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Marshalls

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

Marshalls plc, a leading manufacturer of products for the built environment, announces its full year results for the year ended 31 December 2022

Highlights

£M	Year ended 31 December 2022	Year ended 31 December 2021 (as restated)	Change 2022 / 2021 (%)
Revenue	**719.4**	589.3	22
Adjusted results (Notes 1, 2 and 3)			
Adjusted EBITDA	**136.0**	107.1	27
Adjusted operating profit	**101.1**	77.4	31
Adjusted profit before tax	**90.4**	73.3	23
Adjusted basic EPS – pence	**31.3**	29.2	7
Adjusted proforma ROCE (%)	**13.3**	20.6	(7.3)ppts
Final dividend – pence	**9.9**	9.6	3
Total dividend for the year – pence	**15.6**	14.3	9
Net debt	**236.6**	41.1	-
Net debt /(cash) – pre-IFRS 16	**190.8**	(0.1)	-
Statutory results			
EBITDA	**90.2**	107.1	(16)
Operating profit	**47.9**	76.2	(37)
Profit before tax	**37.2**	69.3	(46)
Basic EPS - pence	**11.4**	27.5	(59)

Financial highlights

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

Strategic highlights

- Transformational acquisition of Marley completed on 29 April 2022
    - Accelerated the diversification of the Group’s product offering providing increased resilience through the cycle
    - Traded robustly and ahead of plan in the post-acquisition period
    - Integration tracking in line with plan and management remain confident of delivering operational improvements
- Conservative capital structure maintained and increased priority to deleveraging in capital allocation policy
- Ongoing investment in leading edge technology to enhance capabilities and efficiency - £24 million dual block plant at St Ives expected to be operational in the first half of 2023 with exciting new product development opportunities

- New digital trading platform 'Dropship' developed which extends the range of products offered by merchants
- Reduced volumes and profitability in Landscape Products resulted in decisive action to reduce capacity and the annual cost base by £10 million
- Good progress made on ESG priorities – carbon sequestration to be trialled in a factory environment and cement reduction plan being executed

Outlook

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

Commenting on the results, Martyn Coffey, Chief Executive, said:
"Marshalls reported a record financial performance in 2022 against challenging market conditions. This performance demonstrates the benefit of the Group's deliberate diversification strategy, illustrated by the acquisition of Marley in 2022 and other acquisitions in recent years that now form the core of our Building Products segment.

We took decisive action to reduce our capacity and cost base in 2022 in response to a contraction of demand in our Landscape Products business, and we will continue to focus on maintaining flexibility to respond to evolving market conditions and executing self-help initiatives as required.

Our strategy is underpinned by our strong market positions, established brands and focused investment plans to drive ongoing operational improvement. Notwithstanding short-term challenges, the Board remains confident that the Group is well placed to deliver profitable long-term growth when market conditions improve and continues to focus on its key strategic initiatives."

There will be a video webcast for analysts and investors today at 09:00am. The presentation will be available for analysts and investors who are unable to view the webcast live and can be viewed on Marshalls' website at www.marshalls.co.uk. Users can register to access the webcast using the following link:
https://stream.brrmedia.co.uk/broadcast/63cfb902777efd4a8b514e2e
There will also be a telephone dial in facility available Tel: UK-Wide: +44 (0) 33 0551 0200 and password "Marshalls FY Results" when prompted by the operator.

Notes:

1. Alternative performance measures are used consistently throughout this Announcement. These relate to like-for-like revenue growth, EBITA, adjusted proforma EBITA, EBITDA, adjusted EBITDA, adjusted proforma pre-IFRS16 EBITDA, adjusted proforma return on capital employed ('ROCE'), net debt, pre-IFRS16 net debt, pre-IFRS16 net debt to adjusted proforma EBITDA, adjusted operating cash flow and results after adding back adjusting items. For further details of their purpose, definition and reconciliation to the equivalent statutory measures, see Note 1.
2. The results for the year ended 31 December 2022 have been disclosed after adding back adjusting items. These are set out in Note 4.
3. Following a change to the reporting segments and the inclusion of the amortisation of acquired intangibles in adjusting items, the comparative figures have been restated to ensure consistent classification with the analysis reported for the year ended 31 December 2022 (Note 2).

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Introduction

I am pleased to report significant strategic progress in 2022, which included the transformational acquisition of Marley Group plc ('Marley'). The contribution of Marley helped deliver a record financial performance at group level, despite significant challenges in our Landscape Products business arising from a weak market backdrop particularly in private housing RMI. Marshalls is now a more diversified business which will benefit from the greater scale and resilience that Marley and other recent acquisitions bring to the Group.

Market overview

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

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

Looking further ahead, we believe that the UK construction market continues to have attractive medium and long-term growth potential driven by the structural deficit in new housebuilding, an ageing housing stock that requires increased repair and maintenance and the need to continue improving UK infrastructure. The Group's strategy is underpinned by our strong market positions, established brands and focused investment plans to drive ongoing operational improvement.

Group results

The Group delivered record revenue and adjusted profitability in 2022, driven by the benefit of Marley's eight-month contribution together with a strong performance by Marshalls Building Products, which was partially offset by a weaker result from Marshalls Landscape Products.

£'m	**Year ended 31 December 2022**	Year ended 31 December 2021 (as restated)	Change 2022 / 2021 (%)
Revenue	**719.4**	589.3	22
Net operating costs	**(618.3)**	(511.9)	
Adjusted operating profit	**101.1**	77.4	31
Adjusting items	**(53.2)**	(1.2)	
Statutory operating profit	**47.9**	76.2	(37)
Financial expenses	**(10.7)**	(6.9)	
Profit before taxation	**37.2**	69.3	(46)
Taxation	**(10.7)**	(14.4)	
Profit after taxation	**26.5**	54.9	(52)
Adjusted EPS	**31.3**	29.2	7
Statutory EPS	**11.4**	27.5	(59)
Total dividend for the year - pence	**15.6**	14.3	9

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

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

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

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

Transaction related costs totalling £14.9 million were incurred in respect of the acquisition of Marley and principally comprised adviser fees. A purchase price allocation exercise was undertaken to recognise the assets of Marley on acquisition at fair value and this resulted in the creation of intangible assets and a non-cash adjustment to increase inventory to its fair value. The acquired intangible assets are being amortised over a period of between 15 and 25 years and therefore the associated charge will be a recurring feature of the Group's statutory profit and loss account. Additional contingent consideration of £3.9 million has been charged as an adjusting item following a re-assessment of the amounts that will become payable to vendors arising in relation to Marley's acquisition of Viridian Solar Limited in 2021. In response to lower levels of customer demand we undertook a restructuring exercise to right-size our capacity and cost base and this resulted in a charge of £13.0 million, which comprises £3 million of cash redundancy costs and £10 million of non-cash impairment charges. The impairment of assets in the Group's Belgian subsidiary arose from an impairment review carried out in response to a downturn in the business' performance during 2022.

Net financial expenses were £10.7 million (2021: £6.9 million) including £2.4 million (2021: £1.9 million) of IFRS 16 lease interest and a pension related expense of £0.1 million (2021: £3.3 million). The increase in the period reflects the additional interest cost of the bank debt used to part-fund the acquisition of Marley. The pension related interest cost in 2021 included a non-cash charge of £2.8 million, which was accounted for as an adjusting item.

Adjusted profit before tax was £90.4 million (2021: £73.3 million). Statutory profit before tax was £53.2 million lower than the adjusted result at £37.2 million (2021: £69.3 million), reflecting the impact of the adjusting items. The adjusted effective tax rate was 18.9 per cent (2021: 20.5 per cent), which is broadly in-line with the UK headline corporation tax rate. On a reported basis, the effective tax rate is 28.7 per cent due to certain transaction related costs not being eligible for a tax deduction and there being no tax relief available for the asset impairment in the Belgian subsidiary. Adjusted earnings per share was 31.3 pence (2021: 29.2 pence) which is a seven per cent increase year-on-year and represents a record for the Group. Reported earnings per share was 11.4 pence (2021: 27.5 pence), which is lower than the adjusted number due to the adjusting items and their tax effect.

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

Segmental performance

The Board reviewed the Group's reporting segments following the acquisition of Marley and concluded that it was appropriate to report under three separate reporting segments, being Marshalls Landscape Products, Marshalls Building Products and Marley Roofing Products. This reflects the new internal performance reporting and management responsibility framework. Adjusted operating profit is analysed between the Group's reporting segments as follows:

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

Marshalls Landscape Products

Marshalls Landscape Products, which comprises the Group's Commercial and Domestic landscape business, Landscape Protection and the International businesses, delivered revenue of £394.1 million (2021: £424.8 million), which represents a contraction of seven per cent compared to 2021.

£'m	Year ended 31 December 2022	Year ended 31 December 2021 (as restated)	Change 2022 / 2021 (%)
Revenue	**394.1**	424.8	(7)
Segment operating profit	**45.3**	62.4	(27)
Segment operating margin %	***11.5%***	*14.7%*	*(3.2 ppts)*

This reporting segment derives around 40 per cent of its revenues from commercial & infrastructure and approximately 30 per cent from each of new build housing and private housing RMI. The business was adversely impacted by weakness in private housing RMI, in both the UK and Belgium, driven by the discretionary nature of our domestic products, lower consumer confidence, a reprioritisation of household expenditure and falling real wages. Installer order books at the end of February 2023 moderated to 14.7 weeks (February and June 2022: both 17.4 weeks), which is in-line with pre COVID-19 levels and demonstrates continued demand for professional installations. However, there is reduced installation capacity compared to prior years and DIY activity levels contracted markedly compared to the elevated activity levels in 2021. This resulted in a reduction in domestic volumes of around one third, with a weaker performance in the second half of the year partially driven by merchants adjusting stocking levels to align with reduced customer demand. The reduction in sales volumes was partially offset by price increases that were implemented to offset the impact of cost inflation, which in turn, also suppressed demand in all end markets.

Segment operating profit reduced by £17.1 million to £45.3 million. This was driven by the combined effect of lower volumes on gross profit and a significant reduction in the operational efficiency of manufacturing network due to reduced production volumes. The impact of both these factors increased in the second half of the year due to the weaker H2 sales performance and reduced manufacturing output to manage inventory levels. We took decisive action to reduce capacity and costs within our manufacturing network and trading function to ensure alignment with lower levels of customer demand and this reduced operating costs by around £10 million per annum from the start of 2023. The cost associated with this action has been presented as an adjusting item (see note 4). The fall in volumes resulted in operating margins reducing by 3.2 ppts to 11.5 ppts for the year.

