Delivering growth

Marshalls plc Annual Report and Accounts 2016

Marshalls

Delivering growth through innovation

Our objective is to improve profitability and deliver long-term sustainable value for our shareholders whilst taking into account the interests of all stakeholders.

Find out more online
www.marshalls.co.uk

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MarshallsTV

Front cover: Brentford Market Place, Scout Moor and Moselden, Yorkstone

INNOVATION IN ACTION

A blend of 13 of our stunning granites at Victoria Gate, Leeds

Victoria Gate is Leeds' latest shopping and leisure destination. The £165 million development offers visitors a new shopping experience, with an abundance of shops, cafés and restaurants for visitors to enjoy.

Strategic Report

Corporate Governance

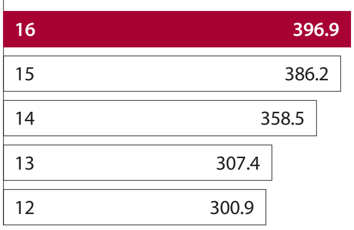
Financial Statements

Significant profit growth supported by operational efficiency initiatives

This has been another year of strong results for Marshalls, supported by the positive impact of manufacturing efficiency improvements. This has been matched by a strong cash performance and at 31 December 2016 the Group is cash positive.

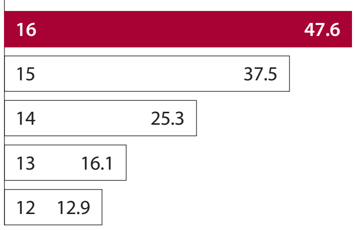
Revenue £'m

£396.9m **+3%**



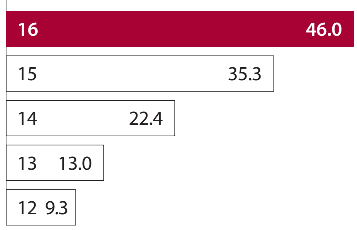
Operating profit £'m

£47.6m **+27%**



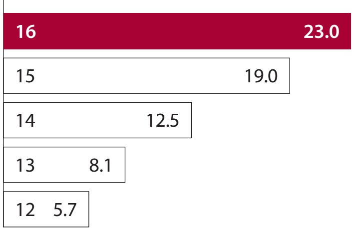
Profit before tax £'m

£46.0m **+31%**



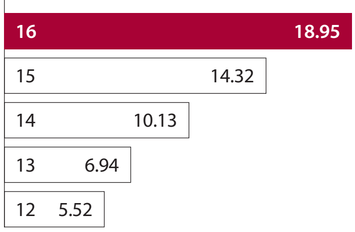
Return on capital employed %

23.0% **+21%**



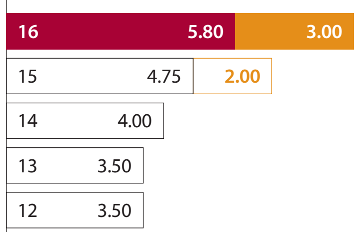
EPS p

18.95p **+32%**



Final dividend recommended p

5.80p **+22%**



(+ 3.00p supplementary)

Total dividend – ordinary and supplementary p

11.70p **+30%**

INNOVATION IN STREET FURNITURE

Metrolinia flexible seating configurations

A contemporary and flexible range that comprises a number of different seating options, giving you the flexibility not only to play with colour and texture but also with almost unlimited configurations.

New products revenue growth of

10%

Financial highlights

- Revenue up 3% to £396.9 million (2015: £386.2 million)
- Strong profit before tax growth of 31% to £46.0 million (2015: £35.3 million) driven by improved operating margins to 12.0% (2015: 9.7%)
- Return on capital employed ("ROCE") improved 21% (400 basis points) to 23.0% (2015: 19.0%)
- EPS up 32% to 18.95 pence (2015: 14.32 pence)
- Final ordinary dividend increased by 22% to 5.80 pence (2015: 4.75 pence) per share
- Supplementary dividend of 3.00 pence per share
- Strong sales and order intake since the year end

The 2020 Strategy

- Grow EBITDA, improve ROCE and strengthen our brand
- Promote self help investment and growth initiatives
- Prioritise organic capital investment
- Commit further investment to research and development
- Focus on innovation and new product development to drive sales growth
- Focus on increasing the profitability of the Smaller UK Businesses
- Advance the development of a wide-ranging digital strategy
- Target selective bolt-on acquisition opportunities

"Good progress has been made in the year to deliver the 2020 Strategy and the self help programme to support organic growth is well advanced.

Martyn Coffey, Chief Executive

► **Strategy pages** 14 – 16
► **Key performance indicators** pages 18 – 19

The UK's leading hard landscaping manufacturer

Marshalls´ principal aim is to increase value by creating better spaces. We place a strong emphasis on product innovation and service delivery initiatives.

Who we are and what we do

Public Sector and Commercial

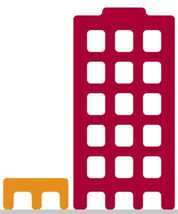
Interiors, gardens, seating and landscapes

Marshalls is the leading innovator of hard landscaping solutions for the commercial construction sector, placing a focus on developing new and innovative products.

Marshalls focuses on developing products which help architects, local authorities and contractors to create better spaces, whether it is street furniture, natural stone paving for the internal or external environment, concrete block paving, water management or protective street furniture products.

Customers
Local authorities, commercial architects, specifiers, contractors, housebuilders and builders merchants.

Products
Paving, block paving, kerb, water management, natural stone cladding, street furniture, lighting, protective street furniture, walling and mortars.



▶ Markets – Public Sector and Commercial pages 12–13

Domestic

Interiors, gardens and driveways

Marshalls' Domestic customers range from DIY enthusiasts to professional landscapers, driveway installers and garden designers. Sales continue to be driven through the Marshalls Register of Accredited Landscapers and Driveway Installers.

For homeowners, Marshalls offers the inspiration they need for their garden and driveway projects.

Customers
National and independent builders merchants, DIY groups, professional landscapers, garden designers and patio and driveway installers.

Products
Paving, block paving, paths, edgings, walling and decorative aggregates.

▶ Markets – Domestic pages 12–13

INNOVATION IN CONCRETE PAVING

Paving with integrated Water Management

Complementary drainage products can be integrated into a paving design to delineate or blend in order to create a cohesive, free-flowing public space.

New products revenue growth of

10%

What makes us different

Our customer service

The Group's national network of manufacturing and regional centres makes Marshalls the only truly national supplier. We maintain industry-leading standards of product quality, availability and "on-time" delivery.

Our quality

The Group remains committed to producing new quality products that are better than any existing market offering.

Our technical expertise

The Group is committed to excellence and our skilled engineers and technicians provide competitive advantage. Marshalls has a world-class Manufacturing, Innovation and Development team.

Our production innovation

The Group's commitment to innovation and the development of new products and solutions provides an industry-leading new product design pipeline.

Our capital structure

The Group has a strong balance sheet and a clear capital allocation strategy. Our capital structure is aligned with the strategic objectives.

Our standards

The Group is a benchmark for excellence and a leader in its field. Marshalls has been rated a Business Superbrand every year since 2010. Superbrands is an annual initiative to identify and celebrate Britain's strongest consumer and business-to-business brands.

UN GLOBAL COMPACT WE SUPPORT

AWARDED FOR UK Superbrands 2017 QUALITY · RELIABILITY · DISTINCTION

Ethical Trading Initiative Member Respect for workers worldwide

FTSE4Good

Fair Tax

We are a Living Wage Employer

BUSINESS IN THE COMMUNITY

MADE IN BRITAIN

How we do business

Marshalls is the UK's leading hard landscaping manufacturer supplying superior natural stone and innovative concrete products to the construction, home improvement and landscape markets since the 1890s.

