusting items	4	**(2,142)**	(14,708)
Profit for the financial year		**54,898**	2,558
Other comprehensive income/(expense)			
Items that will not be reclassified to the Income Statement:			
Remeasurements of the net defined benefit surplus/(loss)	20	**26,383**	(12,741)
Deferred tax arising	22	**(6,600)**	2,421
Impact of the change in rate of deferred tax on defined benefit plan actuarial gain/(loss)		**17**	(314)
Total items that will not be reclassified to the Income Statement		**19,800**	(10,634)
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		**1,403**	(1,526)
Fair value of cash flow hedges transferred to the Income Statement		**(922)**	1,238
Deferred tax arising	22	**36**	42
Exchange difference on retranslation of foreign currency net investment		**(232)**	922
Exchange movements associated with borrowings designated as a hedge against net investment		**640**	(1,117)
Foreign currency translation differences – non-controlling interests		**(55)**	39
Total items that are or may be reclassified to the Income Statement		**870**	(402)
Other comprehensive income/(expense) for the year, net of income tax		**20,670**	(11,036)
Total comprehensive income/(expense) for the year		**75,568**	(8,478)
Attributable to:			
Equity shareholders of the Parent		**75,531**	(8,705)
Non-controlling interests	24	**37**	227
		75,568	(8,478)

Consolidated Balance Sheet
at 31 December 2021

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**173,931**	179,401
Right-of-use assets	11	**36,445**	44,990
Intangible assets	12	**95,004**	94,679
Employee benefits	20	**25,757**	2,726
Deferred taxation assets	22	**1,605**	2,620
		332,742	324,416
Current assets			
Inventories	13	**107,436**	89,782
Trade and other receivables	14	**111,909**	95,742
Cash and cash equivalents	15	**41,212**	103,707
Assets classified as held for sale	10	**1,860**	450
Derivative financial instruments	19	**813**	332
		263,230	290,013
Total assets		**595,972**	614,429
Liabilities			
Current liabilities			
Trade and other payables	16	**138,218**	119,816
Corporation tax		**2,198**	7,277
Lease liabilities	18	**8,545**	10,065
Interest-bearing loans and borrowings	17	**1,673**	20,000
		150,634	157,158
Non-current liabilities			
Lease liabilities	18	**32,776**	38,926
Interest-bearing loans and borrowings	17	**39,341**	110,282
Provisions	21	**839**	3,149
Deferred taxation liabilities	22	**28,065**	17,066
		101,021	169,423
Total liabilities		**251,655**	326,581
Net assets		**344,317**	287,848
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital	23	**50,013**	50,013
Share premium account		**24,482**	24,482
Own shares		**(646)**	(806)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**830**	313
Foreign exchange reserve		**47**	(361)
Retained earnings		**406,277**	350,930
Equity attributable to equity shareholders of the Parent		**343,330**	286,898
Non-controlling interests	24	**987**	950
Total equity		**344,317**	287,848

Approved at a Directors' meeting on 17 March 2022.

On behalf of the Board:

Martyn Coffey
Chief Executive

Justin Lockwood
Chief Financial Officer

The Notes on pages 131 to 165 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement
for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Cash flows from operating activities			
Profit before adjusting items		**57,040**	17,266
Adjusting items		**(2,142)**	(14,708)
Profit for the financial year		**54,898**	2,558
Income tax expense on continuing operations	7	**15,030**	5,196
Income tax credit on adjusting items	7	**(606)**	(3,101)
Profit before tax		**69,322**	4,653
Adjustments for:			
Depreciation of property, plant and equipment	10	**16,423**	15,657
Asset impairments	10	**233**	5,489
Depreciation of right-of-use assets	11	**11,315**	12,060
Amortisation	12	**3,178**	2,719
Gain on sale of property, plant and equipment		**(9,194)**	(1,103)
Equity settled share-based payments		**2,303**	2,998
Financial income and expenses (net)	6	**6,901**	4,720
Operating cash flow before changes in working capital		**100,481**	47,193
Increase in trade and other receivables		**(16,696)**	(26,031)
Increase in inventories		**(18,108)**	(180)
Increase in trade and other payables		**19,740**	7,442
Adjusting items		**(2,820)**	(6,946)
Cash generated from operations		**82,597**	21,478
Financial expenses paid		**(3,534)**	(4,475)
Income tax paid		**(13,527)**	(4,631)
Net cash flow from operating activities		**65,536**	12,372
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**14,892**	11,450
Financial income received		**2**	10
Acquisition of property, plant and equipment		**(19,037)**	(13,158)
Acquisition of intangible assets		**(2,885)**	(1,599)
Net cash flow from investing activities		**(7,028)**	(3,297)
Cash flows from financing activities			
Payments to acquire own shares		**(3,567)**	(2,705)
Repayment of borrowings		**(121,286)**	(10,009)
New loans		**32,658**	67,900
Cash payment for the principal portion of lease liabilities		**(10,828)**	(13,780)
Equity dividends paid		**(17,924)**	—
Net cash flow from financing activities		**(120,947)**	41,406
Net (decrease)/increase in cash and cash equivalents		**(62,439)**	50,481
Cash and cash equivalents at the beginning of the year		**103,707**	53,258
Effect of exchange rate fluctuations		**(56)**	(32)
Cash and cash equivalents at the end of the year		**41,212**	103,707

Consolidated Statement of Changes in Equity
for the year ended 31 December 2021

		Attributable to equity holders of the Company									
	Share capital £'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	Non-controlling interests £'000	Total equity £'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 attributable to equity shareholders of the Parent	–	–	–	–	–	–	–	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)
Disposal of own shares	–	–	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**

Consolidated Statement of Changes in Equity continued
for the year ended 31 December 2021

	Share capital £'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	Non-controlling interests £'000	Total equity £'000
Prior year											
At 1 January 2020	50,013	24,482	(1,391)	75,394	(213,067)	559	(166)	359,219	295,043	723	295,766
Total comprehensive (expense)/income for the year											
Profit for the financial year attributable to equity shareholders of the Parent	–	–	–	–	–	–	–	2,370	2,370	188	2,558
Other comprehensive (expense)/income											
Foreign currency translation differences	–	–	–	–	–	–	(195)	–	(195)	39	(156)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	(1,526)	–	–	(1,526)	–	(1,526)
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	1,238	–	–	1,238	–	1,238
Deferred tax arising	–	–	–	–	–	42	–	–	42	–	42
Defined benefit plan actuarial loss	–	–	–	–	–	–	–	(12,741)	(12,741)	–	(12,741)
Deferred tax arising	–	–	–	–	–	–	–	2,421	2,421	–	2,421
Impact of the change in rate of deferred tax on defined benefit plan actuarial loss	–	–	–	–	–	–	–	(314)	(314)	–	(314)
Total other comprehensive (expense)/income	–	–	–	–	–	(246)	(195)	(10,634)	(11,075)	39	(11,036)
Total comprehensive (expense)/income for the year	–	–	–	–	–	(246)	(195)	(8,264)	(8,705)	227	(8,478)
Share-based payments	–	–	–	–	–	–	–	2,998	2,998	–	2,998
Deferred tax on share-based payments	–	–	–	–	–	–	–	(104)	(104)	–	(104)
Corporation tax on share-based payments	–	–	–	–	–	–	–	371	371	–	371
Purchase of own shares	–	–	(2,705)	–	–	–	–	–	(2,705)	–	(2,705)
Disposal of own shares	–	–	3,290	–	–	–	–	(3,290)	–	–	–
Total contributions by and distributions to owners	–	–	585	–	–	–	–	(25)	560	–	560
Total transactions with owners of the Company	–	–	585	–	–	(246)	(195)	(8,289)	(8,145)	227	(7,918)
At 31 December 2020	50,013	24,482	(806)	75,394	(213,067)	313	(361)	350,930	286,898	950	287,848

Notes to the Consolidated Financial Statements

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, and is registered in England and Wales. The Consolidated Financial Statements of the Company for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 17 March 2022.

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 2021

The Group adopted Interest Rate Benchmark Reform – Phase II – Amendments to IFRS 9 "*Financial Instruments*", IFRS 16 "*Leases*" and other IFRSs with effect from 1 January 2021. The Group has also followed the IFRIC Interpretations Committee's guidance published in April 2021 on the capitalisation of costs of configuring or customising application software under Software-as-a-Service ("SaaS") arrangements.