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

Marshalls Building Products

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

£’m	**Year ended 31 December 2022**	Year ended 31 December 2021 (as restated)	Change 2022 / 2021 (%)
Revenue	**193.1**	164.5	17
Segment operating profit	**26.8**	19.6	37
Segment operating margin %	***13.9%***	*11.9%*	*2.0 ppts*

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

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

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

Marley Roofing Products

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

£’m	**Year ended 31 December 2022**	Year ended 31 December 2021 (as restated)	Change 2022 / 2021 (%)
Revenue	**132.2**	-	-
Segment operating profit	**34.4**	-	-
Segment operating margin %	***26.0%***	-	-

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

Segment operating profit in the post-acquisition period was £34.4 million, which represents an increase of one per cent compared to the corresponding period, pre-ownership, in 2021. This growth was driven by proactive management of inflationary pressures and it resulted in a segment operating margin of 26.0 per cent.

We expect the market environment for this reporting segment to be more challenging in 2023 due to its exposure to new build housing and private housing RMI. However, we expect to see continued strong growth in roof-integrated solar PV panels due to increased penetration in the RMI projects and changes in building regulations that require new build houses to achieve increased energy efficiency targets. In the medium-term, segment operating margins are expected to be in the range of 20 per cent to 25 per cent reflecting an increasing proportion of total revenues being generated from lower margin solar PV.

Strategy and ESG update

Acquisition of Marley

The acquisition of Marley was a transformational step in delivering the Group’s strategic goal of becoming the UK’s leading manufacturer of products for the built environment. It extended our product range into the pitched roofing market with an extensive range of products and solutions across the full roofing system with highly recognised and market leading brands. It enhanced the Group's exposure to the more cyclically resilient UK roofing RMI market, which has a strong medium-term outlook, underpinned by attractive structural drivers such as the UK's ageing housing stock with a product range principally focused on less discretionary products. The Marshalls and Marley businesses employ a similar commercial strategy that focuses on generating pull demand from key specifiers and influencers. Responsibility for Marley's operations was transitioned to the Group team in the second half of the year and the Board remain confident of delivering significant operational improvements focused on people, plant, and process. We have reduced vacancy rates using the Marshalls in-house recruitment team, assessed plant failure rates and implemented a targeted refurbishment programme, and introduced a structured performance management system. This has resulted in increased manufacturing efficiency on concrete tile production lines of eleven per cent in recent months. In addition, we have integrated our procurement functions, embarked on a review of our combined logistics footprint and are evaluating how we leverage Marshalls' ESG leadership within the business.

Capital allocation policy

The Group's capital allocation policy was reviewed by the Board in the second half of the year in the context of increased balance sheet leverage following the acquisition of Marley. Whilst the Board is comfortable operating with the Group's current post-transaction leverage, in light of the macro-environment, the policy has been revised to focus on accelerating the repayment of borrowings, prioritising this over any significant M&A activity until leverage is around one times adjusted EBITDA on a pre-IFRS16 basis (December 2022: 1.35 times). Supplementary dividends have temporarily been removed from the policy. The Board is targeting net debt to reduce to around one times adjusted EBITDA by December 2024 through organic free cashflow generation. In addition, the Group is undertaking a review of its manufacturing and property network, with the potential to dispose of non-core sites, which would accelerate deleveraging, whilst improving network efficiency.

Dual block plant

The project to construct the dual block plant at the Group's site in St Ives, Cambridgeshire is now in the commissioning phase and producing its first blocks. We expect it to be operational in the first half of 2023. The facility will be unique in the UK and will support the launch of new ranges of innovative value-added products that have the aesthetic appeal of natural stone at a lower price point and with a significantly reduced carbon footprint. The first in the range of these products was launched to commercial specifiers in the second half of the year and has received positive feedback.

Digital

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

ESG

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

Our commitment for the Marshalls businesses (excluding Marley) is to reduce scope one and two greenhouse gas emissions by 59 per cent per tonne of production by 2030 from a 2018 base year. For scope three emissions, we have also targeted that 73 per cent of our suppliers by emissions, covering purchased goods and services and upstream transport and distribution, will have science-based targets by 2024. Our emission reduction targets have been approved by the Science Based Targets initiative as consistent with levels required to meet our net-zero commitment with a 1.5°C trajectory. We were the first UK company in our sector to have approved science-based targets and have a roadmap to support our targets towards the commitment to net zero.

We remain fully committed to our carbon reduction journey and want to move forward as a Group. However, with the addition of Marley into the Group, 2030 may not be a realistic target for the enlarged business to achieve net-zero. Marley has a very different energy usage profile than Marshalls and, as a result, it will require a fundamental review of our roadmap for the Group. The Science Based Targets initiative also requires companies to recalculate their targets following a major change, such as an acquisition. The process to re-baseline and calculate our new targets will start in 2023. This will enable us to evaluate the impact that the acquisition of Marley has on the enlarged Group's net-zero commitment. This re-baselining project will bring together the monitoring and measuring of carbon emissions and validate a new roadmap for the Group. The final stage will be to submit our new targets to the Science Based Targets initiative for formal approval.

Balance sheet, funding and cash flow

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

A purchase price allocation exercise has been undertaken to establish the constituent parts of the Marley balance sheet at fair value on acquisition. This exercise has recognised £472.3 million of additional intangible assets in relation to Marley, principally customer relationships of £145.4 million and the values attributable to the Marley and Viridian brands of £82.8 million. Residual goodwill of £244.1 million has been recognised. As is customary in these circumstances, we have kept this under review in the second half of the year and made some minor changes to the initial assessment performed at the half year. The assessment will remain under review and subject to change during the twelve-month hindsight period which ends in April 2023. Further details of this are set out at Note 14.

Net assets have increased to £661.1 million compared with £344.3 million at 31 December 2021. This is largely due to the equity issuance of £330.3 million to part fund the acquisition of Marley. Intangible assets increased by £464.7 million, principally due to intangible assets acquired in respect of Marley. The acquisition has also increased tangible fixed assets by £96.2 million, net working capital by £26.2 million and tax balances (mainly deferred tax) by £63.8 million. A term loan of £210 million was introduced to partially fund the acquisition.

The balance sheet value of the Group's defined benefit pension scheme was a surplus of £22.4 million (December 2021: £25.8 million). The amount has been determined by the Scheme's pension adviser. The fair value of the Scheme assets at 31 December 2022 was £254.9 million (2021: £392.1 million) and the present value of the Scheme liabilities was £232.5 million (2021: £366.3 million). These changes have resulted in an actuarial loss, net of deferred taxation, of £2.3 million (December 2021: £19.8 million actuarial gain) and this has been recorded in the Consolidated Statement of Comprehensive Income.

The volatility in gilt markets since the half year has had a significant impact on defined benefit pension schemes. Due to the scheme's strategy of using liability driven investments ("LDI") to provide an effective hedge against both inflation and interest rates, this volatility and the significant spike in gilt rates also had consequences for the Marshalls' scheme. Despite the unprecedented levels of market volatility, the scheme's LDI asset portfolio continues to hedge protection against volatility in interest rates and inflation. The scheme's strategy is to include a relatively high proportion of "liquid" investments in the portfolio and this has helped the scheme respond to the recent market volatility and the short-notice collateral calls. However, during the last year the AA corporate bond rate has increased significantly from 1.90 per cent to 4.90 per cent. This has led to a reduction in liabilities but due to the high level of hedging in the investment strategy the scheme assets have also decreased in value. The Scheme's actuarial valuation as at 5 April 2021 was a surplus of £24.3 million, on a technical provisions basis, and the Company has agreed with the Trustee that no cash contributions will be payable under the funding and recovery plan.

The Group had net debt at 31 December 2022 of £236.6 million (December 2021: £41.1 million), including £45.8 million (December 2021: £41.3 million) of IFRS 16 lease liabilities. Net debt on a pre-IFRS16 basis was £190.8 million compared to net cash of £0.1 million at December 2021. On 3 May 2022, the Group drew down the new four-year term loan of £210 million to support the funding of the acquisition of Marley. In addition to the term loan, the Group has entered into a new committed revolving credit facility of £160 million with a maturity date of four years. Net debt to EBITDA was 1.35 times at 31 December 2022 on an adjusted pre-IFRS 16 proforma basis. Good headroom is maintained against the new bank facility and its covenants, which will support investment priorities going forward, and were comfortably met as at 31 December 2022.

Adjusted operating cash flow (before interest and taxation) for 2022 represented 91 per cent of adjusted EBITDA (2021: 80 per cent) which demonstrates the cash generative nature of the Group's businesses. Strong conversion of EBITDA into operating cash flow is expected to support the Group's capital allocation priorities going forward including continued investment in organic growth opportunities, new product development, dividend payments and progressive deleveraging.

Dividend

The Group maintains a dividend policy of distributions covered twice by adjusted earnings through the cycle. The Board has proposed a final dividend of 9.9 pence per share, which taken together with the interim dividend of 5.7 pence per share, would result in a pay-out in respect of 2022 of 15.6 pence. This is in-line with the Group policy and would represent a year-on-year increase of nine per cent. The dividend will be paid on 3 July 2023 to shareholders on the register at the close of business on 2 June 2023. The shares will be marked ex-dividend on 1 June 2023.

Outlook

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

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

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

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

Martyn Coffey
Chief Executive

Marshalls plc

Preliminary Announcement of Results

Consolidated Income Statement

For the year ended 31 December 2022

	Notes	**2022 £'000**	2021 £'000
Revenue	2	**719,373**	589,264
Net operating costs	3	**(671,461)**	(513,041)
Operating profit	2	**47,912**	76,223
Financial expenses	5	**(10,716)**	(6,903)
Financial income	5	**1**	2
Profit before tax	2	**37,197**	69,322
Income tax expense	6	**(10,656)**	(14,424)
Profit for the financial year		**26,541**	54,898
Profit for the year			
Attributable to:			
Equity shareholders of the Parent		**26,791**	54,806
Non-controlling interests		**(250)**	92
Profit for the financial year		**26,541**	54,898
Earnings per share			
Basic	7	**11.4p**	27.5p
Diluted	7	**11.3p**	27.4p
Dividend			
Pence per share	8	**15.6p**	14.3p
Dividends declared in the period	8	**39,427**	28,484

	Notes	**2022 £'000**	2021 (as restated) £'000
Operating profit before adjusting items			
Operating profit		**47,912**	76,223
Adjusting items	4	**53,220**	1,148
Adjusted operating profit		**101,132**	77,371
Profit before tax and adjusting items			
Profit before tax		**37,197**	69,322
Adjusting items	4	**53,220**	3,961
Adjusted profit before tax		**90,417**	73,283
Profit after tax and adjusting items			
Profit for the financial year		**26,541**	54,898
Adjusting items (net of tax)	4	**46,815**	3,355
Adjusted profit after tax		**73,356**	58,253
Earnings per share after adding back adjusting items			
Basic	7	**31.3p**	29.2p
Diluted	7	**31.1p**	29.0p