Resources and relationships

Intellectual
- Innovation
- Technical expertise
- Brand

Human
- Our people

Relationships
- Supply chain
- Customers

Financial
- Prudent capital structure

Manufacture
- Efficient plants
- National coverage

Natural
- Mineral reserves

Responding to the wider market

Marshalls seeks to understand the long-term drivers of market and product growth. Through detailed market analysis, we continue to drive new product development, particularly in the areas of Infrastructure, Water Management, Street Furniture, Rail and New Build Housing. The Group tracks trends in lifestyles and aesthetics as well as developing solutions to ensure that products can be efficiently and effectively installed. Product development focuses on meeting consumer needs and on increasing the speed and efficiency of product installation.

How we operate

Sourcing

The Group's main raw materials are cement, sand, aggregates, pigments, fuel oil and utilities. We use the best materials we can source. Supply chain relationships include the ethical sourcing of natural stone from India, China and Vietnam. The Group also has extensive reserves of UK natural stone.

RELATED RISKS
- Macro-economic and political
- Cost and availability of raw materials
- Cyber security risks
- Environmental

Manufacturing

The Group manufactures and supplies landscape, driveway and garden products from a range of materials, principally concrete and natural stone. Marshalls has a world-class Manufacturing, Innovation and Development team.

RELATED RISKS
- Competitor activity
- Threat from new technologies and business models
- IT infrastructure
- Legal and regulatory

Our strengths

Customer service
- Industry-leading standards
- Quality, availability and "on-time" delivery

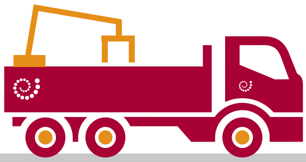
Quality
- Commitment to producing new quality products that are better than any existing market offering
- Development of a digital strategy

Technical expertise
- World-class Manufacturing, Innovation and Development team
- Skilled engineers and technicians

Our values

Leadership + Excellence

Strategic objectives: Shareholder value, Relationship building, Brand development, Sustainable profitability, Organic expansion, Effective capital structure and control framework

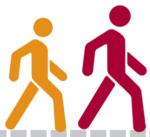


Distribution

Due to the scale of our operations, and our national network of regional centres, 97 per cent of our customers are less than 2 hours away. This continues to be a key competitive advantage.

RELATED RISKS

- Macro-economic and political
- IT infrastructure
- Cost inflation
- Environmental



Customers

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

RELATED RISKS

- Macro-economic and political
- Weather
- Cyber security risks
- Legal and regulatory

Product innovation

- New and innovative products
- Patent protection
- Machinery design and installation

Setting the standards

- Benchmark for excellence, widely regarded as a leader in its field
- Marshalls is one of Britain's strongest Superbrands
- Sustainability credentials

Strong capital structure

- Strong balance sheet
- Clear capital allocation strategy
- Capital structure aligned with the Group's strategic objectives

Trust + Sustainability

Stakeholder value

Shareholders

- Progressive dividend policy
- Targeting 2 times dividend cover over business cycle

People

- Employee engagement
- Promote development and personal growth
- Living wage company

Customers

- Centre of business model
- Quality products and exceptional service

Communities

- Business in the Community
- Responsible business practices

The business

- Reinvestment (research and development, capital expenditure)
- Drive growth and sustainability

Our vision is to establish a world-class hard landscape business

Our objective is to improve profitability and deliver long-term sustainable value for our shareholders whilst taking into account the interests of all stakeholders.

Summary

- Core values remain leadership, excellence, trust and sustainability.
- 32% increase in earnings per share reflecting continuing strength of the Marshalls brand.
- Strong balance sheet and prudent capital structure.
- Full-year dividend of 8.70 pence (up 24%) and a discretionary supplementary dividend of 3.00 pence.

Overview

I am pleased to report that Marshalls has made continued progress during 2016 and delivered strong results. Profit before tax has increased by 31 per cent during the year with strong operational gearing supported by the positive impact of improvements in operational and manufacturing efficiency.

The Group's core values of leadership, excellence, trust and sustainability continue to support our strategic objectives, which remain unchanged. Our primary objective is to improve profitability and to deliver long-term sustainable value for our shareholders whilst taking into account the interests of all our stakeholders.

The continuing development of Marshalls' corporate culture is a key theme for 2017 and is closely aligned with the Group's core values. Following the Financial Reporting Council's paper your Board has reviewed its role in respect of culture and established a more formal framework to ensure culture is a clear area of ongoing focus for the Group. A healthy and positive corporate culture, supported by a consistent approach and strategic message from the Board, will both protect and generate shareholder value.

Results

Marshalls' revenue is up 3 per cent to £396.9 million. The Domestic end market performance has been particularly strong with revenue growth of 10 per cent during the year. Profit before tax was £46.0 million (2015: £35.3 million) and EBITDA has grown by 17 per cent to £60.8 million (2015: £51.8 million). The Group's earnings per share at 18.95 pence are up 32 per cent. These results reflect the continuing strength of the Marshalls brand, our emphasis on customer service and our enduring objective of providing innovative, quality products and integrated solutions.

Dividends

Marshalls has strong cash generation and a robust balance sheet which underpins our progressive dividend policy. The Group maintains the objective of 2 times dividend cover over the business cycle.

> "The Group's core values of leadership, excellence, trust and sustainability continue to support our strategic objectives.

The Board is recommending a final dividend of 5.80 pence (2015: 4.75 pence) per share which, together with the interim dividend of 2.90 pence (2015: 2.25 pence) per share, makes a total ordinary dividend for the year of 8.70 pence (2015: 7.00 pence) per share.

Given the strong performance in the year, the Board is also recommending a supplementary dividend of 3.00 pence per share (2015: 2.00 pence). This supplementary dividend is discretionary and non-recurring. It recognises the Board's objective of maintaining an efficient and prudent capital structure and providing increased returns for shareholders whilst at the same time retaining flexibility for capital and other investment opportunities.

Strategy

Our vision is to establish Marshalls as a world-class hard landscape business and in formulating the Group's strategy the objective is to deliver sustainable growth in shareholder value whilst taking into consideration the interests of all our stakeholders and the wider contribution we make to society. The Group's culture is to create open, rewarding and transparent relationships across all key stakeholders.

The key elements of the Group's strategy include further development of the Marshalls brand, the introduction of new and innovative products, excellent customer service, operational improvement and improving the performances of the smaller businesses. The Group's capital structure continues to support our strategic objectives whilst also reflecting the economic and sector background. Given the cyclical nature of our sector, a conservative financial profile remains appropriate for Marshalls. The Group's capital allocation policy has 3 supporting principles, which are security, flexibility and efficiency. We continue to support a prudent capital structure and at 31 December 2016 I am pleased to report that the Group has become cash positive.

Governance

We continue to comply with the UK Corporate Governance Code as outlined in our Corporate Governance Statement on pages 36 to 41. The Board remains committed to the highest standards of corporate governance and to strong ethical and professional practices. In 2016, Marshalls has again been awarded the "Fair Tax Mark" for responsible tax behaviour and transparency in its tax affairs.

The Group continues to enhance the Annual Report disclosures to ensure they represent a fair, balanced and understandable assessment of the Group's position and prospects. We hope this year's Annual Report provides further improvements for shareholders.

The Board action plan for 2016 included further consideration of longer-term strategic planning, risk management and business resilience. Additional consideration has also been given to Board succession planning along with greater focus on succession planning below Board level. I am pleased to report that we have made good progress against our action plan, which is reported in more detail in the Corporate Governance Report on pages 36 to 41. The Board continues to maintain an open and transparent culture where all Board members are able to contribute effectively and without constraint to discussions.

Board development continues to be a priority and during the year an external evaluation of Board performance was undertaken by an independent evaluator. Such reviews recognise the changing needs of the business and seek to improve the effectiveness of the Board as a whole and of individual Directors. No areas of material concern were highlighted as a result of the 2016 evaluation.

Under our remuneration policy, executive remuneration is closely linked to performance and the achievement of stretching financial and strategic targets that are closely aligned with the Group's strategic objectives. These include specific customer service and health and safety targets. Management continues to receive a large proportion of its remuneration in shares which must be retained for up to 5 years. This ensures a strong alignment between the interests of management and our shareholders.