Other than these items, and in relation to additional disclosure in relation to adjusting items, including in respect of the year ended 31 December 2020, "operational restructuring costs and asset impairments", 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.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning 1 January 2021 and are not expected to have a material impact on the Group. These standards have not been applied in these Financial Statements, and were pending endorsement by the UK Educational Board:

- IFRS 10 (amended) "*Consolidated Financial Statements*" and IAS 28 (amended) "*Investments in Associates and Joint Ventures (2011)*", effective date deferred indefinitely;
- IFRS 17 "*Insurance Contracts*", effective from 1 January 2023;
- IAS 1(amended) – "*Classification of Liabilities as Current or Non-current*", effective from 1 January 2023;
- IAS 1(amended) – "*Disclosure of Accounting Policies*", effective from 1 January 2023;
- IAS 8 (amended) – "*Definition of Accounting Estimates*", effective from 1 January 2023;
- IFRS 16 (amended) – "*Property, Plant and Equipment – Proceeds before Intended Use*", effective from 1 January 2022;
- IFRS 37 – "*Onerous Contracts – Cost of Fulfilling a Contract*", effective from 1 January 2022;
- IFRS 3 – "*Reference to the Conceptual Framework*", effective from 1 January 2022;
- Annual Improvements 2018 – 2020 cycle, effective from 1 January 2022; and
- IAS 12 (amended) – "*Income Taxes – Assets and Liabilities arising from a Single Transaction*", effective from 1 January 2023.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the 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 Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Parent Company has elected to prepare its Financial Statements in accordance with FRS 101 and these are presented on pages 166 to 173.

(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 69. 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.

Details of the Group's funding position are set out in Note 19. The additional short-term bank facilities of £90 million established in May 2020 were not utilised and have now reached maturity. In addition, the COVID Corporate Financing Facility ("CCFF") that was put in place at the same time was also not required and expired in 2021. Bank facilities have returned to pre-COVID-19 levels and total £165 million, of which £140 million are committed. On 13 August 2021, the Group entered into a new £20 million revolving credit facility with HSBC and the Group renewed its on-demand, short-term working capital facilities of £25 million with NatWest.

Amendment agreements were entered into with all partner banks prior to the cessation of LIBOR at the end of 2021. The Group's committed bank facilities are all revolving credit facilities with interest now charged at variable rates based on SONIA. The Group's bank facilities continue to be aligned with the current strategy to ensure that headroom against available facilities remains at appropriate levels. The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium-term debt. The Group has significant headroom of £114 million at 31 December 2021 against its bank facilities.

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.

1 Accounting policies continued
Significant accounting policies continued
(b) Basis of preparation continued

The latest stress tests reviewed by the Board in relation to the completion of these Consolidated Financial Statements assumed a further sales revenue sensitivity of 20 per cent over each of the next two years, cumulatively 60 per cent against 2021 revenue. None of the stress tests applied impact the Directors' opinion 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 availability of raw materials and labour and the potential impact of cost inflation that could lead to a reduction in consumer confidence and a slowdown in the UK economy. 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 2021, on a covenant test basis (pre-IFRS 16), the relevant ratios were comfortably achieved and were as follows:

- EBITA: interest charge – 54.4 times (covenant test requirement – to be greater than 2.5 times).
- Net debt: EBITDA – 0 times (covenant test requirement – to be less than 3.0 times).

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 7 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 29 on page 165. 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 29.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries (which are set out in detail in Note 33 on pages 170 and 171) 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.

1 Accounting policies continued

Significant accounting policies continued

(c) Basis of consolidation continued

(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.

(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.

(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, no provisions have been 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:

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.

The Company has changed its accounting policy related to the capitalisation of certain software assets. This change follows the IFRIC Interpretations Committee's guidance published in April 2021 and relates to the capitalisation of costs of configuring or customising application software under Software-as-a-Service ("SaaS") arrangements. The impact of this change in policy has not been measured.

The Company's accounting policy has historically been to capitalise costs related to the configuration of SaaS arrangements as intangible assets in the balance sheet. Following the adoption of the above IFRIC agenda guidance, current SaaS arrangements were identified and assessed to determine if the Company has control of the software. For those arrangements where control does not exist, the Company derecognised the intangible asset previously capitalised.

(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.

1 Accounting policies continued
Significant accounting policies continued
(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.

(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 upon the despatch of goods, 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. The Directors have concluded that the Group's Landscape Products business is a single reportable segment, which includes the UK operations of the Marshalls Landscape Products hard landscaping business, servicing both the UK Domestic and the Public Sector and Commercial end markets. Financial information for Landscape Products is now reported to the Group's CODM for the assessment of segment profit performance and to facilitate resource allocation.

(z) Alternative performance measures

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.

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 underlying results.

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 and a non-cash finance charge resulting from the receipt of a Counsel legal opinion in relation to certain historic pension issues. Further details have been disclosed in Note 4.

For the year ended 31 December 2020, adjusting items comprise items previously disclosed separately under the heading of "operational restructuring costs and asset impairments". Further details have been included in Note 4.

1 **Accounting policies** continued
Significant accounting policies continued
(z) Alternative performance measures continued
Profit before adjusting items

	2021 £'000	2020 £'000
Profit before tax (reported)	**69,322**	4,653
Adjusting items (Note 4)	**2,748**	17,809
Profit before tax (before adjusting items)	**72,070**	22,462
Profit for the financial year (reported)	**54,898**	2,558
Adjusting items (net of tax) (Note 4)	**2,142**	14,708
Profit after tax (before adjusting items)	**57,040**	17,266
Earnings per share before adjusting items		
Basic (pence)	**28.6p**	8.6p
Diluted (pence)	**28.4p**	8.5p

Pre-IFRS 16 basis
Disclosures required under IFRS are referred to as either on a post-IFRS 16 basis or on a reported basis. Disclosures referred to on a pre-IFRS 16 basis are restated to those that applied before the adoption of IFRS 16 and are used to provide additional information and a more detailed understanding of the Group results. Certain financial information, on both a reported basis and a pre-IFRS 16 basis, is set out below. Both are disclosed before adjusting items.

	Pre-IFRS 16 December 2021	Impact of IFRS 16	Post-IFRS 16 December 2021	Pre-IFRS 16 December 2020	Impact of IFRS 16	Post-IFRS 16 December 2020
EBITDA (£'000)	**96,246**	**10,828**	**107,074**	43,838	13,780	57,618
EPS (pence)	**29.8**	**(1.2)**	**28.6**	8.5	0.1	8.6
Net (cash)/debt (£'000)	**(75)**	**41,198**	**41,123**	26,945	48,621	75,566
ROCE (%)	**22.9**	**(2.3)**	**20.6**	8.9	(0.7)	8.2
Net debt: EBITDA	**—**	**0.4**	**0.4**	0.6	0.7	1.3
Gearing (%)	**—**	**11.9**	**11.9**	9.3	17.0	26.3

EBITA and EBITDA
EBITA represents earnings before interest, tax and the amortisation of intangibles. This is a component of the ROCE calculation. EBITDA is calculated by adding back depreciation to EBITA. Both EBITA and EBITDA are disclosed before adjusting items.

	Pre-IFRS 16 2021 £'000	Post-IFRS 16 2021 £'000	Pre-IFRS 16 2020 £'000	Post-IFRS 16 2020 £'000
EBITDA	**96,246**	**107,074**	43,838	57,618
Depreciation	**(16,423)**	**(27,738)**	(15,657)	(27,717)
EBITA	**79,823**	**79,336**	28,181	29,901
Amortisation of intangible assets	**(3,178)**	**(3,178)**	(2,719)	(2,719)
Operating profit	**76,645**	**76,158**	25,462	27,182

1 Accounting policies continued
Significant accounting policies continued

(z) Alternative performance measures continued

ROCE

Reported ROCE is defined as EBITA divided by shareholders' funds plus net debt. ROCE is disclosed before adjusting items.

	Pre-IFRS 16 2021 £'000	Post-IFRS 16 2021 £'000	Pre-IFRS 16 2020 £'000	Post-IFRS 16 2020 £'000
EBITA	79,823	79,336	28,181	29,901
Shareholders' funds	348,788	344,317	289,816	287,848
Net (cash)/debt	(75)	41,123	26,945	75,566
	348,713	385,440	316,761	363,414
Reported ROCE	22.9%	20.6%	8.9%	8.2%

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 25.

The ratio of adjusted operating cash flow to EBITDA

The ratio of operating cash flow to EBITDA is calculated as set out below:

	2021 £'000	2020 £'000
Net cash flows from operating activities	65,536	12,372
Adjusting items paid	2,820	6,946
Net financial expenses paid	3,534	4,475
Taxation paid	13,527	4,631
Adjusted operating cash flow	85,417	28,424
EBITDA	107,074	57,618
Ratio of adjusted operating cash flow to EBITDA	79.8%	49.3%

2 Segmental analysis
Segment revenues and results

	2021			2020		
	Landscape Products £'000	Other £'000	Total £'000	Landscape Products £'000	Other £'000	Total £'000
Total revenue	499,561	94,092	593,653	381,304	90,903	472,207
Inter-segment revenue	(226)	(4,163)	(4,389)	(314)	(2,439)	(2,753)
External revenue	499,335	89,929	589,264	380,990	88,464	469,454
Segment operating profit	76,221	4,618	80,839	32,413	1,517	33,930
Adjusting items (Note 4)			65			(17,809)
Unallocated administration costs			(4,681)			(6,748)
Operating profit			76,223			9,373
Finance charges (net) (Note 6)			(6,901)			(4,720)
Profit before tax			69,322			4,653
Taxation (Note 7)			(14,424)			(2,095)
Profit after tax			54,898			2,558

The Group has two customers which each contributed more than 10 per cent of total revenue in the current and prior year.