Marshalls plc

Preliminary Announcement of Results

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Notes	**2022** **£'000**	2021 (as restated) £'000
Profit for the financial year		**26,541**	54,898
Other comprehensive income/(expense)			
Items that will not be reclassified to the Income Statement:			
Re-measurements of the net defined benefit surplus		**(3,126)**	26,383
Deferred tax arising		**781**	(6,600)
Impact of the change in rate of deferred tax on defined benefit plan actuarial gain		**–**	17
Total items that will not be reclassified to the Income Statement		**(2,345)**	19,800
Items that are or may in the future be reclassified to the Income Statement:			
Effective portion of changes in fair value of cash flow hedges		**5,660**	1,403
Fair value of cash flow hedges transferred to the Income Statement		**(2,847)**	(922)
Deferred tax arsing		**(680)**	36
Exchange difference on retranslation of foreign currency net investment		**610**	(232)
Exchange movements associated with borrowings designated as a hedge against net investment		**(282)**	640
Foreign currency translation differences – non-controlling interests		**45**	(55)
Total items that are or may be reclassified to the Income Statement		**2,506**	870
Other comprehensive income for the year, net of income tax		**161**	20,670
Total comprehensive income for the year		**26,702**	75,568
Attributable to:			
Equity shareholders of the Parent		**26,907**	75,531
Non-controlling interests		**(205)**	37
		26,702	75,568

Marshalls plc

Preliminary Announcement of Results

Consolidated Balance Sheet

For the year ended 31 December 2022

	Notes	**2022 £'000**	2021 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**266,451**	173,931
Right-of-use assets		**36,997**	36,445
Intangible assets	10	**559,743**	95,004
Employee benefits	13	**22,434**	25,757
Deferred taxation assets		**1,270**	1,605
		886,895	332,742
Current assets			
Inventories		**138,765**	107,436
Trade and other receivables		**123,281**	111,909
Cash and cash equivalents		**56,264**	41,212
Assets classified as held for sale		**–**	1,860
Derivative financial instruments		**3,661**	813
		321,971	263,230
Total assets		**1,208,866**	595,972
Liabilities			
Current liabilities			
Trade and other payables		**152,440**	138,218
Corporation tax		**2,128**	2,198
Lease liabilities	11	**9,764**	8,545
Interest-bearing loans and borrowings	12	**–**	1,673
Provisions		**3,000**	–
		167,332	150,634
Non-current liabilities			
Lease liabilities	11	**36,070**	32,776
Interest-bearing loans and borrowings	12	**247,035**	39,341
Provisions		**6,699**	839
Deferred taxation liabilities		**90,661**	28,065
		380,465	101,021
Total liabilities		**547,797**	251,655
Net assets		**661,069**	344,317
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital		**63,242**	50,013
Share premium account		**199,927**	24,482
Merger reserve		**141,605**	-
Own shares		**(1,325)**	(646)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**2,963**	830
Foreign exchange reserve		**375**	47
Retained earnings		**391,173**	406,277
Equity attributable to equity shareholders of the Parent		**660,287**	343,330
Non-controlling interests		**782**	987
Total equity		**661,069**	344,317

Marshalls plc

Preliminary Announcement of Results

Consolidated Cash Flow Statement

For the year ended 31 December 2022

	Notes	**2022** £'000	2021 (as restated) £'000
Profit for the financial year		**26,541**	54,898
Income tax expense on continuing operations	6	**17,061**	15,030
Income tax credit on adjusting items	6	**(6,405)**	(606)
Profit before tax		**37,197**	69,322
Adjustments for:			
Depreciation of property, plant and equipment		**21,817**	16,423
Asset impairments		**14,042**	233
Depreciation of right-of-use assets		**11,328**	11,315
Amortisation		**1,765**	1,965
Adjusting items		**39,177**	1,213
Gain on sale of property, plant and equipment		**(1,207)**	(9,194)
Equity settled share-based payments		**1,254**	2,303
Financial income and expenses (net)	5	**10,715**	6,901
Operating cash flow before changes in working capital		**136,088**	100,481
Decrease/(increase) in trade and other receivables		**22,900**	(16,696)
Increase in inventories		**(13,997)**	(18,108)
(Decrease)/increase in trade and other payables		**(20,737)**	19,740
Adjusting items paid		**(17,410)**	(2,820)
Cash generated from operations		**106,844**	82,597
Financial expenses paid		**(9,909)**	(3,534)
Income tax paid		**(11,592)**	(13,527)
Net cash flow from operating activities		**85,343**	65,536
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1,408**	14,892
Financial income received		**1**	2
Acquisition of subsidiary undertaking		**(86,193)**	–
Acquisition of property, plant and equipment		**(27,840)**	(19,037)
Acquisition of intangible assets		**(2,310)**	(2,885)
Net cash flow from investing activities		**(114,934)**	(7,028)
Cash flows from financing activities			
Net proceeds from issue of share capital		**182,651**	–
Payments to acquire own shares		**(1,075)**	(3,567)
Payment in respect of share-based payment award		**(1,252)**	–
Repayment of debt on acquisition of subsidiaries		**(291,956)**	–
Repayment of borrowings		**(97,729)**	(121,286)
New loans		**303,467**	32,658
Cash payment for the principal portion of lease liabilities		**(11,090)**	(10,828)
Equity dividends paid		**(38,669)**	(17,924)
Net cash flow from financing activities		**44,347**	(120,947)
Net increase/(decrease) in cash and cash equivalents		**14,756**	(62,439)
Cash and cash equivalents at the beginning of the year		**41,212**	103,707
Effect of exchange rate fluctuations		**296**	(56)
Cash and cash equivalents at the end of the year		**56,264**	41,212

Marshalls plc

Preliminary Announcement of Results

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to equity holders of the Company											
	Share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Current year												
At 1 January 2022	**50,013**	**24,482**	**-**	**(646)**	**75,394**	**(213,067)**	**830**	**47**	**406,277**	**343,330**	**987**	**344,317**
Total comprehensive income/(expense) for the year												
Profit for the financial year	–	–	-	–	–	–	–	–	**26,791**	**26,791**	**(250)**	**26,541**
Other comprehensive income/(expense)												
Foreign currency translation differences	–	–	-	–	–	–	–	**328**	–	**328**	**45**	**373**
Effective portion of changes in fair value of cash flow hedges	–	–	-	–	–	–	**5,660**	–	–	**5,660**	–	**5,660**
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	-	–	–	–	**(2,847)**	–	–	**(2,847)**	–	**(2,847)**
Deferred tax arising	–	–	-	–	–	–	**(680)**	–	–	**(680)**	–	**(680)**
Defined benefit plan actuarial loss	–	–	-	–	–	–	–	–	**(3,126)**	**(3,126)**	–	**(3,126)**
Deferred tax arising	–	–	-	–	–	–	–	–	**781**	**781**	–	**781**
Total other comprehensive income/(expense)	–	–	-	–	–	–	**2,133**	**328**	**(2,345)**	**116**	**45**	**161**
Total comprehensive income/(expense) for the year	–	–	-	–	–	–	**2,133**	**328**	**24,446**	**26,907**	**(205)**	**26,702**
Shares issued	**13,229**	**180,151**	**141,605**	–	–	–	–	–	–	**334,985**	–	**334,985**
Share issue costs	–	**(4,706)**		–	–	–	–	–	–	**(4,706)**	–	**(4,706)**
Share-based payments	–	–	-	–	–	–	–	–	**2**	**2**	–	**2**
Deferred tax on share-based payments	–	–	-	–	–	–	–	–	**(608)**	**(608)**	–	**(608)**
Corporation tax on share-based payments	–	–	-	–	–	–	–	–	**121**	**121**	–	**121**
Dividends to equity shareholders	–	–	-	–	–	–	–	–	**(38,669)**	**(38,669)**	–	**(38,669)**
Purchase of own shares	–	–	-	**(1,075)**	–	–	–	–	–	**(1,075)**	–	**(1,075)**
Own shares issued under share scheme	–	–	-	**396**	–	–	–	–	**(396)**	–	–	–
Total contributions by and distributions to owners	**13,229**	**175,445**	**141,605**	**(679)**	–	–	–	–	**(39,550)**	**290,050**	–	**290,050**
Total transactions with owners of the Company	**13,229**	**175,445**	**141,605**	**(679)**	–	–	**2,133**	**328**	**(15,104)**	**316,957**	**(205)**	**316,752**
At 31 December 2022	**63,242**	**199,927**	**141,605**	**(1,325)**	**75,394**	**(213,067)**	**2,963**	**375**	**391,173**	**660,287**	**782**	**661,069**

Marshalls plc

Preliminary Announcement of Results

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

			Attributable to equity holders of the Company								
	Share capital £'000	Share premium account £'000	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	–	–	–	–	–	–	–	54,806	54,806	92	54,898
Other comprehensive income/(expense)											
Foreign currency translation differences	–	–	–	–	–	–	408	–	408	(55)	353
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	1,403	–	–	1,403	–	1,403
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	(922)	–	–	(922)	–	(922)
Deferred tax arising	–	–	–	–	–	36	–	–	36	–	36
Defined benefit plan actuarial gain	–	–	–	–	–	–	–	26,383	26,383	–	26,383
Deferred tax arising	–	–	–	–	–	–	–	(6,600)	(6,600)	–	(6,600)
Impact of the change in rate of deferred tax on defined benefit plan actuarial gain	–	–	–	–	–	–	–	17	17	–	17
Total other comprehensive income/(expense)	–	–	–	–	–	517	408	19,800	20,725	(55)	20,670
Total comprehensive income/(expense) for the year	–	–	–	–	–	517	408	74,606	75,531	37	75,568
Share-based payments	–	–	–	–	–	–	–	2,303	2,303	–	2,303
Deferred tax on share-based payments	–	–	–	–	–	–	–	(256)	(256)	–	(256)
Corporation tax on share-based payments	–	–	–	–	–	–	–	345	345	–	345
Dividends to equity shareholders	–	–	–	–	–	–	–	(17,924)	(17,924)	–	(17,924)
Purchase of own shares	–	–	(3,567)	–	–	–	–	–	(3,567)	–	(3,567)
Own shares issued under share scheme	–	–	3,727	–	–	–	–	(3,727)	–	–	–
Total contributions by and distributions to owners	–	–	160	–	–	–	–	(19,259)	(19,099)	–	(19,099)
Total transactions with owners of the Company	–	–	160	–	–	517	408	55,347	56,432	37	56,469
At 31 December 2021	50,013	24,482	(646)	75,394	(213,067)	830	47	406,277	343,330	987	344,317

1 Basis of preparation

Whilst the Financial Information included in this Preliminary Announcement has been prepared on the basis of the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS. The Group expects to publish full Consolidated Financial Statements in April 2023.

The Financial Information set out in this Preliminary Announcement does not constitute the Company's Consolidated Financial Statements for the years ended 31 December 2022 or 2021, but is derived from those Financial Statements. Statutory Financial Statements for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered following the Company's Annual General Meeting. The auditor, Deloitte LLP, has reported on those Financial Statements. The audit reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying the reports and did not contain statements under Section 498(2) or (3) of the Companies Act 2006 in respect of the Financial Statements for 2022 or 2021.