Board changes

Alan Coppin retired from the Board following the Annual General Meeting in May 2016 having served as Non-Executive Director, Senior Independent Director and Chair of the Remuneration Committee since May 2010. Following Alan's retirement from the Board, Janet Ashdown was appointed Senior Independent Director and Chair of the Remuneration Committee.

People

Marshalls has an outstanding workforce and I would like to thank all our employees for their professionalism and ongoing support, commitment and dedication to Marshalls.

We continue to promote a pay and rewards structure that recognises performance and that is fair to all employees. Marshalls continues to exceed the "Living Wage Employer" criteria. The Group is establishing a new defined contribution pension scheme within a market leading Master Trust operated by Aviva/Friends Life. This will be fair, flexible and fit for the future and will create a framework that will provide a much improved pension proposition going forward that will benefit all employees.

The Marshalls 2015 Sharesave Scheme encourages wider ownership of Marshalls plc shares across the entire workforce, which ensures that the interests of employees remain firmly aligned with those of shareholders.

Outlook

The underlying indicators have remained supportive in Marshalls' main end markets while order intake, revenue growth and cash generation have remained robust. The Board is mindful of market volatility and the more cautious growth levels highlighted by recent Construction Products Association forecasts, but continues to support the growth objectives and operational priorities that remain central to our 2020 Strategy.

Marshalls has a strong balance sheet and your Board believes that the Group's innovative product range and strong market positions mean it is well placed to deliver continued growth and operational profit improvements as it implements its 2020 Strategy. Sales and order intake have been strong in the first couple of months of 2017.

Andrew Allner
Chairman

Delivering growth

The Group's strategic priorities are to promote the growth initiatives of our 2020 Strategy and to drive through sustainable cost reductions and improvements in operational efficiency.

Summary

- Profit before tax up 31% to £46.0 million with significant benefits from operational efficiency initiatives.
- Strong cash generation with positive cash of £5.4 million at the year end.
- Continuing investment in new product development.
- Commitment to self help capital investment programme.
- Digital strategy development progressing well.

Introduction

The Group has delivered significant profit growth in 2016, with the underlying indicators remaining positive in Marshalls' main end markets. Revenue growth has remained robust, and sales continued strongly during the last quarter of the year. It is also pleasing to report that sales and order intake have been strong in the first couple of months of 2017.

Good progress has been made in the year to deliver the 2020 Strategy and the self help programme to support organic growth is well advanced. The drive for sustainable operational improvements is proving successful as evidenced by the margin improvements in the year. As a result of our continued focus on strategic growth and operational efficiency initiatives, the Group has delivered an operating profit in 2016 of £47.6 million (2015: £37.5 million), an increase of 27 per cent.

The Marshalls brand remains central to our strategy and the Group has again received "Superbrand" status for 2017. The Group has an increasingly strong market position and we continue to benefit from our leading, trusted brand with clear values and excellent environmental credentials. Marshalls remains a benchmark for excellence and our 3 cornerstone themes of customer service, quality and sustainability continue to put the customer at the very heart of our business.

2016 trading summary

Marshalls' revenue for the year ended 31 December 2016 was up 3 per cent at £396.9 million (2015: £386.2 million).

Sales to the Domestic end market, which represent 31 per cent of Group sales, were up 10 per cent for the year compared with 2015. Domestic sales growth was particularly strong in the second half of the year increasing by 14 per cent in this period. The survey of domestic installers at the end of February 2017 revealed order books of 10.9 weeks (2016: 10.5 weeks), which compares with 11.7 weeks at the end of June 2016.

Sales to the Public Sector and Commercial end market represent 64 per cent of Marshalls' sales and, as previously reported, were broadly in line with the prior year. However, based on public indicators we believe we continue to outperform our peers and gain market share.

The core Commercial and Domestic businesses continue to deliver benefits from operational gearing and our network of manufacturing sites remains a key competitive strength. The performance of our Smaller UK Businesses has continued to improve during 2016 and collectively they have delivered profit growth of 13 per cent. These businesses include Street Furniture, Mineral Products and Stone Cladding.

International revenue has grown by 2 per cent during 2016 and represents approximately 5 per cent of Group sales. Marshalls has made

> "The Group has delivered significant profit growth in 2016, with the underlying indicators remaining positive in Marshalls' main end markets.

continued progress in developing the International business although the market background in mainland Europe remains subdued. During the early part of 2016 we opened a sales office in Dubai to facilitate further sales growth in the Middle East and the Group continues to improve its global infrastructure, supply chains and routes to market.

Profit before tax increased by 31 per cent to £46.0 million (2015: £35.3 million) and EBITDA increased by 17 per cent to £60.8 million (2015: £51.8 million). Basic EPS was 18.95 pence (2015: 14.32 pence), an increase of 32 per cent.

Significant cash generation has seen the Group deliver a cash positive position of £5.4 million at 31 December 2016, which compares with net debt of £11.5 million at 31 December 2015.

Current priorities and operational strategy

The Group's strategy is to grow the business, deliver increasing operating margins in all businesses and improve the Group's return on capital employed ("ROCE").

The Group's operating margin has increased from 9.7 per cent to 12.0 per cent during the year. ROCE is defined as EBITA / shareholders' funds plus cash / net debt and was 23.0 per cent for the year ended 31 December 2016, which represents an increase of 21 per cent compared with the prior year.

Looking ahead, the Group's strategic priorities continue to be the growth initiatives of our 2020 Strategy and to drive through further sustainable cost reductions and improvements in operational efficiency. Capital expenditure of £20 million is targeted for 2017, including £6 million of additional self help investment. A good pipeline of performance improving projects has been identified that will drive this growth. In addition, further increases in research and new product development expenditure are planned.

Targeted bolt-on acquisitions also remain a key part of the 2020 Strategy, specifically within our identified focus sectors of Water Management, Street Furniture and Minerals. However, given greater market uncertainty, our approach remains cautious. Any proposed acquisition target will be carefully selected against strict criteria and will be thoroughly considered during detailed due diligence. Any acquisitions would be funded by operational cash flow and the Group's bank facilities.

Marshalls' operational priorities continue to focus on service, quality, design, innovation and sustainability and the Group continues to extend its product range and provide more integrated product solutions. The objective is to improve the customer experience and further differentiate and strengthen the Marshalls brand by ensuring a consistently high standard of quality and customer service. Marshalls continues to have customer service as a key KPI and maintains industry-leading standards of product quality, availability and "on-time" delivery. Our combined customer service measure continued to be in excess of 98 per cent throughout 2016.

Marshalls' Digital Strategy remains a key priority and further investment is being directed to enhance capability and digital support throughout the business, combining digital trading, digital marketing and digital business. Web and mobile applications now enable customers to model their requirements, allow digital access to the registered installer base and allow real-time visibility of stock.

The Group's strategic initiatives are set out in detail in the Strategic Report on pages 14 to 17.

Innovation and new product development

In the core Landscape Products business, revenue from new products increased by 10 per cent during 2016. The development pipeline continues to be strong and the Group remains committed to increasing the resources and investment that will drive further innovation and new product development. The growth in new products and the development of new manufacturing processes are evidenced by the increase in the number of patents being taken out by the business and we currently have 8 patents pending. Particular focus is given to those businesses with the greatest growth opportunity and development expenditure includes project engineering to enhance manufacturing capabilities, concrete and other material technology innovations and the extension of the new product pipeline. For example, the Group's Drexus linear drainage system, along with other new sustainable water management systems, demonstrates our innovative thinking in relation to the reduction of flood risk.

Improvements in operational efficiency

We are continuing to focus on improving operational and manufacturing efficiency. The Group adopts a flexible operating framework that focuses on employee accountability, process repeatability and plant reliability. In the UK, the Group has a unique manufacturing network of 13 concrete manufacturing sites as well as quarries producing paving, walling and cladding products, making Marshalls the only truly national supplier. Our national geographic coverage continues to provide strong competitive advantage and the implementation of best practice across the entire network continues to be a priority. All the Group's operations are supported by a centrally managed logistics and distribution capability.