The Landscape Products reportable segment operates a national manufacturing plan that is structured around a series of production units throughout the UK, in conjunction with a single logistics and distribution operation. A national planning process supports sales to both of the key end markets, namely the UK Domestic and Public Sector and Commercial end markets, and the operating assets produce and deliver a range of broadly similar products that are sold into each of these end markets. Within the Landscape Products operating segment the focus is on one integrated production, logistics and distribution network supporting both end markets.

2 Segmental analysis continued

Segment revenues and results continued

Included in "Other" are the Group's Landscape Protection, Mineral Products, Mortars and Screeds and International operations, which do not currently meet the IFRS 8 reporting requirements.

The accounting policies of the Landscape Products operating segment 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.

Segment assets

	2021 £'000	2020 £'000
Property, plant and equipment, right-of-use assets, assets held for sale and inventory:		
Landscape Products	**260,198**	248,245
Other	**57,614**	65,928
Total segment property, plant and equipment, right-of-use assets and inventory	**317,812**	314,173
Unallocated assets	**278,160**	300,256
Consolidated total assets	**595,972**	614,429

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 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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Landscape Products	**24,588**	23,707	**22,423**	24,723
Other	**6,328**	6,729	**5,246**	6,528
	30,916	30,436	**27,669**	31,251

Geographical destination of revenue

	2021 £'000	2020 £'000
United Kingdom	**556,110**	438,173
Rest of the world	**33,154**	31,281
	589,264	469,454

The Group's revenue is subject to seasonal fluctuations resulting from demand from customers. In particular, demand is higher in the summer months. The Group manages the seasonal impact through the use of a seasonal working capital facility.

3 Net operating costs

	2021 £'000	2020 £'000
Raw materials and consumables	246,478	182,605
Changes in inventories of finished goods and work in progress	(15,762)	378
Personnel costs (Note 5)	130,903	122,260
Depreciation of property, plant and equipment	16,423	15,657
Depreciation of right-of-use assets	11,315	12,060
Amortisation of intangible assets	3,178	2,719
Own work capitalised	(2,758)	(2,991)
Other operating costs	124,665	112,603
Redundancy and other costs	398	356
Operating costs	514,840	445,647
Other operating income	(1,687)	(2,272)
Net gain on asset and property disposals	(47)	(1,103)
Net operating costs before adjusting items	513,106	442,272
Adjusting items (Note 4)	(65)	17,809
Total net operating costs	513,041	460,081

	2021 £'000	2020 £'000
Net operating costs include:		
Auditor's remuneration (see below)	340	286
Short-term and low-value lease costs	5,671	4,551
Research and development costs	3,098	3,109

In respect of the year under review, Deloitte LLP carried out work in relation to:

	2021 £'000	2020 £'000
Audit of Financial Statements of Marshalls plc	50	45
Audit of Financial Statements of subsidiaries of the Company	265	211
Half-yearly review of Marshalls plc	25	30
	340	286

4 Adjusting items

	2021 £'000	2020 £'000
Additional special COVID-19 bonus paid to all colleagues (Note 5)	2,216	–
Redundancy and other closure costs	1,175	12,320
Write-off of property, plant and equipment	1,666	5,489
Additional consideration to the CPM vendors (Note 14)	3,750	–
Net gain on sale of significant surplus site	(8,872)	–
Total adjusting items within operating costs (Note 3)	(65)	17,809
Adjusting interest expense on defined benefit pension scheme (Note 6)	2,813	–
Total adjusting items before taxation	2,748	17,809
Current tax on adjusting items (Note 7)	97	(2,341)
Deferred tax on adjusting items (Note 7)	(703)	(760)
Total adjusting items after taxation	2,142	14,708

4 Adjusting items continued

Notes:

(i) The additional special bonus payable to employees as a thank you for their support during the pandemic.

(ii) Redundancy and other closure costs relate to the Edenhall Stoke site following a network review. The site was used to manufacture cast stone and the Group has decided to exit this market.

(iii) 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 (Note 10).

(iv) 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 million 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.

(v) The net gain on a significant surplus site relates to the sale of Ryton near Coventry (Note 10).

(vi) 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

	2021 £'000	2020 £'000
Personnel costs (including amounts charged in the year in relation to Directors):		
Wages and salaries	**105,692**	99,082
Social security costs	**12,309**	10,650
Share-based payments	**2,303**	2,630
Contributions to defined contribution pension scheme	**10,599**	9,898
Included in net operating costs (Note 3)	**130,903**	122,260
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)	**398**	52
Personnel costs relating to adjusting items (Note 4)*	**159**	7,818
Total personnel costs	**133,676**	130,130

* Personnel costs relating to adjusting items of £159,000 (2020: £7,818,000) includes £nil (2020: £368,000) in relation to share-based payments.

	2021 £'000	2020 £'000
Remuneration of Directors:		
Salary	**781**	785
Other benefits	**39**	37
MIP Element A bonus	**582**	–
MIP Element B bonus	**349**	–
Amounts receivable under the MIP at the end of the first cycle	**621**	1,808
Salary supplement in lieu of pension	**104**	145
Non-Executive Directors' fees and fixed allowances	**422**	393
	2,898	3,168

The aggregate of emoluments and amounts receivable under the MIP of the highest paid Director was £1,685,000 (2020: £1,695,000), including a salary supplement in lieu of pension of £80,000 (2020: £85,000).

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 101, 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 92 to 112.

The average monthly number of persons employed by the Group during the year was:

	2021 Number	2020 Number
Continuing operations	**2,643**	2,579

6 Financial expenses and income

	2021 £'000	2020 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	**439**	154
Interest expense on bank loans	**1,762**	2,972
Interest expense on lease liabilities	**1,889**	1,604
	4,090	4,730
(b) Adjusting items		
Adjusting interest expense on defined benefit pension scheme (Note 4)	**2,813**	–
	6,903	4,730
(c) Financial income		
Interest receivable and similar income	**2**	10

Net interest expense on the defined benefit pension scheme is disclosed net of Company recharges (Note 20).

7 Income tax expense

	2021 £'000	2020 £'000
Current tax expense		
Current year	**11,360**	2,731
Adjustments for prior years	**(2,147)**	(1,768)
	9,213	963
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**6,519**	158
Adjustments for prior years	**(1,308)**	974
Total tax expense	**14,424**	2,095
Current tax on adjusting items (Note 4)	**(97)**	2,341
Deferred tax on adjusting items (Note 4)	**703**	760
Total tax expenses before adjusting items	**15,030**	5,196

	2021 %	2021 £'000	2020 %	2020 £'000
Reconciliation of effective tax rate				
Profit before tax	**100.0**	**69,322**	100.0	4,653
Tax using domestic corporation tax rate	**19.0**	**13,171**	19.0	884
Impact of capital allowances in excess of depreciation	**(3.3)**	**(2,260)**	3.7	173
Short-term timing differences	**(0.1)**	**(74)**	13.9	645
Adjustment to tax charge in prior year	**(3.1)**	**(2,147)**	(38.0)	(1,768)
Expenses not deductible for tax purposes	**0.8**	**523**	22.1	1,029
Corporation tax charge for the year	**13.3**	**9,213**	20.7	963
Impact of capital allowances in excess of depreciation	**2.3**	**1,610**	(34.1)	(1,585)
Short-term timing differences	**–**	**(22)**	1.1	52
Pension scheme movements	**0.9**	**659**	(2.7)	(124)
Other items	**(0.9)**	**(633)**	0.4	18
Adjustment to tax charge in prior year	**(1.9)**	**(1,308)**	20.9	974
Impact of the change in the rate of corporation tax on deferred taxation	**7.1**	**4,905**	38.7	1,797
Total tax charge for the year	**20.8**	**14,424**	45.0	2,095

7 Income tax expense continued

The net amount of deferred taxation debited to the Consolidated Statement of Comprehensive Income in the year was £6,547,000 (2020: credited £2,149,000).

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 2021. The 2021 Budget announced that the UK corporation tax rate would increase to 25 per cent from 2023. This change was substantively enacted on 10 June 2021 and consequently, the deferred taxation liability at 31 December 2021 has been calculated at 25 per cent, which is the rate at which the deferred tax is expected to unwind in the future using rates enacted at the balance sheet date. The rate change has given rise to an increase to the deferred tax charge of £4.9 million which in turn has given rise to an increase in the effective tax rate.

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 2021 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 and some legal expenses.