The Consolidated Financial Statements have been prepared in accordance with international accounting 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 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.

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.

Going concern

Details of the Group's funding position are set out in Note 12. On 3 May 2022, the Group drew down on a new four-year bank loan of £210 million to support the acquisition of Marley Group plc. In addition to the term loan, the Group has entered into a new committed revolving credit facility of £160 million with a maturity date of four years. Net debt to adjusted EBITDA was 1.35 times at 31 December 2022 on an adjusted pre-IFRS 16 proforma basis.

In assessing the appropriateness of adopting the going concern basis in the Consolidated Financial Statements, the Board reviewed a range of severe downside scenarios to stress test the potential impact of emerging and longer-term risks on covenant compliance and liquidity. The stress tests reviewed do not impact the Directors' opinion that there is sufficient headroom against both the Group's bank facility and the associated covenants. The Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. However, the potential impact of wider political and economic uncertainties has been considered, including issues or delays as a consequence of continuing issues relating to the wider supply chain and the impact of cost inflation. The deteriorating macro-economic environment is the key underlying risk. The financial impact of climate change risk continues to be assessed along with market changes driven by advances in technology. Based on current expectations, the Group's latest cash forecasts continue to meet half year and year-end bank covenants and there is adequate headroom that is not dependent on facility renewals.

At 31 December 2022, on an adjusted pre-IFRS 16 proforma basis, the relevant ratios were comfortably achieved and were as follows:

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

In performing an assessment of the Group's going concern, the Directors have considered the Group's capital allocation policy, priorities for capital 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.

Adoption of new standards in 2022

The accounting policies have been applied consistently throughout the Group for the purposes of these Consolidated Financial Statements and are also set out on the Company's website (www.marshalls.co.uk/investor/financial-performance). Adjusting items have been disclosed separately because of their size, nature or incidence to enable a full understanding of the Group's underlying results.

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the Consolidated Financial Statements.

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

- Amendments to IAS 16 – "*Property, plant and equipment – proceeds before intended use*";
- Annual improvements to IFRS Standards 2018-2020 Cycle – "*Amendments to IFRS1 First-time Adoption of International Financial Reporting Standards, IFRS 9 and Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture*";
- Amendments to IFRS 3 – "*Reference to the conceptual framework*";
- Amendments to IAS 37 – "*Onerous contracts – costs of fulfilling a contract*";
- Amendment to IFRS 16 – "*Covid-19 related rent concessions beyond 30 June 2021*";
- IFRS 17 – "*Insurance Contracts*";
- Amendment to IAS 1 – "*Classification of liabilities as current or non-current*";
- Amendments to IAS 1 and IFRS Practice Statement 2 – "*Disclosure of accounting policies*";
- Amendments to IAS 12 – "*Deferred tax related to assets and liabilities arising from a single transaction*";
- Amendments to IAS 8 – "*Definition of accounting estimates*";
- Amendments to IFRS 16 – "*Lease liability in a sale and leaseback*"; and
- Amendment to IAS 1 – "*Non-current liabilities with covenants*".

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

Segment reporting

IFRS 8 "*Operating Segments*" requires operating segments to be identified on the basis of discrete financial information about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker ("CODM") to allocate resources to the segments and to assess their trading performance. As far as Marshalls is concerned, the CODM is regarded as being the Board. Following the acquisition of Marley, the Group has reviewed its reporting segments. The Directors have concluded that going forward the Group will report under three reporting segments, namely Marshalls Landscape Products, Marshalls Building Products and Marley Roofing Products.

Alternative performance measures and adjusting items

The Group uses alternative performance measures ("APMs") which are not defined or specified under IFRS. The Group believes that these APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide additional comparative information. The prior period alternative performance measures have been restated to reflect the amortisation of acquired intangible assets in adjusting items.

Adjusting items

Adjusting items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group's results and to demonstrate the Group's capacity to deliver dividends to shareholders. Adjusted items should not be regarded as a complete picture of the Group's financial performance, which is presented in the total results.

For the year ended 31 December 2022 adjusting items include various charges that relate to the acquisition of Marley Group plc on 29 April 2022. These include professional fees and other transaction costs relating to the acquisition, the unwinding of an inventory fair value adjustments, the amortisation of acquired intangible assets and an increase in the estimate of contingent consideration payable in respect of Viridian Solar Limited. Adjusting items also include redundancy costs and asset impairments following a restructuring exercise to reduce production capacity and the impairment of certain assets in the Group's Belgian subsidiary. Further details have been disclosed in Note 4.

For the year ended 31 December 2021, adjusting items include the disposal of the Group's site at Ryton, significant asset impairments, the costs of closing the site at Stoke and exiting the manufacture of cast stone and the special "thank you" bonus paid to employees in recognition of their contributions during the COVID-19 pandemic. Adjusting items in 2021 also included an accounting charge relating to additional consideration for the acquisition of CPM, a non-cash finance charge resulting from the receipt of a Counsel legal opinion in relation to certain historic pension issues and the amortisation of acquired intangible assets. Further details have been disclosed in Note 4.

The APM's set out by the Group together with an explanation of how they are calculated and why we use them is set out below.

APM	Definition and purpose
Like-for-like revenue growth	Like-for-like revenue growth is revenue growth generated by the business assuming that acquired businesses had been part of the Group for the comparative period in the previous year. This provide users with an understanding about revenue growth that is not impacted by acquisitions.
Adjusted operating profit, adjusted profit before tax, adjusted profit after tax and adjusted earnings per share	These performance measures are all calculated using the relevant statutory measure and are stated after adding back adjusting items. The Group's accounting policy on adjusting items is set out above this table. The Directors assess the performance of the Group using these measures including when considering dividend payments.
EBITA and adjusted proforma EBITA	EBITA is earnings before interest, taxation and amortisation and provides users with further information about the profitability of the business before financing costs, taxation and amortisation. Adjusted proforma EBITA is stated after adding back adjusting items and including EBITA from 1 January to 28 April 2022 for Marley to give users information that it helpful in assessing future performance potential.
EBITDA and adjusted EBITDA	EBITDA is earnings before interest, taxation, depreciation and amortisation and provides users with further information about the profitability of the business before financing costs, taxation and non-cash charges. Adjusted EBITDA is EBITDA stated after adding back adjusting items. It provides users with additional information about the performance of the Group.
Adjusted proforma pre-IFRS16 EBITDA	Adjusted proforma pre-IFRS16 EBITDA is earnings before interest, taxation, depreciation (but not right-of-use asset depreciation), amortisation and after adding back adjusting items and profit or losses on the sale of property, plant and equipment and including EBITDA from 1 January to 28 April 2022 for Marley and is used to assess compliance with covenants in the Group's bank facility.
Adjusted proforma return on capital employed	Adjusted proforma return on capital employed is calculated as adjusted proforma EBITA divided by shareholders' funds plus net debt at the period end. It is designed to give further information about the returns being generated by the Group as a proportion of capital employed. The use of adjusted proforma EBITA ensures that the return is matched to the higher value of capital employed following the Marley acquisition.
Net debt	Net debt comprises cash at bank and in hand, bank loans and lease liabilities. It shows the overall net indebtedness of the Group.
Pre-IFRS16 net debt	Net debt comprises cash at bank and in hand and bank loans. It shows the overall net indebtedness of the Group excluding leases and is used is used in assessing compliance with covenants in the Group's bank facility.
Pre-IFRS16 net debt to adjusted proforma EBITDA	This is calculated by dividing pre-IFRS16 net debt by adjusted proforma pre-IFRS16 EBITDA to provide a measure of leverage. It is used in assessing compliance with the covenants in the Group's bank facility.
Adjusted operating cash flow	This measure is net cash flow from operating activities stated after adding back adjusting items paid, net financial expenses paid and taxation paid. It is used to calculate the ratio of adjusted operating cash flow to adjusted EBITDA.
Ratio of adjusted operating cash flow to adjusted EBITDA	This measure is calculated by dividing adjusted operating cash flow by adjusted EBITDA. Adjusted operating cash flow is calculated by adding back adjusting items paid, net financial expenses paid and taxation paid. It illustrates the rate of conversion of profitability into cash flow.

The following table sets out statutory operating profit before tax and profit after tax and the impact of adding back adjusting items. Details of the adjusting items are set out in Note 4.

	2022 £'000	2021 (as restated) £'000
Operating profit	**47,912**	76,223
Adjusting items (Note 4)	**53,220**	1,148
Adjusted operating Profit	**101,132**	77,371
Profit before tax	**37,197**	69,322
Adjusting items (Note 4)	**53,220**	3,961
Adjusted profit before tax	**90,417**	73,283
Profit for the financial year (reported)	**26,541**	54,898
Adjusting items (net of tax) (Note 4)	**46,815**	3,355
Adjusted profit after tax	**73,356**	58,253
Earnings per share after adding back adjusting items		
Basic (pence)	**31.3p**	29.2p
Diluted (pence)	**31.1p**	29.0p

A reconciliation of IFRS reported income statement measures to income statement APMs is set out below.

	2022 £'000	2021 (as restated) £'000
Operating profit	**47,912**	76,223
Adjusting items (Note 4)	**53,220**	1,148
Adjusted operating Profit	**101,132**	77,371
Amortisation (excluding amortisation of acquired intangible assets)	**1,765**	1,965
Adjusted EBITA	**102,897**	79,336
Depreciation	**33,145**	27,738
Adjusted EBITDA	**136,042**	107,074
Marley pre-acquisition EBITDA	**18,099**	–
Profit on sale of property, plant and equipment	**(1,207)**	(47)
Right-of-use asset depreciation	**(11,328)**	(11,315)
Adjusted proforma pre-IFRS16 EBITDA	**141,606**	95,712

A reconciliation of operating profit to adjusted EBITDA is set out below.

	2022 £'000	2021 (as restated) £'000
Operating profit	**47,912**	76,223
Depreciation and amortisation	**42,264**	30,916
Reported EBITDA	**90,176**	107,139
Adjusting items (excluding amortisation of acquired intangible assets)	**45,866**	(65)
Adjusted EBITDA	**136,042**	107,074

A reconciliation of operating profit to adjusted proforma EBITA is set out below.

	2022 £'000	2021 (as restated) £'000
Operating profit	**47,912**	76,223
Amortisation	**9,119**	3,178
EBITA	**57,031**	79,401
Adjusting items (excluding amortisation of acquired intangible assets)	**45,866**	(65)
Adjusted EBITA	**102,897**	79,336
Marley pre-acquisition EBITA	**16,358**	–
Adjusted proforma EBITA	**119,255**	79,336

Disclosures required under IFRS are referred to as on a reported basis. Disclosures referred to on an after adding back adjusting items basis are restated and are used to provide additional information and a more detailed understanding of the Group's results. Certain financial information on a reported basis and after adding back adjusting items is set out below.

