



Accounting policies

Significant accounting policies

Marshalls plc (the “Company”) is a public company limited by shares, incorporated in the United Kingdom under the Companies Act 2006, and is registered in England and Wales. The Consolidated Financial Statements of the Company for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the “Group”).

The Consolidated Financial Statements were authorised for issue by the Directors on 15 March 2023. The Company’s registered address is Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT.

The following paragraphs summarise the significant accounting policies of the Group, which have been applied in dealing with items which are considered material in relation to the Group’s Consolidated Financial Statements.

The Group has applied all accounting standards and interpretations issued by the IASB and International Financial Reporting Committee relevant to its operations and which are effective in respect of these Financial Statements.

Adoption of new standards in 2022

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

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

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

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

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

(a) Statement of compliance

The Group Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Accounting Standards and International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). The Parent Company has elected to prepare its Financial Statements in accordance with FRS 101 “Reduced Disclosure Framework”.

(b) Basis of preparation

The Group’s business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report in the Annual Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also set out in the Strategic Report. In addition, Note 19 of the Annual Report includes the Group’s policies and procedures for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

On 3 May 2022, the Group drew down on a new four-year bank loan of £210 million to support the acquisition of Marley Group plc. In addition to the term loan, the Group has entered into a new committed revolving credit facility of £160 million with a maturity date of four years. Net debt to adjusted EBITDA was 1.35 times at 31 December 2022 on a pro forma (pre-IFRS 16) twelve-month basis.

In assessing the appropriateness of adopting the going concern basis in the Consolidated Financial Statements, the Board reviewed a range of severe downside scenarios to stress test the potential impact of emerging and longer-term risks on covenant, compliance and liquidity.

The stress tests reviewed do not impact the Directors’ opinion that there is sufficient headroom against both the Group’s bank facility and the associated covenants and that there are sufficient unutilised facilities held which mature after twelve months.

The Group’s performance is dependent on economic and market conditions, the outlook for which is difficult to predict. However, the potential impact of wider political and economic uncertainties has been considered, including issues or delays as a consequence of continuing issues relating to the wider supply chain and the impact of cost inflation. The deteriorating macro-economic environment is the key underlying risk. The financial impact of climate change risk continues to be assessed along with market changes driven by advances in technology. Based on current expectations, the Group’s latest cash forecasts continue to meet half year and year-end bank covenants and there is adequate headroom that is not dependent on facility renewals. At 31 December 2022, on an adjusted proforma pre-IFRS 16 test basis, the relevant ratios were comfortably achieved and were as follows:

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

In performing an assessment of the Group’s going concern, the Directors have considered the Group’s capital allocation policy and 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.

The Consolidated Financial Statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and liabilities for cash settled share-based payments.

The Consolidated Financial Statements are presented in Sterling, rounded to the nearest thousand. Sterling is the currency of the primary economic environment in which the Group operates.

The preparation of Financial Statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These are set out in Note 30 of the Annual Report. The estimates and

associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of adopted IFRSs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 30 of the Annual Report.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries (which are set out in detail in Note 34 of the Annual Report) are entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

(ii) Transactions eliminated on consolidation

Intra-Group balances, and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the Consolidated Financial Statements.

(iii) Non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests, entitling their holders to a proportionate share of the acquiree's net assets, are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at the initial recognition plus the noncontrolling interests' proportionate share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Income Statement. Non-monetary assets and liabilities that are

measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve (attributed to non controlling interests as appropriate).

(e) Financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and fuel pricing risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised at fair value and transaction costs are recognised in the Income Statement when incurred. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (f)).

Classification and measurement

The classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost; (ii) fair value through other comprehensive income ("FVTOCI"); and (iii) fair value through profit or loss ("FVTPL"). Under IFRS 9, derivatives embedded in financial assets are not bifurcated but instead the whole hybrid contract is assessed for classification.

Under IFRS 9, financial assets can be designated as at FVTPL to mitigate an accounting mismatch. In respect to classification and measurement of financial liabilities, changes in the fair value of a financial liability designated as at FVTPL due to credit risk are presented in other comprehensive income unless such presentation would create or enlarge an accounting mismatch in profit or loss.

Impairment

Credit losses and expected credit losses are recognised in accordance with IFRS 9. The amount of expected credit losses is updated at each reporting date.

The IFRS 9 impairment model has been applied to the Group's financial assets that are debt instruments measured at amortised cost or FVTOCI.

The Group has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables, as required or permitted by IFRS 9.