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 approximately 5 per cent of the Group's turnover in the year ended 31 December 2021. 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 27.5 pence (2020: 1.2 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £54,806,000 (2020: £2,370,000) by the weighted average number of shares in issue during the period of 199,094,964 (2020: 198,642,224).

Basic earnings per share before adjusting items of 28.6 pence (2020: 8.6 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £56,948,000 (2020: £17,078,000) by the weighted average number of shares in issue during the period of 199,094,964 (2020: 198,642,224).

Profit attributable to Ordinary Shareholders

	2021 £'000	2020 £'000
Profit before adjusting items	**57,040**	17,266
Adjusting items	**(2,142)**	(14,708)
Profit for the financial year	**54,898**	2,558
Profit attributable to non-controlling interests	**(92)**	(188)
Profit attributable to Ordinary Shareholders	**54,806**	2,370

8 Earnings per share continued

Weighted average number of Ordinary Shares

	2021 Number	2020 Number
Number of issued Ordinary Shares	**200,052,157**	200,052,157
Effect of shares transferred into Employee Benefit Trust	**(957,193)**	(1,409,933)
Weighted average number of Ordinary Shares at the end of the year	**199,094,964**	198,642,224

Diluted earnings per share from total operations of 27.4 pence (2020: 1.2 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £54,806,000 (2020: £2,370,000) by the weighted average number of shares in issue during the period of 199,094,964 (2020: 198,642,224) plus potentially dilutive shares of 1,222,847 (2020: 1,614,132), which totals 200,317,811 (2020: 200,256,356).

Diluted earnings per share before adjusting items of 28.4 pence (2020: 8.5 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £56,948,000 (2020: £17,078,000) by the weighted average number of shares in issue during the period of 199,094,964 (2020: 198,642,224) plus potentially dilutive shares of 1,222,847 (2020: 1,614,132), which totals 200,317,811 (2020: 200,256,356).

Weighted average number of Ordinary Shares (diluted)

	2021 Number	2020 Number
Weighted average number of Ordinary Shares	**199,094,964**	198,642,224
Potentially dilutive shares	**1,222,847**	1,614,132
Weighted average number of Ordinary Shares (diluted)	**200,317,811**	200,256,356

9 Dividends

After the balance sheet date, a final dividend of 9.6 pence was proposed by the Directors. This dividend has not been provided for and there are no income tax consequences.

	Pence per qualifying share	2021 £'000	2020 £'000
2021 final	**9.6**	**19,122**	
2021 interim	**4.7**	**9,362**	
	14.3	**28,484**	
2020 final	**4.3**		8,562
2020 interim	**—**		—
	4.3		8,562

The following dividends were approved by the shareholders and recognised in the Financial Statements:

	Pence per qualifying share	2021 £'000	2020 £'000
2021 interim	**4.7**	**9,362**	—
2020 final	**4.3**	**8,562**	—
	9.0	**17,924**	—

The Board recommends a 2021 final dividend of 9.6 pence per qualifying Ordinary Share (amounting to £19,122,000, to be paid on 1 July 2022 to shareholders registered at the close of business on 10 June 2022. The Board did not propose an interim dividend during 2020.

10 Property, plant and equipment

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2020	105,425	28,677	382,231	516,333
Exchange differences	414	–	351	765
Additions	407	327	12,424	13,158
Reclassified as held for sale	(1,114)	–	–	(1,114)
Reclassifications	(523)	523	–	–
Disposals	(8,117)	(53)	(6,327)	(14,497)
At 31 December 2020	96,492	29,474	388,679	514,645
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**
Depreciation and impairment losses				
At 1 January 2020	42,318	8,983	269,478	320,779
Depreciation charge for the year	1,822	350	13,485	15,657
Exchange differences	17	–	296	313
Impairments	597	–	4,892	5,489
Reclassified as held for sale	(664)	–	–	(664)
Reclassifications	819	5	(824)	–
Disposals	(408)	(53)	(5,869)	(6,330)
At 31 December 2020	44,501	9,285	281,458	335,244
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**
Net book value				
At 1 January 2020	63,107	19,694	112,753	195,554
At 31 December 2020	51,991	20,189	107,221	179,401
At 31 December 2021	**47,477**	**17,494**	**108,960**	**173,931**

Mineral reserves and associated land have been separately disclosed under the heading of "Quarries".

Disposals include fixed assets written off at the St Ives wet cast plant with a net book value of £1,294,000; these assets are included in the £1,666,000 write-off shown in Note 4.

The disposals figures include a net book value of £3,058,000 which relates to the sale of the Ryton site (Note 4).

The impairment represents the assets being written down to fair value less cost to sell.

During the year ended 31 December 2021, land and buildings with a book value of £1,860,000 (2020: £450,000) 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 £318,000 (2020: £73,000) and £8,534,000 (2020: £4,495,000) respectively for assets in the course of construction.

10 Property, plant and equipment continued

Capital commitments

	2021 £'000	2020 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**14,480**	3,496

Depreciation charge

The depreciation charge is recognised in the following line items in the Consolidated Income Statement:

	2021 £'000	2020 £'000
Net operating costs (Note 3)	**16,423**	15,657

11 Right-of-use assets

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2020	20,984	31,898	52,882
Additions	4,135	12,359	16,494
Disposals	(188)	(3,428)	(3,616)
Modifications	—	542	542
At 31 December 2020	24,931	41,371	66,302
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**
Depreciation and impairment losses			
At 1 January 2020	2,057	10,811	12,868
Depreciation change for the year	2,176	9,884	12,060
Disposals	(188)	(3,428)	(3,616)
At 31 December 2020	4,045	17,267	21,312
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**
Net book value			
At 1 January 2020	18,927	21,087	40,014
At 31 December 2020	20,886	24,104	44,990
At 31 December 2021	**17,961**	**18,484**	**36,445**

Depreciation charge

The depreciation charge is recognised in the following line items in the Consolidated Income Statement:

	2021 £'000	2020 £'000
Net operating costs (Note 3)	**11,315**	12,060

Lease commitments

	2021 £'000	2020 £'000
Lease commitments that have been contracted for but have not yet commenced	**1,513**	2,963

12 Intangible assets

	Goodwill £'000	Customer relationships £'000	Supplier relationships £'000	Patents, trademarks and know-how £'000	Development costs £'000	Software £'000	Total £'000
Cost							
At 1 January 2020	87,426	12,811	1,629	1,760	159	18,775	122,560
Additions	—	—	—	—	—	1,599	1,599
At 31 December 2020	87,426	12,811	1,629	1,760	159	20,374	124,159
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**
Amortisation and impairment losses							
At 1 January 2020	8,912	4,061	1,063	1,516	125	11,084	26,761
Amortisation for the year	—	1,060	103	42	8	1,506	2,719
At 31 December 2020	8,912	5,121	1,166	1,558	133	12,590	29,480
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**
Carrying amounts							
At 1 January 2020	78,514	8,750	566	244	34	7,691	95,799
At 31 December 2020	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**

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 2021 and 31 December 2020 the full amount of goodwill in the Group Balance Sheet related to the Landscape Products CGU. 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 14.0 per cent (2020: 10.5 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 the availability of raw materials and labour and the potential impact of cost inflation, that could lead to a reduction in consumer confidence and a 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 Directors do not consider that any reasonable change in the assumptions would give rise to the need for further impairment.

Included in software additions is £1,610,000 (2020: £1,414,000) of own work capitalised.

Amortisation charge

The amortisation charge is recognised in the following line items in the Consolidated Income Statement:

	2021 £'000	2020 £'000
Net operating costs (Note 3)	**3,178**	2,719

13 Inventories

	2021 £'000	2020 £'000
Raw materials and consumables	22,805	21,335
Finished goods and goods for resale	84,631	68,447
	107,436	89,782

Inventories stated at a net realisable value less than cost at 31 December 2021 amounted to £4,656,000 (2020: £4,506,000). The write down of inventories made during the year amounted to £1,534,000 (2020: £1,150,000). There were £520,000 of reversals of inventory write downs made in previous years in 2021 (2020: £201,000).

14 Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables	84,313	73,290
Other receivables	15,989	13,408
Prepayments and accrued income	11,607	9,044
	111,909	95,742

A reimbursement asset of £4,149,000 (2020: £4,149,000) is included in other receivables. This relates 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. The risk of a liability arising from this matter is 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 has been recorded in other payables for the charge of £3,750,000 which has been booked in the Income Statement for the year ended 31 December 2021 to reflect this additional consideration now payable to the CPM vendors (Note 4).

