Marshalls

Accounting policies

Significant accounting policies

General Information

Marshalls plc (the "Company") is a public company limited by shares, incorporated in the United Kingdom under the Companies Act 2006, and is registered in England and Wales. The Consolidated Financial Statements of the Company for the year ended 31 December 2023 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 18 March 2024. The Company's registered address is Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT.

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 63. 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 20 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.

Basis of preparation

The Group Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Accounting Standards and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB")". The Parent Company has elected to prepare its Financial Statements in accordance with FRS 101 *"Reduced Disclosure Framework"* and these are presented on pages 153 to 164.

The Consolidated Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: employee benefits, derivative financial instruments and liabilities for cash settled share-based payments. The Consolidated Financial Statements are presented in Sterling, rounded to the nearest million. Sterling is the currency of the primary economic environment in which the Group operates. The material accounting policies, which have been applied consistently, are set out later in the section.

In assessing the appropriateness of adopting the going concern basis in the preparation of the Annual Report, the Board has considered the Group's financial forecasts and its principal risks for a period of at least twelve months from the date of this report. The forecasts included projected profit and loss, balance sheet, cash flows, headroom against debt facilities and covenant compliance. The financial forecasts have been stress tested in downside scenarios to assess the impact on future profitability, cash flows, funding requirements and covenant compliance. The scenarios comprise a more severe economic downturn (which represents the Group's most significant risk) than that included in the base case forecast, and a reverse stress test on our financial forecasts to assess the extent to which an economic downturn would need to impact on revenues in order to breach a covenant. This showed that revenue would need to deteriorate by 20 per cent from the financial forecast and the Directors have a reasonable expectation that it is unlikely to deteriorate to this extent.

Details of the Group's funding position are set out in Note 20. At 31 December 2023, £160 million of the facility was undrawn. There are two financial covenants in the bank facility that are tested on a semi-annual basis and the Group maintains good cover against these with pre-IFRS 16 net debt to EBITDA of 1.9 times (covenant maximum of three times) and interest cover of 5.1 times (covenant minimum of three times).
Taking these factors into account, the Board has the reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future and for this reason, the Board has adopted the going concern basis in preparing this Annual Report.

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosure or on the amounts reported in these Consolidated Financial Statements.

- Amendments to IAS 1 *"Presentation of Financial Statements"* and IFRS Practice Statement 2 "*Making Materiality Judgements – Disclosure of Accounting Policies"*
- Amendments to IAS 12 *"Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction"*
- Amendments to IAS 12 *"Income Taxes – International Tax Reform – Pillar Two Model Rules"*
- Amendments to IAS 8 *"Accounting Polices, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates"*

At the date of authorisation of these Consolidated Financial Statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IFRS 10 and IAS 28 *"Sale or Contribution of Assets between an investor and its Associates or Joint Venture"*
- Amendments to IAS 1 *"Clarification of Liabilities as Current or Non-current"*
- Amendments to IAS 1 *"Non-current Liabilities with Covenants"*
- Amendments to IAS 7 and IFRS 7 *"Supplier Finance Arrangements"*
- Amendment to IFRS 16 *"Lease Liability in a Sale and Leaseback"*

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Consolidated Financial Statements of the Group in future periods.

Alternative performance measures and adjusting items
The Group uses alternative performance measures ("APMs") which are not defined or specified under IFRS. The Group believes that these APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide additional comparative information. A glossary setting out the APMs that the Board use, how they are used, an explanation of how they are calculated, and a reconciliation of the APMs to the statutory results, where relevant, is set out at Note 33.

Adjusting items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group's results and to demonstrate the Group's capacity to deliver dividends to shareholders.
Details of the adjusting items are disclosed in Note 4 and Note 33.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of Consolidated Financial Statements requires the Group to make estimates and judgements that affect the application of policies and reported accounts. Critical judgements represent key decisions made by the Board in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to the Board's assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and judgements which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Critical accounting judgements
The following critical accounting judgements has been made in the preparation of the Consolidated Financial Statements:

• As noted, adjusting items have been highlighted separately due to their size, nature or incidence to provide a full understanding of the Group's results and to demonstrate the Group's capacity to deliver dividends to shareholders. The determination of whether items merit treatment as an adjusting item is a matter of judgement. Note 4 sets out details of the adjusting items.