	Adjusted pre-IFRS16 proforma 2022	Adjusted 2022	As reported 2022	Adjusted (as restated) 2021	As reported (as restated) 2021
EBITDA (£'000)	**141,606**	**136,042**	**90,176**	107,074	107,139
Net debt (£'000)	**190,771**	**236,605**	**236,605**	41,123	41,123
Net debt: EBITDA	**1.35**	**1.7**	**2.6**	0.4	0.4
EPS (pence)	**n/a**	**31.3**	**11.4**	29.2	27.5

Like-for-like revenue growth

Marley Group Limited was acquired in 29 April 2022 and the following reconciliation discloses the impact of the revenue in the comparative post-acquisition period in order to provide a like-for-like comparison of revenue.

	2022 £'000	**2021 £'000**	Increase **%**
Reported revenue – Marshalls	**587,146**	**589,264**	**-**
Comparable Marley revenue	**132,227**	**124,935**	**6**
Like-for-like revenue	**719,373**	**714,199**	**1**

Marley revenue is reported for 2022 and in 2021 it represents revenue for period from 29 April to 31 December.

ROCE

ROCE is defined as EBITA divided by shareholders' funds plus net debt.

	Adjusted proforma 2022 £'000	**Adjusted 2022 £'000**	**As reported 2022 £'000**	Adjusted (as restated) 2021 £'000	As reported 2021 £'000
EBITA	**119,255**	**102,897**	**57,031**	79,336	79,401
Shareholders' funds	**661,069**	**661,069**	**661,069**	344,317	344,317
Net (cash)/debt	**236,605**	**236,605**	**236,605**	41,123	41,123
Capital employed	**897,674**	**897,674**	**897,674**	385,440	385,440
ROCE	**13.3%**	**11.5%**	**6.4%**	20.6%	20.6%

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 15. Net debt on a pre-IFRS 16 basis has been disclosed to provide additional information and to align with reporting required for the Group's banking covenants. Net debt on both a reported basis and on a pre-IFRS 16 basis is set out below:

	2022 £'000	2021 £'000
Net debt on a reported basis	**236,605**	41,123
IFRS 16 leases	**(45,834)**	(41,198)
Net debt/(cash) on a pre-IRS 16 basis	**190,771**	(75)

The ratio of adjusted operating cash flow to adjusted EBITDA

The ratio of adjusted operating cash flow to adjusted EBITDA is calculated as set out below:

	2022 £'000	2021 £'000
Net cash flows from operating activities	**85,343**	65,536
Adjusting items paid	**17,410**	2,820
Net financial expenses paid	**9,909**	3,534
Taxation paid	**11,592**	13,527
Adjusted operating cash flow	**124,254**	85,417
Adjusted EBITDA	**136,042**	107,074
Ratio of adjusted operating cash flow to EBITDA	**91%**	80%

2 Segmental analysis

IFRS 8 "*Operating Segments*" requires operating segments to be identified on the basis of discrete financial information about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker ("CODM") to allocate resources to the segments and to assess their performance. As far as Marshalls plc is concerned the CODM is regarded as being the Board. Following the acquisition of Marley, the Group has reviewed its reporting segments. The Directors have concluded that going forward the Group will report under three reporting segments, namely Marshalls Landscape Products, Marshalls Building Products and Marley Roofing Products.

Marshalls Landscape Products comprises the Group's Public Sector and Commercial and Domestic landscape business, Landscape Protection and the International businesses. Marshalls Building Products comprises the Group's Civil and Drainage, Bricks and Masonry, Mortars and Screeds and Aggregate businesses.

Segment revenues and results

	2022				2021*			
	Landscape Products £'000	**Building Products £'000**	**Roofing Products £'000**	**Total £'000**	Landscape Products £'000	Building Products £'000	Roofing Products £'000	Total £'000
Total revenue	**394,075**	**195,445**	**132,227**	**721,747**	424,807	167,358	–	592,165
Inter-segment revenue	**(26)**	**(2,348)**	–	**(2,374)**	(21)	(2,880)	–	(2,901)
External revenue	**394,049**	**193,097**	**132,227**	**719,373**	424,786	164,478	–	589,264
Segment operating profit	**45,335**	**26,797**	**34,452**	**106,584**	62,412	19,640	–	82,052
Unallocated central costs				**(5,452)**				(4,681)
Operating profit before adjusting items				**101,132**				77,371
Adjusting items				**(53,220)**				(1,148)
Operating profit				**47,912**				76,223
Net finance charges (Note 5)				**(10,715)**				(6,901)
Profit before tax				**37,197**				69,322
Taxation (Note 6)				**(10,656)**				(14,424)
Profit after tax				**26,541**				54,898

* Following a change to the reporting segments, the comparative figures are being restated to ensure consistent classification with the analysis reported for the year ended December 2022. The change reflects the new internal performance reports and management responsibility framework.

The Group has two customers which each contributed more than 10 per cent of total revenue in the current and prior year.

The accounting policies of the three operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned without allocation of certain central administration costs that are not capable of allocation. Centrally administered overhead costs that relate directly to the reportable segment are included within the segment's results.

Segment assets

	2022 £'000	2021* £'000
Property, plant and equipment, right-of-use assets, intangible assets and inventory:		
Landscape Products	**260,450**	256,933
Building Products	**148,400**	155,883
Roofing Products	**593,106**	–
Total segment property, plant and equipment, right-of-use assets, intangible assets and inventory	**1,001,956**	412,816
Unallocated assets	**206,910**	183,156
Consolidated total assets	**1,208,866**	595,972

* Following a change to the reporting segments, the comparative figures are being restated to ensure consistent classification with the analysis reported for the year ended December 2022. The change reflects the new internal performance reports and management responsibility framework.

For the purpose of monitoring segment performance and allocating resources between segments, the Group's CODM monitors the property, plant and equipment, right-of-use assets, intangible assets and inventory. Assets used jointly by reportable segments are not allocated to individual reportable segments.

Other segment information

	Depreciation and amortisation		Property, plant and equipment, right-of-use asset and intangible asset additions	
	2022 £'000	2021* £'000	**2022 £'000**	2021* £'000
Landscape Products	**22,263**	20,491	**37,127**	21,048
Building Products	**8,786**	9,212	**4,602**	6,621
Roofing Products	**3,861**	–	**1,957**	–
	34,910	29,703	**43,686**	27,669
Included in adjusting items (Note 4)	**7,354**	1,213	–	–
	42,264	30,916	**43,686**	27,669

* Following a change to the reporting segments, the comparative figures are being restated to ensure consistent classification with the analysis reported for the year ended December 2022. The change reflects the new internal performance reports and management responsibility framework.

Depreciation and amortisation includes £7,354,000 of amortisation of intangible assets arising from the purchase price allocation exercises comprising £100,000 (2021: £100,000) in Marshalls Landscape Products, £1,113,000 (2021: £1,113,000) in Marshalls Building Products and £6,141,000 in Marley Roofing Products. The amortisation has been treated as an adjusting item (Note 4)

Geographical destination of revenue

	2022 £'000	2022 £'000
United Kingdom	**687,903**	556,110
Rest of the world	**31,470**	33,154
	719,373	589,264

The Group's revenue is subject to seasonal fluctuations resulting from demand from customers. In particular, demand is higher in the summer months. The Group manages the seasonal impact through the use of a seasonal working capital facility.

3 Net operating costs

	2022 £'000	2021 (as restated) £'000
Raw materials and consumables	**267,254**	246,478
Changes in inventories of finished goods and work in progress	**6,625**	(15,762)
Personnel costs	**155,521**	130,903
Depreciation of property, plant and equipment	**21,817**	16,423
Depreciation of right-of-use assets	**11,328**	11,315
Amortisation of intangible assets	**1,765**	1,965
Own work capitalised	**(3,108)**	(2,758)
Other operating costs	**159,779**	124,665
Redundancy and other costs	**498**	398
Operating costs	**621,479**	513,627
Other operating income	**(2,031)**	(1,687)
Net gain on asset and property disposals	**(1,207)**	(47)
Net operating costs before adjusting items	**618,241**	511,893
Adjusting items (Note 4)	**53,220**	1,148
Total net operating costs	**671,461**	513,041

4 Adjusting items

	2022 £'000	2021 (as restated) £'000
Transaction related costs (i)	**14,887**	–
Amortisation of acquired intangible assets (ii)	**7,354**	1,213
Unwind of inventory fair value adjustment (iii)	**3,900**	–
Contingent consideration (iv)	**3,928**	–
Redundancy and other closure costs (v)	**4,173**	1,175
Impairment of property, plant and equipment (vi)	**8,794**	1,666
Impairment of assets in Belgian subsidiary (vii)	**10,184**	–
Additional special COVID-19 bonus paid to all colleagues (viii)	**–**	2,216
Additional consideration to the CPM vendors (ix)	**–**	3,750
Net gain on sale of significant surplus site (x)	**–**	(8,872)
Total adjusting items within operating costs	**53,220**	1,148
Adjusting interest expense on defined benefit pension scheme (xi)	**–**	2,813
Total adjusting items before taxation	**53,220**	3,961
Current tax on adjusting items (Note 6)	**(1,599)**	97
Deferred tax on adjusting items (Note 6)	**(4,806)**	(703)
Total adjusting items after taxation	**46,815**	3,355

Notes:

(i) Transaction related costs relating to the acquisition of Marley Group plc. These comprise the fees charged by professional advisors.

(ii) Amortisation of acquired intangible assets is principally in respect of values recognised for the Marley brand and its customer relationships.

(iii) The unwind of the inventory fair value adjustment relates to the fair value uplift of the inventory as part of the Marley acquisition that has subsequently been sold. This item has been shown as an adjusting item to align with the internal reporting and to present a margin consistent with that which would have been reported in the absence of a recent acquisition transaction.

(iv) The additional contingent consideration relates to the reassessment of the amounts that will become payable to vendors arising in relation to Marley's acquisition of Viridian Solar Limited in 2021

(v) 2022 redundancy and other closure costs relate a restructuring exercise to right-size production capacity. The 2021 redundancy and other closure costs relate to the Edenhall Stoke site, following a network review, was used to manufacture cast stone and the Group decided to exit this market.

(vi) The 2022 asset impairment relates to the restructuring exercise to reduce capacity and includes the mothballing of manufacturing plant at the Group's site at Sandy and the closure of certain facilities elsewhere in the network. The 2021 write-off of property, plant and equipment relates to assets at our St Ives site that are being dismantled to allow construction of the dual block plant.

(vii) Impairment of property, plant and equipment (£1,072,000), intangible assets (£731,000), right of use assets (£3,445,000) and inventory (£4,936,000) in the Belgian subsidiary resulting from an impairment review carried out in response to a downturn in the business' performance in 2022. These assets have been impaired to their fair value, this being higher than the value in use. This value is based upon the Directors' assessment and consideration of the observable market information relating to such assets.