Ageing of trade receivables

	2021 £'000	2020 £'000
Neither impaired nor past due	46,142	37,604
Not impaired but overdue by less than 30 days	32,927	29,295
Not impaired but overdue by between 30 and 60 days	2,700	2,634
Not impaired but overdue by more than 60 days	2,544	3,757
	84,313	73,290

There were no receivables due after more than one year (2020: £nil). All amounts disclosed above are considered recoverable and are disclosed net of a provision for expected credit losses of £732,000 (2020: £899,000). 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

	2021 £'000	2020 £'000
Bank balances	41,207	103,690
Cash in hand	5	17
Cash and cash equivalents in the Consolidated Cash Flow Statement	41,212	103,707

16 Trade and other payables

	2021 £'000	2020 £'000
Current liabilities		
Trade payables	67,261	59,282
Taxation and social security	13,718	10,998
Other payables	31,278	20,786
Accruals	25,961	28,750
	138,218	119,816

All trade payables are due in six months or less.

16 Trade and other payables continued

Included in other payables are deferred amounts payable to former shareholders and employees, in relation to the acquisition of Edenhall Holdings Limited in previous accounting periods. These were dependent on the achievement of performance targets in the three-year post-acquisition period to 31 December. The performance targets were achieved and were settled in cash or shares after the balance sheet date.

17 Loans

	2021 £'000	2020 £'000
Analysed as:		
Current liabilities	**1,673**	20,000
Non-current liabilities	**39,341**	110,282
	41,014	130,282

Bank loans

The bank loans are secured by intra-group guarantees with certain subsidiary undertakings.

18 Lease liabilities

	2021 £'000	2020 £'000
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	**8,545**	10,065
Amounts due for settlement after 12 months	**32,776**	38,926
	41,321	48,991

	2021			2020		
	Minimum lease payments £'000	Interest £'000	Principal £'000	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	**9,828**	**1,283**	**8,545**	11,579	1,514	10,065
1 to 2 years	**7,316**	**1,110**	**6,206**	8,605	1,287	7,318
2 to 5 years	**13,149**	**2,434**	**10,715**	12,350	2,036	10,314
In more than 5 years	**21,915**	**6,060**	**15,855**	28,598	7,304	21,294
	52,208	**10,887**	**41,321**	61,132	12,141	48,991

As at 31 December 2021, the total minimum lease payments (above) comprised property of £33,272,000 (2020: £32,122,000) and plant, machinery and vehicles of £18,936,000 (2020: £29,010,000).

On 10 September 2020, the Group completed a sale and leaseback transaction in relation to its site in Rumst, Belgium. The net cash proceeds of €12,481,000 have been used to pay down the inter-company indebtedness between Marshalls NV and Marshalls Mono Limited. The net profit for the Group of £1,484,000 has been disclosed within the net gain on asset and property disposals (Note 3). The lease has a ten-year term, with an option to extend after five years. It has currently not been assumed that the option to extend will be exercised as the Directors do not believe that this is reasonably certain.

Certain leased properties have been sublet by the Group. Sublease payments of £285,254 (2020: £239,003) are expected to be received during the following financial year. An amount of £295,548 (2020: £225,786) 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 2021, the interest expense on lease liabilities amounted to £1,889,000 (2020: £1,604,000). 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 2021, 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 2021, the total cash outflow in relation to leases amounts to £12,717,000 (2020: £13,780,000). The total cash outflow in relation to short-term and low value leases was £5,671,000 (2020: £4,551,000).

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 155.

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 2020.

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 2021 and 31 December 2020.

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 69. 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 facilities are provided on page 155.

(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 to generate the desired interest rate profile, thereby managing the Group's exposure to interest rate fluctuations.

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 2020.

	2021 £'000	2020 £'000
Increase of 100 basis points	**(372)**	(652)
Decrease of 100 basis points	**372**	652

(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 150.

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.

19 Financial instruments continued

Financial risks continued

(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 £159,000 asset (2020: £28,000 asset) and is adjusted against the hedging reserve on an ongoing basis. During the year £131,000 (2020: £71,000) has been recognised in other comprehensive income for the year with £nil (2020: £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:

	2021					2020				
	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	38,534	808	1,834	36	41,212	101,177	1,185	1,316	29	103,707
Trade receivables	82,712	1,529	192	(120)	84,313	71,501	1,549	360	(120)	73,290
Secured bank loans	(34,500)	(6,514)	–	–	(41,014)	(122,400)	(7,882)	–	–	(130,282)
Lease liabilities	(35,598)	(5,723)	–	–	(41,321)	(42,742)	(6,249)	–	–	(48,991)
Trade payables	(61,634)	(5,114)	(513)	–	(67,261)	(50,294)	(8,509)	(477)	(2)	(59,282)
Derivative financial instruments	654	158	1	–	813	304	18	10	–	332
Balance sheet exposure	(9,832)	(14,856)	1,514	(84)	(23,258)	(42,454)	(19,888)	1,209	(93)	(61,226)

A 10 per cent strengthening and weakening of the following currencies against the Pound Sterling at 31 December 2021 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 2020:

	2021 £'000	2020 £'000
10% strengthening of £ against €	1,321	1,768
10% weakening of £ against €	(1,080)	(1,446)
10% strengthening of £ against $	(135)	(107)
10% weakening of £ against $	110	88
10% strengthening of £ against AED	7	8
10% weakening of £ against AED	(6)	(7)

(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 £654,000 asset (2020: £304,000 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 £1,272,000 (2020: £1,455,000) has been recognised in other comprehensive income, with £922,000 (2020: £1,238,000) being reclassified from equity to the Income Statement. The fuel hedges have been fully effective in the period.

When combining fuel hedges and forward contracts this gives a total of £1,403,000 credit (2020: £1,526,000 debit) recognised in other comprehensive income for the year with £922,000 debit (2020: £1,238,000 credit) 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 1 to 49.

Effective interest rates and maturity of liabilities

At 31 December 2021 there were £41,321,000 (2020: £48,991,000) 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 25).

	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**	**1.80**	**(41,212)**	**(41,212)**	**–**	**–**	**–**	**–**
Bank loans (Note 17)	**Variable**	**1.80**	**41,014**	**–**	**1,673**	**39,341**	**–**	**–**
Lease liabilities (Note 18)	**Fixed**	**3.41**	**41,321**	**5,396**	**3,149**	**6,206**	**10,715**	**15,855**
			41,123	**(35,816)**	**4,822**	**45,547**	**10,715**	**15,855**

	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 2020								
Cash and cash equivalents (Note 15)	Variable	2.30	(103,707)	(103,707)	–	–	–	–
Bank loans (Note 17)	Variable	2.30	130,282	–	20,000	10,591	99,691	–
Lease liabilities (Note 18)	Fixed	2.82	48,991	5,422	4,643	7,318	10,314	21,294
			75,566	(98,285)	24,643	17,909	110,005	21,294

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 2021								
Bank loans	**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**

	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 2020								
Bank loans	Variable	130,282	134,044	710	20,637	11,809	100,888	–
Trade and other payables	Variable	110,039	110,039	110,039	–	–	–	–
Lease liabilities	Fixed	48,991	61,132	6,169	5,410	8,605	12,350	28,598
Derivative financial assets	Fixed	(332)	(332)	(166)	(166)	–	–	–
		288,980	304,883	116,752	25,881	20,414	113,238	28,598

19 Financial instruments continued

Borrowing facilities

The total bank borrowing facilities at 31 December 2021 amounted to £155.0 million (2020: £255.0 million), of which £114.0 million (2020: £124.7 million) remained unutilised. The undrawn facilities available at 31 December 2021, in respect of which all conditions precedent had been met, were as follows:

	2021 £'000	2020 £'000
Committed:		
Expiring in more than 5 years	—	—
Expiring in more than 2 years but not more than 5 years	80,659	9,718
Expiring in 1 year or less	18,327	90,000
Uncommitted:		
Expiring in 1 year or less	15,000	25,000
	113,986	124,718

The additional short-term bank facilities of £90 million established in May 2020 were not utilised and have now reached maturity. In addition, the COVID Corporate Financing Facility ("CCFF") that was put in place at the same time was also not required. Bank facilities have returned to pre-COVID-19 levels and total £165 million, of which £140 million are committed.

On 13 August 2021, the Group entered into a new £20 million revolving credit facility with HSBC and the Group has also renewed its short-term working capital facilities of £25 million with NatWest.

Amendment agreements have also been entered into with all our partner banks following the announcement that LIBOR will cease at the end of 2021. The Group's committed bank facilities are all revolving credit facilities with interest now charged at variable rates based on SONIA. The Group's bank facilities continue to be aligned with the current strategy to ensure that headroom against available facilities remains at appropriate levels. The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium-term debt.

The current facilities are set out as follows:

	Facility £'000	Cumulative facility £'000
Committed facilities		
Q3: 2025	20,000	20,000
Q3: 2024	35,000	55,000
Q1: 2024	25,000	80,000
Q3: 2023	20,000	100,000
Q2: 2023	20,000	120,000
Q4: 2022	20,000	140,000
On-demand facilities		
Available all year	15,000	155,000
Seasonal (February to August inclusive)	10,000	165,000

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 facilities of between £5 million and £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.