Manufactured products from this network are combined with ethically sourced natural stone products imported from India, China and Vietnam and are supplied to distributors' depots or direct to site. The growth of the Group's vitrified ceramic range is a further example of the increasing range of new product solutions and the range of materials we can provide. Marshalls is also focusing on improving efficiency within the supply chain to ensure sustainable business continuity and cost control. This includes the development of flexible strategies that can accommodate change within the supply chain. Well invested capital equipment provides the flexibility to manufacture products for both the Public Sector and Commercial and the Domestic end markets and enhancing this operational flexibility also remains a key priority.

Health and safety

The Group remains committed to improving the quality and safety of the working environment by maintaining the highest health and safety standards. Health and safety remains a cornerstone of the Group's culture and our focus continues to be aligned with an increasingly rigorous regulatory framework.

During 2016, there was a 20 per cent reduction in days lost from workplace incidents, which is comfortably ahead of the Group's headline target. The Group has continued to invest in health and safety awareness training for all managers and supervisory staff through its "Visible Felt Leadership" initiative.

Martyn Coffey
Chief Executive

Serving the market

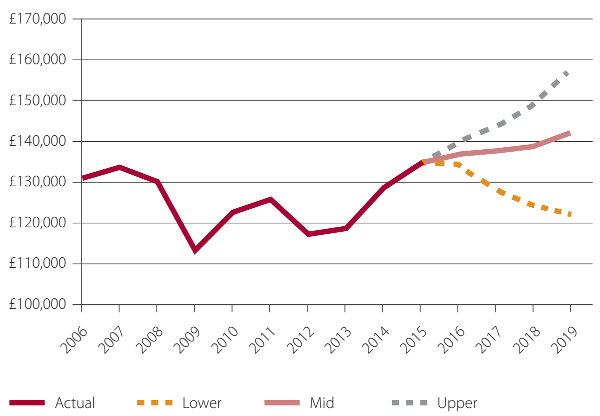
Marshalls' marketing team constantly tracks the key market indicators and drivers to ensure that the organisation is able to quickly and effectively react to current and future changes in the market environment.

MARKET TREND

Recovery in total UK construction output to pre-recession levels

Construction output is expected to grow by 0.8 per cent in 2017 and 0.7 per cent in 2018 according to the latest forecasts by the CPA. In addition, construction output is expected to grow by 2.2 per cent in 2019. However, this growth masks a considerable degree of variation in the fortunes of the key construction sectors and sub-sectors.

CPA all work winter 2016 value forecast



OUR RESPONSE – 2020 STRATEGY

- Marshalls will continue to analyse the individual market sectors and sub-sectors to focus the organisation on those areas with sustainable growth. This analysis will drive innovation and the introduction of new products and propositions. The digital strategy will drive development.
- Ongoing focus on those market areas where future demand is considered to be greatest.

LONG-TERM STRATEGIC RESPONSE

- Marshalls' analysis goes further than the base forecasts and seeks to understand the long-term drivers of market and product growth.
- The FutureSpaces analysis ties together macro trends with core market indicators to enable effective targeting of resources.

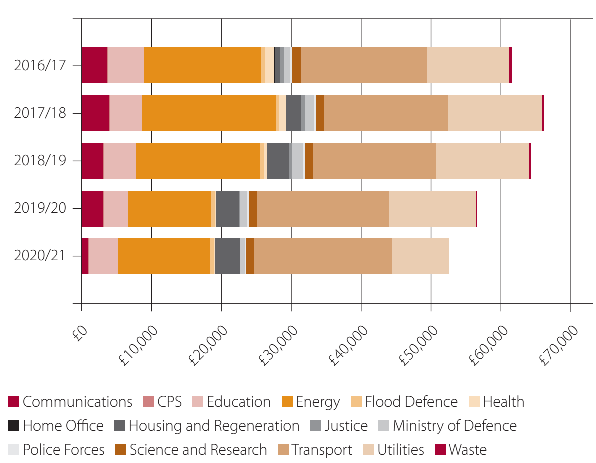
Find out more online
www.marshalls.co.uk/futurespaces

MARKET TREND

Changes in the Government construction pipeline

Public sector spending represents around 25 per cent to 30 per cent of the total UK construction market, and the current published data indicates that 3 sectors will dominate public projects over the course of the current spending review. These sectors are Energy, Transport and Public Housing.

Government construction pipeline £'m



OUR RESPONSE – 2020 STRATEGY

- Marshalls will continue to focus on these growth sectors.
- This will continue to drive new product development in the areas of Infrastructure, Rail and New Build Housing.

LONG-TERM STRATEGIC RESPONSE

- The Government's construction pipeline also shows the growth in spending on areas such as flooding which is met by Marshalls' Water Management products which will also benefit from a focus on climate change mitigation.

Find out more online
www.marshalls.co.uk/rail

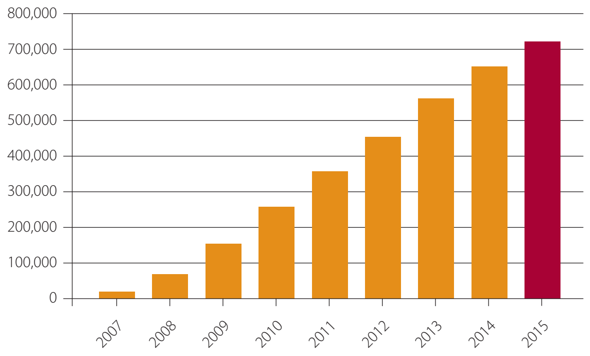
FIND OUT MORE
▶ **Strategy** pages 14 – 15
▶ **Financial Review** pages 29 – 33

MARKET TREND

New housebuilding

New housebuilding generally represents around 20 per cent to 25 per cent of the total UK construction market and in 2007 the Government set an annual target of building 240,000 new homes per annum. The recent housing white paper confirmed the need to significantly increase UK new housebuilding.

Housing units cumulative shortfall since Government target set in 2007



OUR RESPONSE – 2020 STRATEGY

- Marshalls have 4 product categories that cover the new housebuilding market.
- The core landscaping product range of Domestic drives and patios, the Commercial infrastructure products, Natural Stone and Reconstituted Walling and Mortars.

LONG-TERM STRATEGIC RESPONSE

- New product development for both the Domestic homeowner and Commercial new housebuilder markets will continue to track trends in lifestyles and aesthetics and ensure that products can be efficiently and effectively installed.

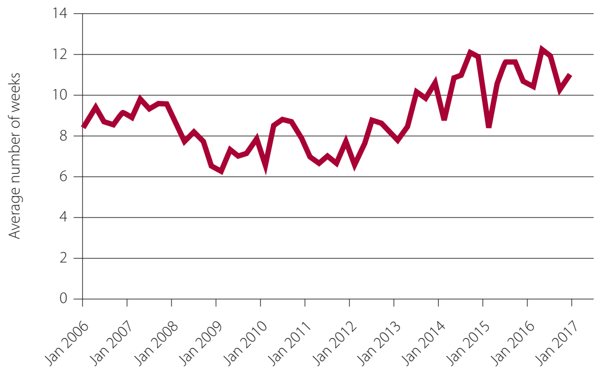
Find out more online
www.marshalls.co.uk/home

MARKET TREND

Domestic installer order books

Marshalls carries out a survey of Domestic installer order books regularly throughout the year and in 2016 has seen levels that average around 11 weeks, considerably higher than the pre-recession average of around 9 weeks.

Domestic installer order books



OUR RESPONSE – 2020 STRATEGY

- Marshalls operates the UK's largest approved garden and driveway installers scheme. This is focused on customer service, quality and sustainability.
- This links consumers to landscape installers that have been assessed trained and monitored by Marshalls to ensure the highest standards of installation, giving the consumer peace of mind.

LONG-TERM STRATEGIC RESPONSE

- Marshalls' product development continues to focus not only on meeting consumer needs but also on increasing the speed of installation to enable installers to become more productive and efficient.