(f) Hedging

The Group has elected to apply the IFRS 9 hedge accounting requirements because they align more closely with the Group's risk management policies. An alignment of the accounting policy applied by Marley has been made following its acquisition on 29 April 2022. From this date, the Marley business has adopted IFRS 9 for hedge accounting and is now fully aligned with the Group's accounting policy.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the Consolidated Statement of Comprehensive Income. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset. For cash flow hedges, other than those covered by the preceding policy statement, the associated cumulative gain or loss is removed from equity and recognised in the Consolidated Income Statement in the same period or periods during which the hedged forecast transaction affects the income or expense. The ineffective part of any gain or loss is recognised immediately in the Consolidated Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, it no longer meets the criteria

for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Consolidated Income Statement and cash flow hedge accounting is discontinued prospectively.

(ii) Economic hedges

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the Consolidated Income Statement.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see (iii) below) and impairment losses (see accounting policy (m)). The cost of self-constructed assets includes the cost of materials and direct labour and an appropriate proportion of directly attributable production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 January 2004, the date of transition to adopted IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Consolidated Income Statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the Consolidated Income Statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation on quarries is based on estimated rates of extraction. This is based on a comparison between the volume of relevant material extracted in any given period and the volume of relevant material available for extraction. Depreciation on leased assets is charged over the shorter of the lease term and their useful economic life. Freehold land is not depreciated.

The rates are as follows:

Freehold buildings	– 2.5 per cent to 5 per cent per annum
Fixed plant and equipment	– 3.3 per cent to 25 per cent per annum
Mobile plant and vehicles	– 14 per cent to 30 per cent per annum
Quarries	– based on rates of extraction

The residual values, useful economic lives and depreciation methods are reassessed annually. Assets under construction are not depreciated until they are ready for use.

Site preparation costs associated with the development of new stone reserves are capitalised. These costs would include:

- costs of clearing the site (including internal and outsourced labour in relation to site workers);
- professional fees (including fees relating to obtaining planning consent);
- purchase, installation and assembly of any necessary extraction equipment; and
- costs of testing whether the extraction process is functioning properly (net of any sales of test products).

Depreciation commences when commercial extraction commences and is based on the rate of extraction. In accordance with IAS 37, provision is made for quarry restoration where a legal or constructive obligation exists, it is probable that an outflow of economic benefits will occur and the financial cost of restoration work can be reliably measured. The lives of quarries are almost always long and it is difficult to estimate the length with any precision. The majority of quarry restoration work is undertaken while extracting minerals from new areas (backfilling) and therefore work can be completed without additional cost. As a result of the particular characteristics of the Group's quarries, the IAS 37 criteria have not been met to date based on the assets so far acquired and, therefore, provisions are typically not recognised.

(h) Intangible assets

(i) Goodwill

All business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2004, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the Consolidated Income Statement.

Costs relating to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. In respect of acquisitions where there is a contingent consideration element, an accrual is created for the estimated amount payable if it is probable that an outflow of economic benefits will be required to settle the obligation and this can be measured reliably.

On a transaction-by-transaction basis, the Group measures non-controlling interests either at their fair value or at their proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under the Group's previous accounting framework. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 were not adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is subsequently stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (see accounting policy (m)). In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Consolidated Income Statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process meets the recognition criteria for development expenditure as set out in IAS 38 "Intangible Assets". The expenditure capitalised includes all directly attributable costs, from the date which the intangible asset meets the recognition criteria, necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Other development expenditure is recognised in the Consolidated Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see (v) and impairment losses (see accounting policy (m))).

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see (v) and impairment losses (see accounting policy (m))).

Expenditure on internally generated goodwill and brands is recognised in the Consolidated Income Statement as an expense as incurred.

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is charged to the Consolidated Income Statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The rates applied are as follows:

Brands – 20 to 25 years
Customer and supplier relationships – 5 to 20 years
Patents, trademarks and know-how – 2 to 20 years
Development costs – 10 to 20 years
Software – 5 to 10 years

(vi) Software-as-a-service (“SaaS”)

Software-as-a service (“SaaS”) arrangements are service contracts providing the Company with access to the cloud provider’s application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider’s application software, are recognised as operating expenses when the services are received. Some of the costs incurred relate to the development of software code that enhances or modifies existing on-premise systems and meets the definition of, and recognition criteria for, an intangible asset.

(i) Trade and other receivables

Trade and other receivables are stated at initial recognition, at their transaction price (as defined in IFRS 15) if the trade receivables do not contain a significant financial component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15). Subsequent to initial recognition they are accounted for at amortised cost.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and of selling expenses.

The cost of inventories is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity, which were incurred in bringing the inventories to their present location and condition.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the Consolidated Cash Flow Statement.

(l) Assets classified as held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from the date of classification, and the asset is available for immediate sale in its present condition.