19 Financial instruments continued

Borrowing facilities continued

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 2021 is shown below:

	2021		2020	
	Book amount £'000	**Fair value £'000**	Book amount £'000	Fair value £'000
Trade and other receivables	**95,032**	**95,032**	86,699	86,699
Cash and cash equivalents	**41,212**	**41,212**	103,707	103,707
Bank loans	**(41,014)**	**(40,023)**	(130,282)	(126,010)
Trade payables, other payables and provisions	**(118,888)**	**(118,888)**	(110,039)	(110,039)
Interest rate swaps, forward contracts and fuel hedges	**813**	**813**	332	332
Contingent consideration	**(1,563)**	**(1,563)**	(1,800)	(1,800)
Financial instrument assets and liabilities – net	**(24,408)**		(51,383)	
Non-financial instrument assets and liabilities – net	**368,725**		339,231	
	344,317		287,848	

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 16 on page 151.

(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 2021				
Derivative financial assets/(liabilities)	**–**	**813**	**(1,563)**	**(750)**
31 December 2020				
Derivative financial assets/(liabilities)	–	332	(1,800)	(1,468)

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 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 2021. 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.

A formal actuarial valuation was carried out as at 5 April 2018. The results of that valuation have been projected to 31 December 2021 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:

	2021 £'000	2020 £'000	2019 £'000
Present value of Scheme liabilities	**(366,359)**	(399,938)	(353,136)
Fair value of Scheme assets	**392,116**	402,664	368,857
Net amount recognised at the year end (before any adjustments for deferred tax)	**25,757**	2,726	15,721

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.

	2021 £'000	2020 £'000
Net interest expense before adjusting items	**539**	254
Adjusting interest expense (Note 4)	**2,813**	–
Net interest expense recognised in the Consolidated Income Statement	**3,352**	254
Remeasurements of the net liability:		
Return on Scheme assets (excluding amount included in interest expense)	**3,786**	(40,151)
(Gain)/loss arising from changes in financial assumptions	**(20,383)**	52,491
(Gain)/loss arising from changes in demographic assumptions	**(6,317)**	1,209
Experience gain	**(3,469)**	(808)
(Credit)/debit recorded in other comprehensive income	**(26,383)**	12,741
Total defined benefit (credit)/debit	**(23,031)**	12,995

20 Employee benefits continued

The principal actuarial assumptions used were:

	2021 £'000	2020 £'000
Liability discount rate	**1.90%**	1.40%
Inflation assumption – RPI	**3.30%**	2.85%
Inflation assumption – CPI	**2.70%**	2.20%
Rate of increase in salaries	**n/a**	n/a
Revaluation of deferred pensions	**2.70%**	2.20%
Increases for pensions in payment:		
CPI pension increases (maximum 5% p.a.)	**2.70%**	2.20%
CPI pension increases (maximum 5% p.a., minimum 3% p.a.)	**3.35%**	3.25%
CPI pension increases (maximum 3% p.a.)	**2.35%**	1.95%
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_2020**	Year of birth CMI_2019
	1.0%	1.0%
Mortality assumption – after retirement (females)	**S2PXA tables**	S2PXA tables
Loading	**110%**	110%
Projection basis	**Year of birth CMI_2020**	Year of birth CMI_2019
	1.0%	1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	**85.4**	85.7
Female aged 65 at year end	**87.5**	87.7
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	**86.3**	86.7
Female aged 45 at year end	**88.7**	88.9

Changes in the present value of assets over the year

	2021 £'000	2020 £'000
Fair value of assets at the start of the year	**402,664**	368,857
Interest income	**5,551**	7,600
Return on assets (excluding amount included in net interest expense)	**(3,786)**	40,151
Benefits paid	**(11,740)**	(13,366)
Administration expenses	**(573)**	(578)
Fair value of assets at the end of the year	**392,116**	402,664
Actual return on assets over the year	**1,765**	47,751

20 Employee benefits continued

Changes in the present value of liabilities over the year

	2021 £'000	2020 £'000
Liabilities at the start of the year	**399,938**	353,136
Past service cost	**2,813**	—
Interest cost	**5,517**	7,276
Remeasurement (gains)/losses:		
Actuarial (gains)/losses arising from changes in financial assumptions	**(20,383)**	52,491
Actuarial (gains)/losses arising from changes in demographic assumptions	**(6,317)**	1,209
Experience (gain)	**(3,469)**	(808)
Benefits paid	**(11,740)**	(13,366)
Liabilities at the end of the year	**366,359**	399,938

The split of the Scheme's liabilities by category of membership is as follows:

	2021 £'000	2020 £'000
Deferred pensioners	**204,739**	222,830
Pensioners in payment	**161,620**	177,108
	366,359	399,938
Average duration of the Scheme's liabilities at the end of the year (in years)	**18**	18

The major categories of Scheme assets are as follows:

	2021 £'000	2020 £'000
Return-seeking assets		
UK equities	**1,864**	1,850
Overseas equities	**41,492**	40,199
Other equity type investments	**34,119**	34,038
Total return-seeking assets	**77,475**	76,087
Other		
Insured pensioners	**591**	769
Cash	**6,117**	4,384
Property	**36,941**	34,110
Liability-driven investments and bonds	**270,992**	287,314
Total matching assets	**314,641**	326,577
Total market value of assets	**392,116**	402,664

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 2022.

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 £31.9 million (increase by £31.9 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 £14.3 million (decrease by £12.9 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 £18.0 million (decrease by £18.0 million) if all the other assumptions remained unchanged.

20 Employee benefits continued

Sensitivity of the liability value to changes in the principal assumptions continued

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 92 to 112.

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	161,863	723	2018	March 2022
Equity settled awards granted to other employees	151,321	676	2018	March 2022
Equity settled awards granted to Directors of Marshalls plc	92,335	758	2019	March 2023
Equity settled awards granted to other employees	94,144	773	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	208,829	1,458	2021	March 2025
Equity settled awards granted to other employees	289,427	2,018	2021	March 2025
	997,919	6,406		

Analysis of closing balance (deferred into shares):

	2021		2020	
	£'000	Shares	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	**2,939**	**463,027**	3,378	579,320
Equity settled awards granted to other employees	**3,467**	**534,892**	3,883	649,117
	6,406	**997,919**	7,261	1,228,437

	2021		2020	
	Value £'000	Number of options	Value £'000	Number of options
Outstanding at 1 January	**7,261**	**1,228,437**	9,361	1,767,118
Granted	**3,474**	**498,256**	—	—
Change in value of notional shares	**—**	**—**	(361)	—
Lapsed	**(252)**	**(43,204)**	(249)	(39,469)
Element released	**(4,077)**	**(685,570)**	(1,490)	(499,212)
Outstanding at 31 December	**6,406**	**997,919**	7,261	1,228,437

The total expenses recognised for the period arising from share-based payments were as follows:

	2021 £'000	2020 £'000
Awards granted and total expense recognised as employee costs	**2,545**	3,679

Further details in relation to the Directors are set out in the Remuneration Committee Report on pages 92 to 112. Included in the total expense of £2,545,000 (2020: £3,679,000) is an amount of £1,490,000 (2020: £1,980,000) 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, special Bonus Share Awards were granted to qualifying Edenhall employees following its acquisition on 11 December 2018. These took the form of nil-cost options to acquire Ordinary Shares in Marshalls plc at the end of a three-year period. Other awards granted in the year included 29,160 nil-cost options to Justin Lockwood on his appointment as Chief Financial Officer on 26 July 2021. This was a bespoke award made in lieu of incentives forfeited on cessation of his previous employment. Further details of this award are set out on page 101. The total awards outstanding at 31 December 2021 were over 358,217 shares (31 December 2020: 420,633). The total expenses recognised for the year arising from share-based payments were £1,117,000 (2020: £931,000).

Employee profit sharing scheme

At 31 December 2021 the scheme held 42,287 (2020: 42,287) Ordinary Shares in the Company.

21 Provisions

	Legal and regulatory provisions £'000
At 1 January 2020	2,649
Additional provisions made in the period	500
At 31 December 2020	3,149
At 1 January 2021	**3,149**
Unused amounts reversed during the period	**(2,310)**
At 31 December 2021	**839**

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	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Property, plant and equipment	**–**	–	**(17,089)**	(12,506)
Intangible assets	**–**	–	**(1,547)**	(1,594)
Inventories	**–**	–	**(477)**	(499)
Employee benefits	**–**	–	**(6,439)**	(519)
Equity settled share-based payments	**1,249**	2,241	**–**	–
IFRS 16 transition adjustment	**356**	379	**–**	–
Other items	**–**	–	**(2,513)**	(1,948)
Tax assets/(liabilities)	**1,605**	2,620	**(28,065)**	(17,066)

The deferred taxation liability at 31 December 2021 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 £6,439,000 (2020: £519,000) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £25,757,000 (2020: £2,726,000) (Note 20) calculated at 25 per cent (2020: 19 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 2021 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.