Find out more online
www.marshalls.co.uk/homeowners

Focused on growth

Continuing emphasis on customer service and our enduring objective of providing quality products and integrated solutions. Delivering growth through product innovation is a key element of the Group's strategy.

Shareholder value

To deliver sustainable shareholder value by improving the long-term operating performance of the business.

WHAT WE HAVE ACHIEVED

- Growth in ROCE to 23.0 per cent.
- Market share gains.
- Supplementary dividend.

Growth in ROCE to
23.0%

2020 STRATEGY

- To strengthen the Marshalls brand by developing systems-based solutions.
- To make strategic investments for organic growth and acquisitions.
- To have a progressive dividend policy.

OUR FUTURE TARGETS

- To grow EBITDA and ROCE.

Sustainable profitability

To maintain a strong market position and grow the business profitability in all the Group's end markets.

WHAT WE HAVE ACHIEVED

- 27 per cent growth in operating profit driven by sustainable efficiency improvements.
- Increase in operating profit percentage to 12.0 per cent (2015: 9.7 per cent).
- 10 per cent growth in sales of new products in the core business.

New products growth of
10%

2020 STRATEGY

- To deliver new and innovative product solutions.
- To improve operational efficiency of manufacturing and distribution network.
- To drive through sustainable cost reductions.
- To invest in the digital strategy.

OUR FUTURE TARGETS

- To deliver sustainable EPS and operating cash flow growth.

Relationship building

To develop relationships with key stakeholders, customers and installers.

WHAT WE HAVE ACHIEVED

- Strengthened customer relationships.
- 98 per cent customer service KPI.
- Integrated "landscaping solutions".
- Design Space office in Central London.
- Almost 2,000 registered installer teams.

Registered installer teams now
approx. 2,000

2020 STRATEGY

- To promote integrated product solutions.
- To focus on installer training, marketing and sales support.
- To develop the supply chain and maintain ethical and sustainable policies.
- To be a provider of integrated solutions and systems.

OUR FUTURE TARGETS

- To increase market share in our Smaller UK Businesses and to be an employer of choice.

FIND OUT MORE

- **Key performance indicators** pages 18 – 19
- **Risks** pages 20 – 24
- **Sustainability** pages 25 – 28
- **Remuneration** pages 46 – 65

Organic expansion

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

WHAT WE HAVE ACHIEVED

- Revenue growth of 3 per cent to £396.9 million.
- Significant growth in key focus areas and Smaller UK Businesses.
- Developed product range whilst maintaining operational flexibility.
- Opened a sales office in Dubai.

Revenue

£396.9m

2020 STRATEGY

- To focus on increasing the profitability of the Smaller UK Businesses.
- To target growth areas such as Water Management, Street Furniture, Rail and New Build Housing.
- To increase capital expenditure investment for organic growth.

OUR FUTURE TARGETS

- To maintain a national network of manufacturing and distribution sites.
- To develop our global supply chains and infrastructure.

Brand development

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

WHAT WE HAVE ACHIEVED

- "Superbrand" status.
- Continued development of Marshalls brand.
- Improved integration of marketing collateral.
- Provision of innovative, quality products.

R&D investment of

£3.4m

2020 STRATEGY

- To focus on innovation, customer service and product quality.
- To increase technical R&D.
- To maintain the highest health and safety standards.

OUR FUTURE TARGETS

- To maintain the Group's market-leading position.

Effective capital structure and control framework

To maintain efficient and effective business controls and to ensure that the capital structure remains aligned with the Group's corporate growth objectives.

WHAT WE HAVE ACHIEVED

- Strong balance sheet.
- Cash positive at 31 December 2016.
- Efficient portfolio of bank facilities with extended maturities and realigned headroom.
- Continued focus on working capital management and efficient inventory control.

Cash positive at year end

£5.4m

2020 STRATEGY

- To maintain a flexible capital structure that recognises cyclical risk, focusing on security, efficiency and liquidity.
- To deliver a capital allocation strategy that is fully aligned with this capital structure.

OUR FUTURE TARGETS

- To operate tight control over business, operational and financial procedures.
- To target a net debt to EBITDA ratio of between 1 and 2 times over the business cycle.

Innovation and new product development

Our innovation cycle

The structure of the Marshalls Innovation Cycle gives us a greater ability to feed the Group Marketing Evolution Plan – a necessity for a healthy, sustainable and industry-leading new product design ("NPD") pipeline.

The structure enables us to plug dynamically into a wider intelligence of product ideas, market drivers, industry technology and manufacturing system and process improvements for the next generation of Marshalls NPD.

Product and process concepts will be developed in consultation with stakeholders and brought to life and managed within the innovation growth engine. Based on real commercial intelligence the best concepts will be prioritised by business leaders and will move forward with more speed and confidence before being managed through the manufacturing or marketing process prior to manufacture.

INTELLIGENCE

Future Spaces | Market intelligence | Technology drivers | Materials R&D | Sales feedback

INNOVATION

Innovation growth engine

Idea portfolio

DELIVERY

Investment | Product management | Manufacture

INNOVATION IN CONCRETE PAVING

Premium and streamlined driveway style

A sharp contemporary look with the distinctive streamlined shape of Driveline Metro, lightly washed to expose the aggregate and give a premium finish. The design mixes 4 carefully selected colour options.

New products revenue growth of

10%

Digital strategy

Over the last decade technology and software advancements have rapidly driven change in many industries. Many are calling this the next industrial revolution. All companies face the challenge of how best to utilise digital technology to transform their business and Marshalls is no exception.

We are committed to a long-term digital transformation initiative that will fortify our market leading position by creating an engaging customer experience through the exploitation of new technologies and processes.

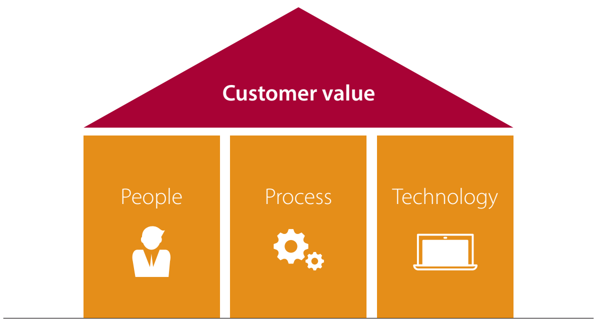
Vision

Our vision is to become "Digital by Default" whereby our business is focused on the customer using digital technology to deliver a frictionless customer journey, which will drive increased sales, loyalty and ultimately profitability.

As a business we will continuously watch and exploit future technological advancements to enhance the customer experience and drive competitive advantage.

Guiding principles

To achieve this vision, Marshalls will be guided by 6 core principles which will be applied to the areas of technology, internal process and people. By embedding these principles throughout Marshalls, we will nurture a culture whereby every business decision is assessed in relation to the digital agenda.



DIGITAL PRINCIPLES

- Design for customer
- Collaboration
- Data driven
- Promote agility
- Open and transparent
- Robust governance

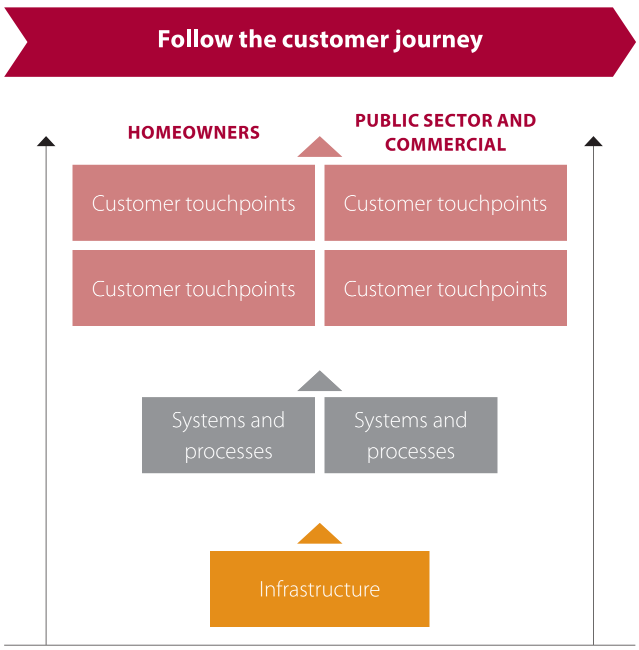
Approach

Marshalls understands that creative digital solutions need to be developed on strong foundations. Therefore our approach to implementing a successful digital strategy is to tackle 3 key elements: Infrastructure, Systems and Processes and Customer Touchpoints.