(viii) The additional special bonus payable to employees as a thank you for their support during the pandemic.

(ix) The additional consideration to the CPM vendors represents an accounting charge relating to the acquisition of CPM following the agreement reached with the vendors to release of funds initially set aside in escrow, following the identification of an under-funded pension scheme of a related company. This risk is now considered to be remote and £3,750,000 will be released from escrow and paid to the vendors as additional consideration. This results in a charge to the Income Statement because it falls outside the hindsight period of twelve months as set out under IAS.

(x) The net gain on a significant surplus site relates to the sale of Ryton near Coventry.

(xi) The interest expense on defined benefit pension scheme relates to a technical non-cash finance charge resulting from the receipt of Counsel's opinion on certain historic benefit issues (Note 5).

5 Financial expenses and income

	2022 £'000	2021 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	**97**	439
Interest expense on bank loans	**8,238**	1,762
Interest expense on lease liabilities	**2,381**	1,889
	10,716	4,090
(b) Adjusting items		
Adjusting interest expense on defined benefit pension scheme (Note 4)	**–**	2,813
	10,716	6,903
(c) Financial income		
Interest receivable and similar income	**1**	2

Net interest expense on the defined benefit pension scheme is disclosed net of Company recharges for scheme administration. .

6 Income tax expense

	2022 £'000	2021 £'000
Current tax expense		
Current year	**11,558**	11,360
Adjustments for prior years	**(568)**	(2,147)
	10,990	9,213
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**757**	6,519
Adjustments for prior years	**(1,091)**	(1,308)
Total tax expense	**10,656**	14,424
Current tax on adjusting items (Note 4)	**1,599**	(97)
Deferred tax on adjusting items (Note 4)	**4,806**	703
Total tax expenses after adding back adjusting items	**17,061**	15,030

	2022 %	**2022 £'000**	2021 %	2021 £'000
Reconciliation of effective tax rate				
Profit before tax	**100.0**	**37,197**	100.0	69,322
Tax using domestic corporation tax rate	**19.0**	**7,067**	19.0	13,171
Impact of capital allowances in excess of depreciation	**(13.9)**	**(5,164)**	(3.3)	(2,260)
Short-term timing differences	**2.5**	**925**	(0.1)	(74)
Adjustment to tax charge in prior year	**(1.5)**	**(568)**	(3.1)	(2,147)
Expenses not deductible for tax purposes	**23.5**	**8,730**	0.8	523
Corporation tax charge for the year	**29.6**	**10,990**	13.3	9,213
Impact of capital allowances in excess of depreciation	**13.7**	**5,101**	2.3	1,610
Short-term timing differences	**-**	**23**	–	(22)
Pension scheme movements	**(0.1)**	**(52)**	0.9	659
Adjusting items	**(12.9)**	**(4,806)**	(0.2)	(152)
Other items	**0.4**	**158**	(0.7)	(481)
Adjustment to tax charge in prior year	**(2.9)**	**(1,091)**	(1.9)	(1,308)
Impact of the change in the rate of corporation tax on deferred taxation	**0.9**	**333**	7.1	4,905
Total tax charge for the year	**28.7**	**10,656**	20.8	14,424

The net amount of deferred taxation credited to the Consolidated Statement of Comprehensive Income in the year was £101,000 (2021: debited £6,547,000).

The majority of the Group's profits are earned in the UK with the standard rate of corporation tax being 19 per cent for the year to 31 December 2022. The UK corporation tax rate will increase to 25 per cent from 2023 and, the deferred taxation liability at 31 December 2022 has been calculated at 25 per cent, which is the rate at which the deferred tax is expected to unwind in the future.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on fixed assets. The rates are determined by Parliament annually, and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on fixed assets is treated as an investment with the cost then being spread over the anticipated useful life of the asset, and/or impaired if the value of such assets is considered to have reduced materially.

The different accounting treatment of fixed assets for tax and accounting purposes is one reason why the taxable income of the Group is not the same as its accounting profit. During the year ended 31 December 2022 the capital allowances due to the Group exceeded the depreciation charge for the year.

Short-term timing differences arise on items such as depreciation in stock and share-based payments because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the years following those in which they arise, as is reflected in the deferred tax charge in the Financial Statements.

Adjustments to tax charges arising in earlier years arise because the tax charge to be included in a set of accounts has to be estimated before those Financial Statements are finalised. Such charges therefore include some estimates that are checked and refined before the Group's corporation tax returns for the year are submitted to HM Revenue & Customs, which may reflect a different liability as a result.

Some expenses incurred may be entirely appropriate charges for inclusion in the Financial Statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability for the same accounting period. Examples of such disallowable expenditure include business entertainment costs, some legal expenses and a significant proportion of the transaction costs arising on the acquisition of Marley.

The prior year adjustment in corporation tax includes the reversal of tax provisions made in prior years which are no longer required, including provisions made on acquisition of subsidiaries.

As can be seen from the tax reconciliation, the process of adjustment that can give rise to current year adjustments to tax charges arising in previous periods can also give rise to revisions in prior year deferred tax estimates. This is why the current year adjustments to the current year charge for capital allowances and short-term timing differences are not exactly replicated in the deferred taxation charge for the year.

The Group's overseas operations comprise a manufacturing operation in Belgium and sales and administration offices in the USA and China. The sales of these units, in total, were under 5 per cent of the Group's turnover in the year ended 31 December 2022. In total, the trading profits were not material and a minimal amount of tax is due to be paid overseas.

7 Earnings per share

Basic earnings per share from total operations of 11.4 pence (2021: 27.5 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £26,791,000 (2021: £54,806,000) by the weighted average number of shares in issue during the period of 235,388,001 (2021: 199,094,964).

Basic earnings per share after adding back adjusting items of 31.3 pence (2021: 29.2 pence) per share is calculated by dividing the adjusted profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £73,606,000 (2021: £58,161,000) by the weighted average number of shares in issue during the period of 235,388,001 (2021: 199,094,964).

Profit attributable to Ordinary Shareholders

	2022 £'000	2021 (as restated) £'000
Profit before adding back adjusting items	**73,356**	58,253
Adjusting items	**(46,815)**	(3,355)
Profit for the financial year	**26,541**	54,898
Profit attributable to non-controlling interests	**250**	(92)
Profit attributable to Ordinary Shareholders	**26,791**	54,806

Weighted average number of Ordinary Shares

	2022 Number	2021 Number
Number of issued Ordinary Shares	**252,968,728**	200,052,157
Effect of shares issued during the period	**(17,299,649)**	–
Effect of shares transferred into Employee Benefit Trust	**(281,078)**	(957,193)
Weighted average number of Ordinary Shares at the end of the year	**235,388,001**	199,094,964

Diluted earnings per share from total operations of 11.3 pence (2021: 27.4 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £26,791,000 (2021: £54,806,000) by the weighted average number of shares in issue during the period of 235,388,001 (2021: 199,094,964) plus potentially dilutive shares of 1,213,042 (2021: 1,222,847), which totals 236,601,043 (2021: 200,317,811).

Diluted earnings per share after adding back adjusting items of 31.1 pence (2021: 29.0 pence) per share is calculated by dividing the adjusted profit for the financial year, after adjusting for non-controlling interests, of £73,606,000 (2021: £58,161,000) by the weighted average number of shares in issue during the period of 235,388,001 (2021: 199,094,964) plus potentially dilutive shares of 1,213,042 (2021: 1,222,847), which totals 236,601,043 (2021: 200,317,811).

Weighted average number of Ordinary Shares (diluted)

	2022 Number	2021 Number
Weighted average number of Ordinary Shares	**235,388,001**	199,094,964
Potentially dilutive shares	**1,213,042**	1,222,847
Weighted average number of Ordinary Shares (diluted)	**236,601,043**	200,317,811

8 Dividends
After the balance sheet date, a final dividend of 9.9 pence was proposed by the Directors. This dividend has not been provided for and there are no income tax consequences.

	Pence per qualifying share	2022 £'000	2021 £'000
2022 final	**9.9**	**25,021**	
2022 interim	**5.7**	**14,406**	
	15.6	**39,427**	
2021 final	**9.6**		19,122
2021 interim	**4.7**		9,362
	14.3		28,484

The following dividends were approved by the shareholders and recognised in the Financial Statements:

	Pence per qualifying share	2022 £'000	2021 £'000
2022 interim	**5.7**	**14,406**	
2021 final	**9.6**	**24,263**	
	15.3	**38,669**	
2021 interim	**4.7**		9,362
2020 final	**4.3**		8,562
	9.0		17,924

The Board recommends a 2022 final dividend of 9.9 pence per qualifying Ordinary Share amounting to £25,021,000, to be paid on 3 July 2023 to shareholders registered at the close of business on 2 June 2023.

9 Property, plant and equipment

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2021	96,492	29,474	388,679	514,645
Exchange differences	(12)	–	(420)	(432)
Additions	1,327	–	19,231	20,558
Reclassified as held for sale	(1,536)	–	(1,566)	(3,102)
Reclassified to intangibles	–	–	(837)	(837)
Reclassifications	2,305	(2,305)	–	–
Disposals	(7,175)	(73)	(17,567)	(24,815)
At 31 December 2021	91,401	27,096	387,520	506,017
At 1 January 2022	**91,401**	**27,096**	**387,520**	**506,017**
Exchange differences	**10**	**–**	**383**	**393**
Additions	**1,305**	**–**	**27,110**	**28,415**
Acquisition of subsidiary	**66,321**	**–**	**29,869**	**96,190**
Reclassifications	**(444)**	**444**	**–**	**–**
Disposals	**(7)**	**(1,388)**	**(3,558)**	**(4,953)**
At 31 December 2022	**158,586**	**26,152**	**441,324**	**626,062**
Depreciation and impairment losses				
At 1 January 2021	44,501	9,285	281,458	335,244
Depreciation charge for the year	2,660	368	13,395	16,423
Exchange differences	(2)	–	(368)	(370)
Impairments	188	–	45	233
Reclassified as held for sale	(413)	–	(829)	(1,242)
Reclassified to intangibles	–	–	(219)	(219)
Reclassifications	28	(28)	–	–
Disposals	(3,038)	(23)	(14,922)	(17,983)
At 31 December 2021	43,924	9,602	278,560	332,086
At 1 January 2022	**43,924**	**9,602**	**278,560**	**332,086**
Depreciation charge for the year	**1,929**	**555**	**19,333**	**21,817**
Exchange differences	**2**	**–**	**349**	**351**
Impairments	**422**	**1,403**	**8,041**	**9,866**
Disposals	**–**	**(1,241)**	**(3,268)**	**(4,509)**
At 31 December 2022	**46,277**	**10,319**	**303,015**	**359,611**
Net book value				
At 1 January 2021	51,991	20,189	107,221	179,401
At 31 December 2021	47,477	17,494	108,960	173,931
At 31 December 2022	**112,309**	**15,833**	**138,309**	**266,451**

Mineral reserves and associated land have been separately disclosed under the heading of "Quarries".