Movement in temporary differences

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**
IFRS 16 transition adjustment	379	(23)	–	–	**356**
Other items	(1,948)	(601)	36	–	**(2,513)**
	(14,446)	(5,211)	(6,547)	(256)	**(26,460)**

Notes to the Consolidated Financial Statements continued

22 Deferred taxation continued

Movement in temporary differences continued

Year ended 31 December 2020

	1 January 2020 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	31 December 2020 £'000
Property, plant and equipment	(11,321)	(1,185)	–	–	(12,506)
Intangible assets	(1,909)	315	–	–	(1,594)
Inventories	(337)	(162)	–	–	(499)
Employee benefits	(2,674)	48	2,107	–	(519)
Equity settled share-based payments	2,550	(205)	–	(104)	2,241
IFRS 16 transition adjustment	397	(18)	–	–	379
Other items	(2,066)	76	42	–	(1,948)
	(15,360)	(1,131)	2,149	(104)	(14,446)

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.

On 24 May 2021 the 2021 Finance Bill changed the main rate of corporation tax to 25 per cent for financial year 2023. This change creates a deferred tax charge in the year of £4,900,000.

23 Capital and reserves

Called-up share capital

As at 31 December 2021, the authorised, issued and fully paid up Ordinary Share Capital was as follows:

	Authorised 2021 and 2020		Issued and paid up 2021 and 2020	
Ordinary Shares	**Number**	Value £'000	**Number**	Value £'000
At 1 January and 31 December	**300,000,000**	75,000	**200,052,157**	50,013

Share premium account

The share premium account represents all proceeds received above the share capital cost.

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 113.

Capital redemption reserve

The capital redemption reserve records the nominal value of shares repurchased by the Company.

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.

	2021 £'000	2020 £'000
9.6 pence final dividend (2020: 4.3 pence) per Ordinary Share	**19,122**	8,562

24 Non-controlling interests

	2021 £'000	2020 £'000
At 1 January	**950**	723
Share of profit for the year	**92**	188
Foreign currency transaction differences	**(55)**	39
At 31 December	**987**	950

25 Analysis of net debt

	1 January 2021 £'000	Cash flow £'000	New leases £'000	Other changes* £'000	31 December 2021 £'000
Cash at bank and in hand	103,707	(62,439)	—	(56)	**41,212**
Debt due within 1 year	(20,000)	20,000	—	(1,673)	**(1,673)**
Debt due after 1 year	(110,282)	68,628	—	2,313	**(39,341)**
Lease liabilities	(48,991)	10,828	(3,158)	—	**(41,321)**
	(75,566)	37,017	(3,158)	584	**(41,123)**

* Other changes include foreign currency movements on cash and loan balances.

Reconciliation of net cash flow to movement in net debt

	2021 £'000	2020 £'000
Net (decrease)/increase in cash equivalents	**(62,439)**	50,481
Cash outflow/(inflow) from decrease/(increase) in bank borrowings	**88,628**	(57,891)
Cash outflow from lease repayments	**10,828**	13,780
New leases entered into	**(3,158)**	(20,811)
Effect of exchange rate fluctuations	**584**	(1,149)
Movement in net debt in the year	**34,443**	(15,590)
Net debt at 1 January	**(75,566)**	(59,976)
Net debt at 31 December	**(41,123)**	(75,566)

26 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.

	1 January 2021 £'000	Financing cash flows* £'000	Other non-cash changes** £'000	**31 December 2021 £'000**
Bank loans (Note 17)	(130,282)	88,628	1,640	**(40,014)**
Lease liabilities (Note 18)	(48,991)	10,828	(3,158)	**(41,321)**
Total liabilities from financing activities	(179,273)	99,456	(1,518)	**(81,335)**

	1 January 2020 £'000	Financing cash flows * £'000	Other non-cash changes ** £'000	31 December 2020 £'000
Bank loans (Note 17)	(71,274)	(57,891)	(1,117)	(130,282)
Lease liabilities (Note 18)	(41,960)	13,780	(20,811)	(48,991)
Total liabilities from financing activities	(113,234)	(44,111)	(21,928)	(179,273)

* 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.

27 Contingent liabilities

Royal Bank of Scotland 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	£430,000	23 Dec 2011 to 30 Oct 2022	Employer's liability
HDI Global SE — UK	£500,000	8 Dec 2020 to 30 Oct 2022	Employer's liability
AIOI Nissay Dowa Insurance UK Limited	£575,000	8 Dec 2020 to 30 Oct 2022	Vehicle insurance
Aviva Insurance Limited	£100,000	19 Mar 2014 to 29 Oct 2022	Vehicle insurance
M S Amlin Limited	£180,000	30 Oct 2016 to 30 Oct 2022	Vehicle insurance

28 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 0.3072 per cent (2020: 0.2915 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 92 to 112.

29 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 131 to 140. 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 the only key source 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, the expected return on net assets, inflation rates and mortality rates and have been determined following advice received from an independent qualified actuary. Sensitivity analysis is disclosed in Note 20 on page 159.

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.

Company Statement of Changes in Equity
for the year ended 31 December 2021

	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)**
Disposal of own shares	**–**	**–**	**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 income/(expense) in the year other than the loss 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
Prior year							
At 1 January 2020	50,013	24,482	(1,391)	75,394	10,780	202,285	361,563
Total comprehensive expense for the year							
Loss for the financial year	–	–	–	–	–	(4,760)	(4,760)
Total comprehensive expense for the year	–	–	–	–	–	(4,760)	(4,760)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	–	–	–	–	2,199	799	2,998
Deferred tax on share-based payments	–	–	–	–	31	–	31
Purchase of own shares	–	–	(2,705)	–	–	–	(2,705)
Disposal of own shares	–	–	3,290	–	–	(3,290)	–
Total contributions by and distributions to owners	–	–	585	–	2,230	(2,491)	324
Total transactions with owners of the Company	–	–	585	–	2,230	(7,251)	(4,436)
At 31 December 2020	50,013	24,482	(806)	75,394	13,010	195,034	357,127

There were no items of other comprehensive income/(expense) in the year other than the loss for the financial year recorded above.

Company Balance Sheet
at 31 December 2021

	Notes	2021 £'000	2020 £'000
Fixed assets			
Investments	33	**352,974**	351,352
Deferred taxation assets	34	**673**	1,058
		353,647	352,410
Current assets			
Debtors	35	**964**	4,717
Net current assets		**964**	4,717
Total assets		**354,611**	357,127
Current liabilities			
Creditors		**(23,106)**	–
Net current liabilities	36	**(23,106)**	–
Net assets		**331,505**	357,127
Capital and reserves			
Called-up share capital	37	**50,013**	50,013
Share premium account		**24,482**	24,482
Own shares		**(646)**	(806)
Capital redemption reserve		**75,394**	75,394
Equity reserve		**14,560**	13,010
Profit and loss account		**167,702**	195,034
Equity shareholders' funds		**331,505**	357,127

The Company reported a loss for the financial year ended 31 December 2021 of £6,362,000 (2020: loss of £4,760,000).

Approved at a Directors' meeting on 17 March 2022.

On behalf of the Board:

Martyn Coffey
Chief Executive

Justin Lockwood
Chief Financial Officer

The Notes on pages 168 to 173 form part of these Company Financial Statements.

Notes to the Company Financial Statements

30 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. The Company is exempt from the requirement to give its own disclosures as the entity forms part of the Consolidated Financial Statements of Marshalls plc, which has included disclosures under IFRS 7 "*Financial Instruments: Disclosures*".

(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 2021 were authorised for issue by the Board of Directors on 17 March 2022. 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 2021.

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 157 to 159.

(ii) Defined contribution scheme

Obligations for contributions to defined contribution schemes are recognised as an expense as incurred.

30 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.

31 Operating costs

The audit fee for the Company was £50,000 (2020: £45,000). 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 101 to 105 of the Remuneration Committee Report.

The average monthly number of employees of Marshalls plc (including Executive Directors) in the year ended 31 December 2021 was 183 (2020: 175). 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 £4,524,000 (2020: £4,261,000) in relation to 21 employees (2020: 16), including the Directors.

32 Ordinary dividends: equity shares

	2021		2020	
	Pence per share	£'000	Pence per share	£'000
2021 interim: paid 1 December 2021	4.7	9,362	–	–
2020 final: paid 1 July 2021	4.3	8,562	–	–
	9.0	17,924	–	–

Due to the impact of COVID-19, the Board did not propose an interim dividend during 2020.

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.