Infrastructure: Predominantly technical projects that help create a sustainable architecture and an agile platform for all digital initiatives.

Systems and processes: Business systems and processes that build on / utilise the new infrastructure to enable the delivery of digital initiatives and promote agility.

Customer touchpoints: Value adding multi-channel digital touchpoints which drive sales, loyalty and profitability to maintain Marshalls' competitive advantage.



Key deliverables

Marshalls' focus in 2017 will be on the following areas:

- Making use of cloud technologies and infrastructure;
- Implementing a data strategy that will allow Marshalls to serve customers with the right content, at the right time, in the format they require via a omni-channel approach; and
- Exploiting the growth in mobile usage to support a frictionless customer experience.

Measuring our performance

The Group's KPIs monitor progress towards the achievement of its objectives. All of the Group's strategic KPIs have improved significantly during 2016.

Revenue

£'m

£396.9m +3%

16	396.9
15	386.2
14	358.5
13	307.4
12	300.9

LINK TO STRATEGY

Delivering growth is key to the 2020 Strategy.

2016 PERFORMANCE

Group revenue has increased by 3 per cent in 2016. Growth in Domestic revenue particularly strong at 10 per cent.

STRATEGIC TARGETS

The aim continues to be to outperform the market and maintain or grow market share.

REMUNERATION LINKAGE

Sustainable revenue growth is the driver of EPS and operating cash flow ("OCF") growth.

RISK MANAGEMENT

The Group closely monitors trends and lead indicators and continues to benefit from the diversity of its business and end markets.

Operating profit

£'m

£47.6m +27%

16	47.6
15	37.5
14	25.3
13	16.1
12	12.9

LINK TO STRATEGY

The sustainable improvement in profitability is a strategic priority.

2016 PERFORMANCE

Operating profit has increased by 27 per cent to £47.6 million in 2016. The Group's strong operational gearing has driven an increase in reported operating margin from 9.7 per cent to 12.0 per cent, which represents an increase of 23 per cent.

STRATEGIC TARGETS

Sustainable improvement in profitability.

REMUNERATION LINKAGE

EPS and OCF are both remuneration performance targets.

RISK MANAGEMENT

The Group focuses on innovation and new product development in order to improve product mix and increase value-added sales.

EPS

p

18.95p +32%

16	18.95
15	14.32
14	10.13
13	6.94
12	5.52

LINK TO STRATEGY

The delivery of long-term sustainable profitability for shareholders is a strategic priority.

2016 PERFORMANCE

Group EPS has increased by 32 per cent in 2016 to 18.95 pence.

STRATEGIC TARGETS

Significant EPS growth is a strategic target.

REMUNERATION LINKAGE

EPS growth is a remuneration performance target.

RISK MANAGEMENT

The Group focuses on sales opportunities and strategic growth opportunities.

Return on capital employed

%

23.0% +21%

16	23.0
15	19.0
14	12.5
13	8.1
12	5.7

LINK TO STRATEGY

ROCE remains an important indicator of sustainable shareholder value.

2016 PERFORMANCE

Group ROCE is 23.0 per cent for the year ended 31 December 2016, which represents an increase of 21 per cent during the year. ROCE is defined as EBITA / shareholders' funds plus cash / net debt.

STRATEGIC TARGETS

The strategic target is to continue to grow ROCE.

REMUNERATION LINKAGE

ROCE provides the control and balance between the profit and cash flow performance targets.

RISK MANAGEMENT

The Group continues to focus on strategic investment for both organic and acquisitive growth.

Strategic objectives: Shareholder value, Relationship building, Brand development, Sustainable profitability, Organic expansion, Effective capital structure and control framework

Net cash
£'m

£5.4m

16	5.4
15	(11.5)
14	(30.5)
13	(35.6)
12	(63.5)

LINK TO STRATEGY

Marshalls continues to support a prudent capital structure.

2016 PERFORMANCE
Significant cash generation has seen the Group deliver positive cash of £5.4 million at 31 December 2016.

STRATEGIC TARGETS
The Group's strategic target is for the ratio of net debt to EBITDA to be between 1 and 2 times over the business cycle.

REMUNERATION LINKAGE
OCF is a remuneration performance target.

RISK MANAGEMENT
The Group maintains a conservative financial profile that recognises cyclical risk and a flexible capital structure that can respond to market changes.

Dividend per share
(recommended) p

8.70p +24%

16	8.70
15	7.00
14	6.00
13	5.25
12	5.25

LINK TO STRATEGY

A progressive dividend policy remains a key objective.

2016 PERFORMANCE
The ordinary dividend per share increased by 24 per cent to 8.70 pence. On an IFRS basis, the dividends declared in the year ended 31 December 2016 are 9.65 pence, an increase of 54 per cent.

STRATEGIC TARGETS
The continuing strategy of maintaining up to 2 times cover over the business cycle.

REMUNERATION LINKAGE
Remuneration targets are aligned with shareholder value.

RISK MANAGEMENT
Risk management remains a key factor in the delivery of the Group's strategic objectives and risk appetite is aligned with the delivery of long-term sustainable value.

Customer service
Customer service index

98%

16	98
15	98
14	97
13	98
12	97

LINK TO STRATEGY

Customer service lies at the heart of the Marshalls brand. The Group's customer service index combines measures of product availability, on-time delivery performance and administrative and delivery accuracy.

2016 PERFORMANCE
The combined customer service measure continued to be in excess of 98 per cent throughout 2016.

STRATEGIC TARGETS
The Group's customer service index target is 95 per cent.

REMUNERATION LINKAGE
Customer service is a remuneration performance target.

RISK MANAGEMENT
The Group focuses on quality, service, reliability and ethical standards that differentiate Marshalls from its competitors.

Health and safety
Percentage reduction in working days lost

20%

16	20
15	43
14	30
13	15
12	25

LINK TO STRATEGY

Marshalls remains committed to meeting the highest health and safety standards for all its employees and continually strives to improve the quality and safety of the working environment.

2016 PERFORMANCE
In 2016 there was a 20 per cent reduction in days lost from workplace incidents.

STRATEGIC TARGETS
The headline target for 2016 was to achieve an accident rate for the year no higher than the 2015 actual results.

REMUNERATION LINKAGE
Health and safety performance is a remuneration performance target.

RISK MANAGEMENT
The Group's compliance procedures and policies seek to ensure that local, national and international health and safety controls are fully complied with.

Managing risk to deliver strategic objectives

Managing risk is key to the delivery of long-term sustainable improvement in shareholder value. All risks are aligned with the Group's strategic objectives.

Achievements in 2016

In addition to the delivery of ongoing process and system enhancements that are designed to mitigate risk, the Group's risk function has placed particular emphasis on the following areas during the year:

- Capital structure. A detailed review of the Group's capital structure has been undertaken to ensure it remains aligned with corporate growth objectives and the external market risk environment.
- Cyber risk. In light of increased cyber risk within the wider market, this has continued to be a major focus area for risk assessment. Following the completion of a series of internal audit projects undertaken by KPMG, further improvements have been made to mitigate risk, and improve IT security, business continuity and disaster recovery.
- Access to Funding. This was included within the Group's principal risks in 2015, but this year access to external funding has not been referred to separately due to a reduction in perceived risk. This is due to our existing committed bank facilities and continuing operational cash generation, which has seen the Group become cash positive at 31 December 2016.