The impairment represents the assets being written down to fair value less cost to sell of £8,794,000 in relation to restructuring exercise to reduce capacity at Sandy and certain facilities elsewhere in the network and £1,072,000 in relation to the Belgian subsidiary. (Note 4)

During the year ended 31 December 2022, land and buildings with a book value of £nil (2021: £1,860,000) have been reclassified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Group cost of land and buildings and plant and machinery includes £708,000 (2021: £318,000) and £24,434,000 (2021: £8,534,000) respectively for assets in the course of construction.

10 Intangible assets

	Goodwill £'000	Brand £'000	Customer relationships £'000	Supplier relationships £'000	Patents, trademarks and know-how £'000	Development costs £'000	Software £'000	Total £'000
Cost								
At 1 January 2021	87,426	–	12,811	1,629	1,760	159	20,374	124,159
Additions	–	–	–	–	–	139	2,746	2,885
Reclassified from property, plant and equipment	–	–	–	–	–	342	495	837
At 31 December 2021	87,426	–	12,811	1,629	1,760	640	23,615	127,881
At 1 January 2022	**87,426**	–	**12,811**	**1,629**	**1,760**	**640**	**23,615**	**127,881**
Additions	–	–	–	–	–	–	**2,310**	**2,310**
Recognised on acquisition of subsidiary	**244,119**	**82,760**	**145,400**	–	–	–	–	**472,279**
At 31 December 2022	**331,545**	**82,760**	**158,211**	**1,629**	**1,760**	**640**	**25,925**	**602,470**
Amortisation and impairment losses								
At 1 January 2021	8,912	–	5,121	1,166	1,558	133	12,590	29,480
Amortisation for the year	–	–	1,060	103	42	88	1,885	3,178
Reclassified from property, plant and equipment	–	–	–	–	–	144	75	219
At 31 December 2021	8,912	–	6,181	1,269	1,600	365	14,550	32,877
At 1 January 2022	**8,912**	–	**6,181**	**1,269**	**1,600**	**365**	**14,550**	**32,877**
Amortisation for the year	–	**2,381**	**4,820**	**103**	**42**	**90**	**1,683**	**9,119**
Impairments	–	–	–	–	–	–	**731**	**731**
At 31 December 2022	**8,912**	**2,381**	**11,001**	**1,372**	**1,642**	**455**	**16,964**	**42,727**
Carrying amounts								
At 1 January 2021	78,514	–	7,690	463	202	26	7,784	94,679
At 31 December 2021	78,514	–	6,630	360	160	275	9,065	95,004
At 31 December 2022	**322,633**	**80,379**	**147,210**	**257**	**118**	**185**	**8,961**	**559,743**

All goodwill has arisen from business combinations. The carrying amount of goodwill is allocated across cash generating units ("CGUs") and these CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations and at both 31 December 2022 and 31 December 2021. These calculations use cash flow projections based on a combination of individual financial three-year forecasts, containing assumptions for revenue growth and operational gearing, and appropriate long-term growth rates of 2.4 per cent. The long-term growth rate assumption reflects the long-term average growth rate for the UK economy. To prepare value-in-use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rate used to calculate the value in use was 15.1 per cent (2021: 14.8 per cent). The Directors have reviewed the recoverable amounts of the CGUs, and considered possible impacts that might arise from a range of uncertainties, including supply chain risks and cost inflation, that could lead to a reduction in consumer confidence and a continuing slowdown in the UK economy. The financial impact of climate change risk, including the cost of the Group's operational mitigation initiatives, continues to be assessed, along with market changes driven by advances in technology.

The Group has two main CGUs, namely the landscaping and building products businesses within Marshalls and the newly acquired Marley Group has now been identified as a separate CGU. The landscaping and building products CGU's associated cash flows are assessed as a whole when assessing impairment. This is unchanged from previous years. The Directors do not consider that any reasonable change in the assumptions would give rise to the need for further impairment in either of these CGU's.

The Marley business was acquired on 29 April 2022 and consequently the Marley CGU is the most sensitive to change. The post-tax discount rate is 8.9 per cent, (pre-tax: 15.1 per cent). Applying a sensitivity of 10 per cent, as an incremental discount rate, there is headroom of £43.7 million. The breakeven point that would indicate impairment would occur is a discount rate of 10.6 per cent.

The impairment represents the assets being written down to fair value less cost to sell of £731,000 in relation to the Belgian subsidiary (Note 4).

Included in software additions is £1,807,000 (2021: £1,610,000) of own work capitalised.

Amortisation charge

The amortisation charge is recognised in the following line items in the Consolidated Income Statement:

	2022 £'000	2021 £'000
Net operating costs (Note 3)	**1,765**	1,965
Adjusting items (Note 4)	**7,354**	1,213
	9,119	3,178

11 Lease liabilities

	2022 £'000	2021 £'000
Analysed as:		
Amounts due for settlement within twelve months (shown under current liabilities)	**9,764**	8,545
Amounts due for settlement after twelve months	**36,070**	32,776
	45,834	41,321

	2022			2021		
	Minimum lease payments £'000	**Interest £'000**	**Principal £'000**	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	**11,046**	**1,282**	**9,764**	9,828	1,283	8,545
1 to 2 years	**8,176**	**1,126**	**7,050**	7,316	1,110	6,206
2 to 5 years	**14,576**	**2,384**	**12,192**	13,149	2,434	10,715
In more than 5 years	**22,230**	**5,402**	**16,828**	21,915	6,060	15,855
	56,028	**10,194**	**45,834**	52,208	10,887	41,321

As at 31 December 2022, the total minimum lease payments (above) comprised property of £30,686,000 (2021: £33,272,000) and plant, machinery and vehicles of £25,342,000 (2021: £18,936,000).

Certain leased properties have been sublet by the Group. Sublease payments of £200,176 (2021: £285,254) are expected to be received during the following financial year. An amount of £206,541 (2021: £295,548) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

The Group does not face a significant liquidity risk with regard to its lease liabilities. For the year ended 31 December 2022, the interest expense on lease liabilities amounted to £2,381,000 (2021: £1,889,000). Lease liabilities are calculated at the present value of the lease payments that are not paid at the commencement date.

For the year ended 31 December 2022, the average effective borrowing rate was 3.4 per cent. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The vast majority of lease obligations are denominated in Sterling.

For the year ended 31 December 2022, the total cash outflow in relation to leases amounts to £13,471,000 (2021: £12,717,000). The total cash outflow in relation to short-term and low value leases was £7,010,000 (2021: £5,671,000).

12 Interest bearing loans and borrowings

	2022 £'000	2021 £'000
Analysed as:		
Current liabilities	**–**	1,673
Non-current liabilities	**247,035**	39,341
	247,035	41,014

Bank loans and borrowing facilities

The bank loans are subject to by intra-group guarantees by certain subsidiary undertakings.

The total bank borrowing facility at 31 December 2022 amounted to £370.0 million (2021: £155.0 million), of which £120.1 million (2021: £114.0 million) remained unutilised. The undrawn facility available at 31 December 2022, in respect of which all conditions precedent had been met, was as follows:

	2022 £'000	2021 £'000
Committed:		
Expiring in more than 5 years	**–**	–
Expiring in more than 2 years but not more than 5 years	**120,095**	80,659
Expiring in 1 year or less	**–**	18,327
Uncommitted:		
Expiring in 1 year or less	**–**	15,000
	120,095	113,986

On 3 May 2022, the Group drew down a new four-year loan of £210 million to support the funding of the acquisition of Marley. In addition, to support ongoing working capital requirements, the Group has entered into a new committed revolving credit facility of £160 million with a maturity date of four years.

The Group's committed bank facilities are charged at variable rates based on SONIA plus a margin. The Group's bank facility continues to be aligned with the current strategy to ensure that headroom against the available facility remains at appropriate levels and are structured to provide committed medium-term debt.

Marshalls is party to a reverse factoring finance arrangement between a third party UK bank and one of the Group's key customers. The principal relationship is between the customer and its partner bank. The agreement enables Marshalls to benefit from additional credit against approved invoices and, in practice, this provides a facility of up to £15 million which the Group utilises periodically in order to help manage its short-term, mid-month funding requirements. The credit risk is retained by the customer and Marshalls pays a finance charge upon utilisation.

13 Employee benefits

The Company sponsors a funded defined benefit pension scheme in the UK (the "Scheme"). The Scheme is administered within a trust which is legally separate from the Company. The Trustee Board is appointed by both the Company and the Scheme's membership and acts in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustee is also responsible for the investment of the Scheme's assets.

The defined benefit section of the Scheme provides pension and lump sums to members on retirement and to dependants on death. The defined benefit section closed to future accrual of benefits on 30 June 2006 with the active members becoming entitled to a deferred pension. Members no longer pay contributions to the defined benefit section. Company contributions to the defined benefit section after this date are used to fund any deficit in the Scheme and the expenses associated with administering the Scheme, as determined by regular actuarial valuations.

The Trustee is required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

The defined benefit section of the Scheme poses a number of risks to the Company, for example longevity risk, investment risk, interest rate risk, inflation risk and salary risk. The Trustee is aware of these risks and uses various techniques to control them. The Trustee has a number of internal control policies, including a Risk Register, which are in place to manage and monitor the various risks it faces. The Trustee's investment strategy incorporates the use of liability-driven investments ("LDIs") to minimise sensitivity of the actuarial funding position to movements in interest rates and inflation rates.

The volatility in gilt markets during 2022 has had a significant impact on pension schemes. Due to the Scheme's LDI strategy to provide an effective hedge against both inflation and interest rates this volatility and the increase in gilt rates during the year had consequences for the Marshalls Pension Scheme. The Scheme utilises a "cash driven investment strategy" which has ensured there have been sufficient "liquid" investments in the Scheme to enable the Trust Board to respond effectively to the market volatility and the short-notice collateral calls.

The defined benefit section of the Scheme is subject to regular actuarial valuations, which are usually carried out every three years. The next actuarial valuation is being carried out with an effective date of 5 April 2024. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures which are determined using best estimate assumptions.

A formal actuarial valuation was carried out as at 5 April 2021. The results of that valuation have been projected to 31 December 2022 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method.

The amounts recognised in the Consolidated Balance Sheet were as follows:

	2022 £'000	2021 £'000	2020 £'000
Present value of Scheme liabilities	**(232,469)**	(366,359)	(399,938)
Fair value of Scheme assets	**254,903**	392,116	402,664
Net amount recognised at the year end (before any adjustments for deferred tax)	**22,434**	25,757	2,726

The current and past service costs, settlements and curtailments, together with the net interest expense for the year, are included in the employee benefits expense in the Consolidated Statement of Comprehensive Income. Remeasurements of the net defined benefit surplus are included in other comprehensive income.