Sources of estimation uncertainty
The Directors consider the following to be key sources of estimation uncertainty:

• In arriving at the accounting value of the Group's defined benefit pension scheme, key assumptions have to be made in respect of factors including discount rates and inflation rates. These are determined on the basis of advice received from a qualified actuary. These estimates may be different to the actual outcomes. See further information in Note 21.

• The carrying value of goodwill is reviewed on an annual basis in accordance with IAS 36. This review requires the use of cash flow projections based on a financial forecast that are discounted at an appropriate market-based discount rate. The assumption on the market-based discount rate is determined based on the advice of a third-party adviser. The actual cash flows generated by the business may be different to the estimates included in the forecasts. See further information in Note 12.

Material accounting policy information
Basis of consolidation
The Consolidated Financial Statements incorporate the Financial Statements of the Company and the entities controlled by the Company (its subsidiaries) made up to 31 December each year. 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.

All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between Group companies are eliminated on consolidation. The accounting policies of the subsidiaries are consistent with the accounting policies of the Group.

Revenue
Revenue from the sale of goods is recognised in the Consolidated Income Statement when the performance obligations to customers have been satisfied. Revenue represents the invoiced value of sales to customers less returns, allowances, rebates and value added tax.

Revenue is recorded typically on despatch of the Group's products, when performance obligations to customers are satisfied. Products are usually delivered 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.

Segmental 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 Group has three reporting segments: Landscape Products; Building Products; and Roofing Products.

Share-based payments
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, considering 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.

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, interest expense arising on leases in accordance with IFRS 16, interest receivable on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the Consolidated Income Statement.

Foreign currency translation
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 dates 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).

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.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended (including appropriate elements of internal costs). 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. 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.

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 as follows:

Freehold buildings	20 to 40 years;
Fixed plant and equipment	4 to 30 years;
Mobile plant and equipment	3 to 7 years; and

Quarries are based on the rate of extraction.

Freehold land is not depreciated. The residual values, useful economic lives and depreciation methods are reassessed annually. Estimated costs associated with the restoration of quarries are charged in accordance with IAS 37 when costs can be measured with an appropriate degree of precision.

Right-of-use assets and 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 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. Right-of-use assets are depreciated on a straight line basis over the duration of the lease, which excluding property leases, is typically between 4 to 8 years. The Group's leases principally comprise commercial vehicles and trailers, forklift trucks, motor vehicles, certain property assets and fixed plant.

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.

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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is recognised initially as an asset at cost, allocated to cash generating units and is measured subsequently at cost less impairment losses.

Goodwill is not amortised but is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Impairment is tested by comparing the recoverable amount of the CGU with the carrying value of certain net assets of the CGUs with any impairment charge being allocated initially to goodwill. The recoverable amount of assets of CGUs 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 pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment arising is recognised immediately in the Income Statement and subsequent reversals of impairment losses for goodwill are not recognised. Details of the December 2023 impairment review are set out at Note 12.

Intangible assets
Intangible assets acquired separately are initially measured at cost. Intangible assets arising on business combinations are initially measured at fair value. Following initial recognition, intangible assets are carried at cost or fair value less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding software development and capitalised development costs, are not capitalised and expenditure is reflected in the Income Statement in the year in which the expenditure is incurred.

All current intangible assets have finite lives and are amortised on a straight line basis over their expected useful life and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation of intangible assets is provided over the following expected useful economic lives:

Brand names	20 to 25 years;
Customer and supplier relationships	5 to 20 years;
Patents, trademarks and know-how	2 to 20 years;
Development costs	10 to 20 years; and
Software	5 to 10 years.

Post-retirement benefits
Any 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.

Obligations for contributions to defined contribution schemes are recognised as an expense in the Income Statement as incurred.

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.

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. Trade receivables are stated gross of a provision for expected credit losses. This provision has been determined using a lifetime expected credit loss calculation.

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. For the purposes of the statement of cash flows, cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the statement of financial position to the extent the Group does not have the right and intention to settle net.

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.

Trade and other payables
Trade and other payables are stated at initial recognition, at their fair value and subsequently at amortised cost.

Interest-bearing loans and borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest rate method.

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.

Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to interest rate, 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 below).

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.

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.

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. 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.

Share capital
Marshalls plc has only Ordinary Share capital. These shares, with a nominal value of 25 pence per share, are classified as equity. 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”.

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.

Impairment
The carrying amounts of the Group's assets, other than inventories and goodwill, 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. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Any 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.