Priorities for 2017

The priorities for the Group's risk function in 2017 are:

- Cyber risk. The rapid pace of change in the wider environment necessitates cyber risk remaining a key priority for 2017. Further internal audit assignments are planned to ensure that the Group remains proactive in this area.
- Supply chain management. Proactive supply chain management continues to be a focus area for the Group against a background of wider economic uncertainty and an increased risk of cost inflation.
- Health and safety. This remains an area of focus as the Group continually strives to reduce health and safety risk and improve performance. Additional staff training will be undertaken in 2017. Significant increases in the financial penalty regime have increased the potential impact of health and safety incidents.

Approach to risk management

Risk management is the responsibility of the Board and is a key factor in the delivery of the Group's strategic objectives. The Board establishes the culture of effective risk management and is responsible for maintaining appropriate systems and controls. The Board sets the risk appetite and determines the policies and procedures that are put in place to mitigate exposure to risks.

Process

There is a formal ongoing process to identify, assess and analyse risks and those of a potentially significant nature are included in the Group Risk Register. The conclusion of the Group's internal auditor, KPMG, is that the process continues to be a robust mechanism for monitoring and controlling the Group's principal risks.

The Group Risk Register is reviewed and updated at least every 6 months and the overall process is the subject of regular review. Risks are recorded with a full analysis and risk owners are nominated who have authority and responsibility for assessing and managing the risk. All risks are aligned with the Group's strategic objectives and each risk is analysed for impact and probability to determine exposure and impact to the business and the determination of a "gross risk score" enables risk exposure to be prioritised. External risks include the weather, political and economic conditions, the effect of legislation or other regulatory actions, the actions of competitors, foreign exchange, raw material prices and pension funding. Internal risks include investment in new products, new business strategies and acquisitions.

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

Framework

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

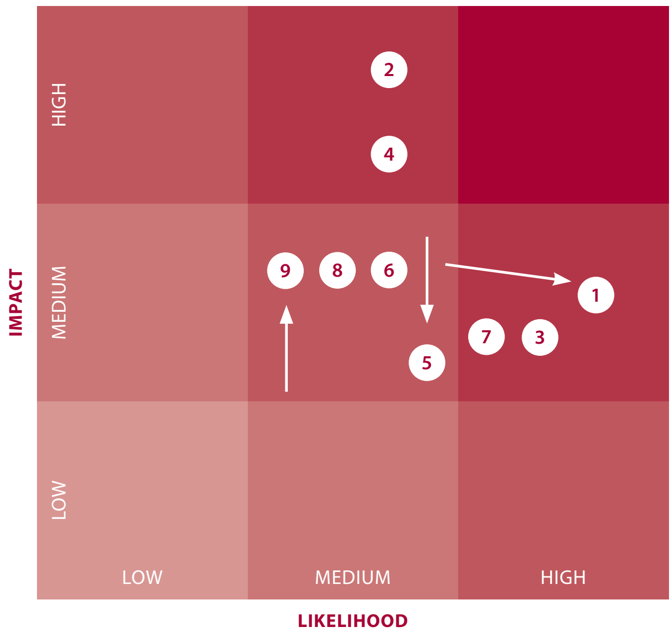
The Audit Committee
- has delegated responsibility from the Board to oversee risk management and internal controls;
- reviews the effectiveness of the Group's risk management and internal control procedures; and
- monitors the effectiveness of the internal audit function and the independence of the external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

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

Internal audit
- independently review the effectiveness of internal control procedures;
- report on effectiveness of management actions; and
- provide assurance to the Audit Committee.

Operational managers
- are responsible for the identification of operational and strategic risks;
- are responsible for the ownership and control of specific risks; and
- are responsible for establishing and managing the implementation of appropriate action plans.

Risk heatmap



1 Macro-economic and political
2 Weather
3 Cyber security risks
4 Customers
5 Competitor activity
6 Threat from new technologies and new business models
7 Cost and availability of raw materials
8 Environmental
9 Corporate, legal and regulatory

Risk appetite

The Group is prepared to accept a certain level of risk to remain competitive but continues to adopt a conservative approach to risk management. The risk framework is robust and provides clarity in determining the risks faced and the level of risk that we are prepared to accept. Marshalls continues to put in place detailed plans to manage all risks through strategies that are designed to either treat, transfer or terminate the source of the identified risk.

Viability Statement

After considering the principal risks overleaf, the Directors have assessed the prospects of the Group over a longer period than the period of at least 12 months required by the "going concern" basis of accounting. The Directors consider that the Group's risk management process satisfies the requirements of provision C.2.2 of the UK Corporate Governance Code.

The Board considers annually, and on a rolling basis, a 3-year strategic plan, which is assessed with reference to the Group's current position and prospects, the strategic objectives and the operation of the procedures and policies to manage the principal risks that might threaten the business model, future performance and target capital structure. In this assessment security, flexibility and efficiency are the guiding principles that underpin the Group's capital structure objectives.

The Board considers 3 years to be an appropriate period of assessment as this aligns with the Group's strategic plan and the Directors also consider that they have reasonable visibility of the market over this period. A 3-year period is consequently considered appropriate for the Viability Statement. The Group's strategic plan includes an integrated model that incorporates income statement, balance sheet and cash flow projections. Key KPIs and financial ratios are reviewed along with the ongoing appropriateness of all assumptions used. Scenario planning is undertaken along with stress testing against downside sensitivities. The stress testing reflects the principal risks that could conceivably threaten the Group's ability to continue operating as a going concern and has critically assessed downside scenarios that might give rise to sales volume reductions, deteriorating operating margins and increases in interest rates. None of the individual sensitivities applied impact the Directors' assessment of viability. The stress testing applied in 2016 reflects the more cautious economic outlook and the Group's detailed approach to capital structure and forecasting. A more significant stress test sensitivity has been applied to reflect a dramatic economic downturn and the Group's updated Risk Register, which identified external market factors as being the key risk. The stress testing has aimed to replicate the financial impact of the last recession as the core sensitivity, with significantly reduced sales volumes giving rise to a 33 per cent decrease in revenue over the next 3 years.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the next 3 years.

Principal risks and uncertainties

The Directors have undertaken a robust, systematic assessment of the Group's principal risks. These have been considered within the timeframe of 3 years, which aligns with our Viability Statement above.

Risk Management and Principal Risks – *continued*

1 Macro-economic and political

LINK TO STRATEGY

NATURE OF RISK

The Group is dependent on the level of activity in its end markets. Accordingly, it is susceptible to economic downturn and the impact of Government policy.

POTENTIAL IMPACT

Increased macro-economic uncertainty could lead to lower activity levels which could reduce sales and production volumes and therefore have an adverse effect on the Group's financial results. The impact of exchange rate fluctuations could also have an adverse impact on material costs.

MITIGATING FACTORS

- The Group closely monitors trends and lead indicators, invests in market research and is an active member of the CPA.
- The Group benefits from the diversity of its business and end markets.
- The Group focuses on sales opportunities and strategic growth initiatives, together with quality, service and its supply chain.
- The Group focuses on its supplier relationships, flexible contracts and the use of hedging instruments.

CHANGE IN RISK IN THE YEAR

Given the perception of increased global economic uncertainty, this risk has increased and this is reflected in wider economic forecasts.

There continues to be growth potential in certain focus areas, e.g. Rail, Water Management and Street Furniture, and forward indicators in the core business remain positive.

The economic outlook for the Eurozone remains difficult, although proactive development of the product range continues to be positive.

2 Weather

LINK TO STRATEGY

NATURE OF RISK

The Group is exposed to the impact of prolonged periods of bad weather.

POTENTIAL IMPACT

Adverse working conditions could give rise to disruption and delays that might reduce short-term activity levels. This could reduce sales and production volumes and therefore have an adverse effect on the Group's financial results.

MITIGATING FACTORS

- The Group has a continuing focus on new product development, including landscape water management.
- The Group is developing its internal flooring offer and International strategy in order to diversify its activities.
- The development of the Group's Water Management business is a significant opportunity.

CHANGE IN RISK IN THE YEAR

Weather conditions are beyond the Group's control.

3 Cyber security risks

LINK TO STRATEGY

NATURE OF RISK

Inadequate controls and procedures over the protection of intellectual property, sensitive employee information and market influencing data.