(m) Impairment

(i) Impairment review

The carrying amounts of the Group’s assets, other than inventories (see accounting policy (j)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Income Statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other

assets in the unit on a pro-rata basis. A cash generating unit is the group of assets identified on acquisition that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of assets or cash generating units is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) Reversals of impairments

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Share capital

(i) Share capital

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or if it is redeemable but only at the Company's option. Dividends on share capital classified as equity are recognised as distributions within equity. Non-equity share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the Consolidated Income Statement as a financial expense.

(ii) Dividends

Dividends on non-equity shares are recognised as a liability and accounted for on an accruals basis. Equity dividends are recognised as a liability in the period in which they are declared (appropriately authorised and no longer at the discretion of the Company).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings on an effective interest basis.

(p) Leases

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. A right-of-use asset and a corresponding liability are recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as for the impact of lease modifications, amongst others. Lease liabilities are discounted at an incremental borrowing rate calculated as the rate of interest which the Group would have been able to borrow for a similar term with a similar security of funds necessary to obtain a similar asset in a similar market.

The Group's leases principally comprise commercial vehicles and trailers, forklift trucks, motor vehicles, certain property assets and fixed plant.

Short-term leases, with a duration of less than twelve months, are accounted for in accordance with the recognition exemption in IFRS 16 and hence related payments are expensed as incurred. The Group also utilises the option to apply the recognition exemption for low-value assets (with a value of less than the equivalent of \$5,000), which means that related payments have been expensed as incurred.

In relation to sale and leaseback transactions, sale proceeds, lease payments and any retained right-of-use asset are measured at fair value with any gain or loss arising on disposal recognised in the Income Statement. The fair value of rights that have been retained are included in the carrying amount of any right-of-use asset and recognised at the commencement of the lease.

(q) Pension schemes**(i) Defined benefit schemes**

The net obligation in respect of the Group's defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA credit-rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

If the calculation results in a surplus, the resulting asset is measured at the present value of any economic benefits available in the form of refunds from the plan, or reductions in future contributions to the plan. The present value of these economic benefits is discounted by reference to market yields at the balance sheet date on high-quality corporate bonds.

When the benefits of the scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement in the period of the scheme amendment. Actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan are recognised immediately within the Consolidated Statement of Comprehensive Income.

(ii) Defined contribution schemes

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

(r) Share-based payment transactions

The Group enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's Management Incentive Plan ("MIP").

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Where appropriate, the fair value of the options granted is measured using the Black-Scholes option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Current tax relief is available as shares vest based on the value at the date of vesting. A deferred tax asset is recognised at grant date based on the number of shares expected to be issued, at the value at which they are expected to be issued, proportioned in line with the vesting period.

(s) Own shares held by the Employee Benefit Trust

Transactions of the Group-sponsored Employee Benefit Trust are included in the Group Financial Statements. The Trust's purchases of shares in the Company are debited directly to equity and disclosed separately in the balance sheet as "own shares".

(t) Provisions

A provision is recognised in the Consolidated Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, it can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(u) Trade and other payables

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

(v) Revenue

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

Revenue is recorded typically on despatch of the Group's products, when performance obligations to customers are satisfied. Products are usually delivered using the Group's fleet of delivery vehicles on the same day. Amounts due from customers are payable by customers on standard credit terms and there is no significant financing component or variable consideration within amounts due from customers. There are no significant obligations arising in relation to returns, refunds, warranties or similar obligations.

Revenue earned from any contractually distinct installation process is recognised when the Group has fulfilled all its obligations under the installation contract.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or the possible return of goods or continuing management involvement with the goods.

(w) Financial expenses

Net financial expenses comprise interest on obligations under the defined benefit pension scheme, the expected return on scheme assets under the defined benefit pension scheme, interest payable on borrowings calculated using the effective interest rate method, dividends on non-equity shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the Consolidated Income Statement (see accounting policy (f)).

(x) Income tax

Income tax on the profit or loss for the year comprises current and deferred taxation. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in other comprehensive income or in equity, in which case it is recognised accordingly.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply when the temporary difference reverses, based on rates that have been enacted or substantively enacted at the balance sheet date.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(y) Segment reporting

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

(z) Alternative performance measures and adjusting items

The Group uses alternative performance measures ("APMs") which are not defined or specified under IFRS. The Group believes that these APMs, which are not considered to be a substitute for IFRS measures, provide

additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide additional comparative information. The prior period alternative performance measures have been restated to reflect the amortisation of acquired intangible assets in adjusting items.

Adjusting items

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

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

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

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 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 of the Annual Report.

	2022	2021 (as restated)
	£'000	£'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	2021 (as restated)
	£'000	£'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	2021 (as restated)
	£'000	£'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	2021 (as restated)
	£'000	£'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 of the Annual Report. 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-IFRS 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	91.3%	79.8%