	2021 £'000	2020 £'000
2021 final: 9.6 pence (2020: 4.3 pence) per Ordinary Share	19,122	8,562

33 Investments

	£'000
At 1 January 2021	351,352
Additions	1,622
At 31 December 2021	**352,974**

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 £1,622,000 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 2021 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	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	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
Marshalls Building Materials Limited	Non-trading	Ordinary	100
Marshalls Building Products Limited	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*	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	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
Ollerton Limited	Non-trading	Ordinary	100

33 Investments continued

Subsidiaries	Principal activities	Class of share	% ownership
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
PD Edenhall Limited	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
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.

Marshalls NV is largely dependent on the continued support of Marshalls Mono Limited, which has indicated that it intends to continue providing this support for the foreseeable future.

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, 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

Xiamen Marshalls Import Export Company Limited
12 A4, Xiangyu Building, No. 22, 4th Xiangxing Road,
Xiangyu Free Trade Zone, Xiamen, China

34 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Equity settled share-based payments	**673**	1,058	**–**	–

Movement in temporary differences

	1 January 2021 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	**31 December 2021 £'000**
Equity settled share-based payments	1,058	(313)	(72)	**673**

	1 January 2020 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	31 December 2020 £'000
Equity settled share-based payments	1,464	(375)	(31)	1,058

35 Debtors

	2021 £'000	2020 £'000
Corporation tax	**964**	890
Amounts owed from subsidiary undertakings	**–**	3,827
	964	4,717

No debtors were due after more than one year.

36 Creditors

	2021 £'000	2020 £'000
Amounts owed to subsidiary undertakings	**23,106**	–

No creditors were due after more than one year.

37 Capital and reserves

Called-up share capital

As at 31 December 2021, the authorised, issued and fully paid up Ordinary Share capital was as follows:

	Authorised 2021 and 2020		Issued and paid up 2021 and 2020	
Ordinary Shares	**Number**	Value £'000	**Number**	Value £'000
At 1 January and 31 December	**300,000,000**	75,000	**200,052,157**	50,013

Share premium account

The share premium account represents all proceeds received above the share capital cost.

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 113.

37 Capital and reserves continued

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 £168 million (2020: £195 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.

38 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2021 or 31 December 2020.

39 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.

40 Contingent liabilities

Royal Bank of Scotland 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	£430,000	23 Dec 2011 to 30 Oct 2022	Employer's liability
HDI Global SE — UK	£500,000	8 Dec 2020 to 30 Oct 2022	Employer's liability
AIOI Nissay Dowa Insurance UK Limited	£575,000	8 Dec 2020 to 30 Oct 2022	Vehicle insurance
Aviva Insurance Limited	£100,000	19 Mar 2014 to 29 Oct 2022	Vehicle insurance
M S Amlin Limited	£180,000	30 Oct 2016 to 30 Oct 2022	Vehicle insurance

41 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 2018 and was updated for the purposes of the 31 December 2021 Financial Statements by a qualified independent actuary.

42 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.

43 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 2017 £'000	Year ended 31 December 2018 £'000	Year ended** 31 December 2019 £'000	Year ended** 31 December 2020 £'000	**Year ended 31 December 2021 £'000**
Consolidated Income Statement					
Revenue	430,194	490,988	541,832	469,454	**589,264**
Net operating costs (before adjusting items)	(376,755)	(426,154)	(468,151)	(442,272)	**(513,106)**
Operating profit (before adjusting items)	53,439	64,834	73,681	27,182	**76,158**
Adjusting items	—	—	—	(17,809)	**65**
Operating profit	53,439	64,834	73,681	9,373	**76,223**
Financial income and expenses (net)	(1,388)	(1,899)	(3,828)	(4,720)	**(6,901)**
Profit before tax (before adjusting items)	52,051	62,935	69,853	22,462	**72,070**
Profit before tax	52,051	62,935	69,853	4,653	**69,322**
Income tax expense	(9,925)	(11,307)	(11,942)	(2,095)	**(14,424)**
Profit for the financial year	42,126	51,628	57,911	2,558	**54,898**
Profit for the year attributable to:					
Equity shareholders of the Parent	42,503	51,958	58,240	2,370	**54,806**
Non-controlling interests	(377)	(330)	(329)	188	**92**
	42,126	51,628	57,911	2,558	**54,898**
EBITA****	54,581	66,593	76,104	12,092	**79,401**
EBITA (before adjusting items)	54,581	66,593	76,104	29,901	**79,336**
EBITDA****	67,895	80,792	103,875	45,298	**107,139**
EBITDA (before adjusting items)	67,895	80,792	103,875	57,618	**107,074**
Basic earnings per share (pence)	21.5	26.3	29.4	1.2	**27.5**
Basic earnings per share (before adjusting items)	21.5	26.3	29.4	8.6	**28.6**
Dividends per share (pence) – IFRS	12.2	14.8	16.7	—	**9.0**
Dividends per share (pence) – traditional	10.2	12.0	4.7	4.3	**14.3**
Dividends per share (pence) – supplementary	4.0	4.0	—	—	**—**
Year-end share price (pence)	454.9	464.8	860.0	748.5	**699.5**
Tax rate (%)	19.1	18.0	17.1	45.0	**20.8**

	2017* £'000	2018* £'000	2019* £'000	2020* £'000	**2021 £'000**
Consolidated Balance Sheet					
Non-current assets	248,055	302,785	350,035	324,416	**332,742**
Current assets	166,372	210,776	212,534	290,013	**263,230**
Total assets	414,427	513,561	562,569	614,429	**595,972**
Current liabilities	(109,507)	(141,190)	(162,349)	(157,158)	**(150,634)**
Non-current liabilities	(67,293)	(105,656)	(104,454)	(169,423)	**(101,021)**
Net assets	237,627	266,715	295,766	287,848	**344,317**
Net borrowings	(24,297)	(37,433)	(59,976)	(75,566)	**(41,121)**
Gearing ratio	10.2%	14.0%	20.3%	26.3%	**11.9%**

* 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.

*** Before 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.

Glossary

ABI
Barbour ABI - a provider of construction intelligence data

Alliance 8.7
Organisation supporting eradication of forced labour, modern slavery, human trafficking and child labour globally

BEIS
Business, Energy & Industry Strategy

BES 6001
BRE environmental and sustainability standard

BRE
Independent organisation offering expertise in the built environment sector

CO_2e
Carbon dioxide equivalent - metric tonnes of CO2 emissions with the same global warming potential as on metric tonne of another greenhouse gas

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

COP26
UN Climate Change Conference

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 neutral
Carbon neutral is a term used to describe the state of an entity (such as a company, service, product or event), where the carbon emissions caused by them have been balanced out by funding an equivalent amount of carbon savings elsewhere in the world.

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

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 Saving 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

Global warming projections
At 1.5°C warming, about 14 per cent of the Earth's population will be exposed to severe heatwaves at least once every five years, while at 2°C warming that number jumps to 37 per cent.

Extreme heatwaves will become widespread at 1.5°C warming.

ILO
International Labour Organisation

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.

Glossary continued

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 life cycle. The term is used in a number of business contexts, but most typically in company's responsibility for dealing with hazardous waste and product performance.

PAS 2060
PAS 2060 is the internationally recognised specification for carbon neutrality and builds on the existing PAS 2050 environmental standard. It sets out requirements for quantification, reduction and offsetting of greenhouse gas ("GHG") emissions for organisations, products and events.

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.

SDG
Sustainable Development Goal

SECR
Streamlined Energy and Carbon Reporting

SIP
Share Investment Plan

SLAM
Stop, Look, Assess, Manage

Statista
A company providing market and consumer data

SuDS
Sustainable Drainage Systems

TAH
Traffik Analysis Hub

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 2021

Size of shareholding	Number of shareholders	%	Number of Ordinary Shares	%
1 to 500	1,866	47.76	269,118	0.13
501 to 1,000	476	12.18	359,446	0.18
1,001 to 2,500	537	13.74	910,220	0.45
2,501 to 5,000	333	8.52	1,184,600	0.59
5,001 to 10,000	228	5.84	1,613,582	0.81
10,001 to 25,000	151	3.86	2,414,740	1.21
25,001 to 100,000	131	3.35	6,841,065	3.42
100,001 to 250,000	62	1.59	10,551,383	5.27
250,001 to 500,000	30	0.77	10,971,054	5.48
500,001 and above	93	2.39	164,936,949	82.46
	3,907	100.00	200,052,157	100.00

Financial calendar

Preliminary announcement of results for the year ended 31 December 2021	Announced	17 March 2022
Final dividend for the year ended 31 December 2021	Payable	1 July 2022
Half-yearly results for the year ending 31 December 2022	Announcement	18 August 2022
Half-yearly dividend for the year ending 31 December 2022	Payable	1 December 2022
Results for the year ending 31 December 2022	Announcement	Early March 2023

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
HSBC Bank plc
Lloyds Bank plc
Royal Bank of Scotland plc

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Shareholders' enquiries should be addressed to the Registrars at the above address (tel: 0870 707 1134)

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Registered in England and Wales: No. 5100353

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