	2022 £'000	2021 £'000
Net interest expense before adjusting items	**197**	539
Adjusting interest expense (Note 5)	**–**	2,813
Net interest expense recognised in the Consolidated Income Statement	**197**	3,352
Remeasurements of the net liability:		
Return on Scheme assets (excluding amount included in interest expense)	**130,067**	3,786
Gain arising from changes in financial assumptions	**(134,472)**	(20,383)
Gain arising from changes in demographic assumptions	**(886)**	(6,317)
Experience loss/(gain)	**8,417**	(3,469)
Debit/(credit) recorded in other comprehensive income	**3,126**	(26,383)
Total defined benefit debit/(credit)	**3,323**	(23,031)

The principal actuarial assumptions used were:

	2022 **£'000**	2021 £'000
Liability discount rate	**4.90%**	1.90%
Inflation assumption – RPI	**3.15%**	3.30%
Inflation assumption – CPI	**2.60%**	2.70%
Rate of increase in salaries	**n/a**	n/a
Revaluation of deferred pensions	**2.60%**	2.70%
Increases for pensions in payment:		
CPI pension increases (maximum 5% p.a.)	**2.55%**	2.70%
CPI pension increases (maximum 5% p.a., minimum 3% p.a.)	**3.60%**	3.35%
CPI pension increases (maximum 3% p.a.)	**1.95%**	2.35%
Proportion of employees opting for early retirement	**0%**	0%
Proportion of employees commuting pension for cash	**80%**	80%
Mortality assumption – before retirement	**Same as post-retirement**	Same as post-retirement
Mortality assumption – after retirement (males)	**S2PXA tables**	S2PXA tables
Loading	**110%**	110%
Projection basis	**Year of birth CMI_2021 1.0%**	Year of birth CMI_2020 1.0%
Mortality assumption – after retirement (females)	**S2PXA tables**	S2PXA tables
Loading	**110%**	110%
Projection basis	**Year of birth CMI_2021 1.0%**	Year of birth CMI_2020 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	**85.3**	85.4
Female aged 65 at year end	**87.5**	87.5
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	**86.3**	86.3
Female aged 45 at year end	**88.7**	88.7

14 Acquisition of subsidiary

On 29 April 2022 Marshalls Group Limited acquired 100 per cent of the issued share capital of Marley Group plc, a leader in the manufacture and supply of pitched roofing systems to the UK construction market. Marley Group plc operates within the UK and is registered in England and Wales. The fair values acquired are disclosed as provisional given that the acquisition was made on 29 April 2022.

The amounts in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	Provisional fair values acquired £'000
Land and buildings	**66,321**
Plant, machinery and vehicles	**29,869**
Right-of-use assets	**1,424**
Brand	**82,760**
Customer relationships	**145,400**
Inventories	**27,423**
Trade and other receivables	**33,284**
Cash and cash equivalents	**34,087**
Trade and other payables	**(34,556)**
Provisions	**(4,932)**
Borrowings	**(291,956)**
Lease liabilities	**(1,588)**
Corporation tax	**(987)**
Deferred tax	**(62,761)**
Total identifiable net assets	**23,788**
Goodwill	**244,119**
	267,907
Total consideration satisfied by:	
Cash consideration	**120,280**
Equity consideration	**147,627**
Total cost of investment	**267,907**
Total cash movements in connection with the acquisition	
Cash consideration	**120,280**
Cash and cash equivalents acquired	**(34,087)**
Borrowings acquired	**291,956**
Lease liabilities acquired	**1,588**
Total cash outflow (net) in connection with the acquisition	**379,737**

The headline enterprise value agreed for the transaction was £535 million on a cash free and debt free basis. Due to the timing between the agreed consideration share price as at 6 April 2022 of £6.80 and the share price at the date of completion on 29 April 2022 of £6.18, the enterprise value of the transaction at fair value was £525.7 million. The consideration for the acquisition was funded by a combination of new debt financing and £187 million from a Firm Placing and Placing Open Offer. In addition 24,092,457 new ordinary shares were issued to the seller at a price of £6.80 per share, equating to a value of £163,827,000. The fair value of the equity consideration is £147,627,000, which reflects a reduction of £16,200,000 being the impact of the reduced share price of £6.18 at the date of completion on 29 April 2022.

As part of the ongoing review of the fair value of assets and liabilities acquired, adjustments have been made to the initial assessment that was disclosed in the Half Year Statement at 30 June 2022. These had the effect of reducing fair value of the net assets acquired under the acquisition by £13,795,000 which has given rise to an increase in goodwill of the same amount. The provisional value of goodwill reported in respect of Marley as at 31 December 2022 is £244,119,000. Goodwill, trade and other payables, trade and other receivables and corporation tax balances have been restated accordingly in the 31 December 2022 balance sheet. In assessing the fair value of land and buildings, brands and customer relationships, the Group has engaged the support of third party specialists, including PwC and Avison Young.

Due to their contractual dates, fair value receivables (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be received is minimal.

The goodwill arising from the acquisition represents the opportunity to grow by utilising the capabilities and technical experience of the acquired workforce and the developing synergistic opportunities. The goodwill arising from the acquisition is not expected to be deductible for income tax purposes. Transaction costs incurred on the acquisition totalled £14,887,000 and further details are set out in Note 4, adjusting items.

Marley contributed revenue of £132,227,000 and adjusted operating profit of £34,452,000 to the Group's results for the period between the date of acquisition and the balance sheet date.

15 Analysis of net debt

	1 January 2021 £'000	Cash flow £'000	New leases £'000	On acquisition Of Marley £'000	Other changes[i] £'000	**31 December 2022 £'000**
Cash at bank and in hand	41,212	(19,331)	–	34,087	296	**56,264**
Debt due within 1 year	(1,673)	1,673	–	–	–	**–**
Debt due after 1 year	(39,341)	84,545	–	(291,956)	(283)	**(247,035)**
Lease liabilities	(41,321)	11,090	(14,015)	(1,588)	–	**(45,834)**
	(41,123)	77,977	(14,015)	(259,457)	13	**(236,605)**

(i)Other changes include foreign currency movements on cash and loan balances
Movement in the net debt is shown net of bank arrangement fees.

Reconciliation of net cash flow to movement in net debt

	2022 £'000	2021 £'000
Net decrease in cash equivalents	**(19,331)**	(62,439)
Cash outflow from decrease in bank borrowings	**86,218**	88,628
On acquisition of subsidiary undertakings	**(259,457)**	–
Cash outflow from lease repayments	**11,090**	10,828
New leases entered into	**(14,015)**	(3,158)
Effect of exchange rate fluctuations	**13**	584
Movement in net debt in the year	**(195,482)**	34,443
Net debt at 1 January	**(41,123)**	(75,566)
Net debt at 31 December	**(236,605)**	(41,123)

16 Fair values of financial assets and financial liabilities

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 December 2022 is shown below:

	2022		2021	
	Book amount £'000	**Fair value £'000**	Book amount £'000	Fair value £'000
Trade and other receivables	**113,538**	**113,538**	95,032	95,032
Cash and cash equivalents	**56,264**	**56,264**	41,212	41,212
Bank loans	**(247,035)**	**(259,180)**	(41,014)	(40,023)
Trade payables, other payables and provisions	**(136,525)**	**(136,525)**	(118,888)	(118,888)
Interest rate swaps, forward contracts and fuel hedges	**3,661**	**3,661**	813	813
Contingent consideration	**(8,860)**	**(8,860)**	(1,563)	(1,563)
Financial instrument assets and liabilities – net	**(218,957)**		(24,408)	
Non-financial instrument assets and liabilities – net	**880,026**		368,725	
	661,069		344,317	

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 contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities.

(e) Fair value hierarchy

The table below analyses financial instruments, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2022				
Derivative financial assets/(liabilities)	**–**	**3,661**	**–**	**3,661**
Contingent consideration	**–**	**–**	**(8,860)**	**(8,860)**
	–	**3,661**	**(8,860)**	**(5,199)**
31 December 2021				
Derivative financial assets/(liabilities)	–	813	–	813
Contingent consideration	–	–	(1,563)	(1,563)
	–	813	(1,563)	(750)

17 Principal risks and uncertainties

Risk management is the responsibility of the Marshalls plc 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.

There continue to be external risks and significant volatility in UK and world markets with continuing cost inflation and an uncertain outlook. In an addition to the macro-economic environment, the key risks for the Group continue to be cyber security and information technology, the security of raw materials supply and supply chain risks and climate change and other ESG related issues. 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 current assessment identifies external market demand as being the key medium-term risk. 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, increases in interest rates and volatility in world markets. Other factors include the increasing impact of wider geo-political factors (including the conflict in Ukraine) and unprecedented levels of Government borrowings. The Group closely monitors trends and lead indicators, invests in market research and is an active member of the Construction Products Association. The Group's resilience and flexibility in response to macro-economic uncertainty has been a major focus during the year. The acquisition of Marley has been an important transaction for the Group and has increased the diversification of the business and its underlying resilience by broadening the range of markets we sell into. The Group benefits from the diversity of its business and end markets. The proactive development of the product range continues to offer protection.

The other principal risks and uncertainties that could impact the business for the remainder of the current financial year are those detailed in the Annual Report. These cover the strategic, financial and operational risks and have not changed significantly during the period. Strategic risks include those relating to the ongoing Government policy, general economic conditions, the actions of customers, suppliers and competitors, and weather conditions. The Group also continues to be subject to various financial risks in relation to the pension scheme, principally the volatility of the discount (AA corporate bond) rate, any downturn in the performance of equities and increases in the longevity of members. The other main financial risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk. External operational risks include the effect of legislation or other regulatory actions and new business strategies.

The Group continues to monitor all these risks and pursue policies that take account of, and mitigate, the risks where possible.

18 Annual General Meeting

The Annual General Meeting will be held at the offices of Walker Morris, 33 Wellington Street, Leeds, West Yorkshire, LS1 4DL at 11.00am on Wednesday 17 May 2022.

The Board
The Directors serving during the year ended 31 December 2022 and up to the date of this report were as follows:

Vanda Murray OBE	Chair
Simon Bourne	Chief Operating Officer
Angela Bromfield	Non-Executive Director
Martyn Coffey	Chief Executive
Avis Darzins	Non-Executive Director
Diana Houghton	Non-Executive Director (appointed on 1 January 2023)
Justin Lockwood	Chief Financial Officer
Tim Pile	Non-Executive Director
Graham Prothero	Senior Non-Executive Director

By order of the Board

Shiv Sibal
Group Company Secretary
15 March 2023

Cautionary Statement
This Preliminary Results announcement contains certain forward looking statements with respect to the financial condition, results, operations and business of Marshalls plc. These statements and forecasts 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 or implied by these forward looking statements and forecasts. Nothing in this Preliminary Results announcement should be construed as a profit forecast.

Directors' Liability
Neither the Company nor the Directors accept any liability to any person in relation to the contents of this Preliminary Results announcement except to the extent that such liability arises 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 Market Act 2020.