The failure to improve controls against cyber security risk quickly enough, given the rapid pace of change and the continuing introduction of new threats.

POTENTIAL IMPACT

Risk of data loss causing financial and reputational risk.

MITIGATING FACTORS

- Use of IT security policies.
- The undertaking of regular cyber security risk audits by specialists and the quick introduction of mitigation controls and other recommended procedure updates.
- Sensitive data is currently restricted to selected senior and experienced employees who are used to handling such data.
- Where sensitive data is made available to third parties it is done under confidentiality agreements with reputable suppliers.

CHANGE IN RISK IN THE YEAR

This remains a high profile area and considerable focus is being given to promoting awareness of IT security policies.

Appropriate tools and training procedures are in place to protect sensitive data when stored and transmitted between parties (e.g. encryption of hard drives, restricted USB devices, secure data transmission mechanisms and third party security audits).

Strategic objectives: Shareholder value · Relationship building · Brand development · Sustainable profitability · Organic expansion · Effective capital structure and control framework

4 Customers

LINK TO STRATEGY

NATURE OF RISK

The UK business has a number of key customers, in particular the national merchants. This is partly as a result of the consolidated nature of this market.

POTENTIAL IMPACT

The loss of a significant customer may give rise to a significant adverse effect on the Group's financial results.

MITIGATING FACTORS

- The Group focuses on brand and new product development, quality and customer service improvement.
- The Group maintains a national network of manufacturing and distribution sites.
- The Group undertakes ongoing reviews of trading policies and relationships and maintains constant communication with customers.

CHANGE IN RISK IN THE YEAR

Although the underlying risk continues, the effective management of key relationships and the ongoing diversification of the business are serving to mitigate the risk.

5 Competitor activity

LINK TO STRATEGY

NATURE OF RISK

The Group has a number of existing competitors who compete on range, price, quality and service.

Potential new low cost competitors may be attracted into the market through increased demand for imported natural stone products.

POTENTIAL IMPACT

The increased competition could reduce volumes and margins on manufactured and traded products.

MITIGATING FACTORS

- The Group has unique selling points that differentiate the Marshalls branded offer.
- The Group focuses on quality, service, reliability and ethical standards that differentiate Marshalls from competitor products.
- The Group continues to have the lowest cost to market.
- The Group has a continuing focus on new product development.

CHANGE IN RISK IN THE YEAR

The more uncertain market environment has not led to any significant changes in competitive pressure.

Although there is continuing demand for imported natural stone products, the fall in the value of Sterling during 2016 has arguably reduced the competitive risk.

6 Threat from new technologies and new business models

LINK TO STRATEGY

NATURE OF RISK

Reduction in demand for traditional products. Risk of new competitors and new substitute products appearing. Failure to react to market developments.

POTENTIAL IMPACT

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

MITIGATING FACTORS

- Good market intelligence.
- Flexible business strategy able to embrace new technologies.
- Significant focus on research and development and new products.
- Development of a digital strategy.

CHANGE IN RISK IN THE YEAR

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

Risk Management and Principal Risks – *continued*

7
Cost and availability of raw materials

LINK TO STRATEGY

NATURE OF RISK

The Group is susceptible to significant increases in the price of raw materials, utilities, fuel oil and haulage costs and decreases in vehicle availability.

As demand increases, the Group is potentially more exposed to the risk of temporary raw material shortages.

POTENTIAL IMPACT

The increased costs could reduce margins and may be further impacted in the event of imbalances in the mix of regional activity.

The risk of market demand exceeding raw material supply could lead to inefficient production, which could reduce margins.

MITIGATING FACTORS

- The Group benefits from the diversity of its business and end markets.
- The Group focuses on its supplier relationships, flexible contracts and the use of hedging instruments.
- The Group utilises sales pricing and purchasing policies designed to mitigate the risks.
- The Group uses specialist delivery vehicles.

CHANGE IN RISK IN THE YEAR

Cost inflation remains a risk as demand for raw materials increases against a backdrop of increased economic uncertainty. All importers are faced with the same issues.

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

8
Environmental

LINK TO STRATEGY

NATURE OF RISK

The impact of the "Environmental Protocol" leads to the need for increasingly expensive processes.

An environmental contamination event may lead to a prosecution and to reputational loss.

POTENTIAL IMPACT

An incident could lead to disruption to production and to financial penalties as well as a potential negative impact on the Group's reputation.

MITIGATING FACTORS

- The Group uses professional specialists covering carbon reduction, water management and biodiversity.
- The Group focuses on the implementation of ISO standards.
- The Group has a formal Group sustainability strategy focusing on impact reduction.

CHANGE IN RISK IN THE YEAR

The Group is unable to predict future changes in environmental laws or policies or the ultimate cost of compliance with such laws or policies.

9
Corporate, legal and regulatory

LINK TO STRATEGY

NATURE OF RISK

The Group may be adversely affected by an unexpected reputational event, e.g. an issue in its ethical supply chain or due to a health and safety incident.

POTENTIAL IMPACT

An incident could lead to a disruption to the supply of products for customers and to increased costs as well as a potential negative impact on the Group's reputation.

Significant increases in the penalty regime have increased the potential financial impact of health and safety incidents.

MITIGATING FACTORS

- The Group employs compliance procedures, policies and independent audit processes which seek to ensure that local, national and international regulatory and compliance procedures are fully complied with.

CHANGE IN RISK IN THE YEAR

The Group has undertaken internal restructuring to provide greater focus for specialist teams and continues to improve compliance procedures within the supply chain.

Health and safety and the potential impact of the Bribery Act continue to be high profile risk areas. These areas are receiving additional management focus, but the impact of the underlying risk has increased.

Strategic objectives: Shareholder value · Relationship building · Brand development · Sustainable profitability · Organic expansion · Effective capital structure and control framework

At the heart of all we do

By being a responsible business we are leveraging sustainability to drive competitive advantage for our business.

FTSE4Good

Human rights

Environment

Labour

Anti-corruption

Find out more online **www.marshalls.co.uk/sustainability**

Sustainability overview

Corporate responsibility, awareness and mitigation of adverse impacts on the environment, and positive engagement with our community and employees have long been core values of Marshalls. We aim to align our business values, purpose and strategy with the social, economic and environmental needs of our stakeholders, embedding responsible and ethical business policies and practices in everything we do.

Our commitment to these values is led by the Board and Jack Clarke is the Director with primary responsibility for reporting to the Board on environmental, social and sustainability matters.

Marshalls won the award for Corporate Social Responsibility at the prestigious PLC Awards in March 2017.

Marshalls' sustainable business model

Empowered by our brand values of leadership, excellence, trust and sustainability we work passionately and diligently to uphold the United Nations Global Compact pillars of human rights, labour, environment and anti-corruption.

The Group has a sustainable business plan and has set KPIs for the key areas of this plan. It addresses economic, social and environmental aspects of Marshalls' operations, underpinned by the development of management systems recognised by an independent third party ("BSI"). Sustainability and corporate responsibility are key elements of the Marshalls culture.

Human rights

Marshalls supports human rights consistent with the Universal Declaration of Human Rights. In conducting business across the globe we respect these rights and seek to uphold, preserve and promote them. Our corporate responsibility to respect human rights means acting with due diligence to avoid infringing upon the rights of others, and addressing any issues that do occur. We recognise that our responsibility applies across all business activities, including business relationships with third parties and those within our supply chain.

Sustainability – *continued*

Environment

Our environmental objectives and targets are driven by a strong commitment to compliance coupled with mitigation plans to address legislative and physical business risks, whilst maximising opportunities against a corporate strategic commitment to be a sustainable business. At the heart of Marshalls' sustainable business model is an approach which combines key business issues and key performance indicators with third party verification, legislation and industry standards including ISO14001 for environmental management and ISO50001 for energy management. We have clear environmental, energy and climate change policies in place and are on track to meet our policy commitments. Key environmental issues for us are climate change, water and biodiversity. Marshalls' successful management of environmental issues has been recognised by third parties such as Business in the Community. In addition to our mandatory duty to report annually on our greenhouse gas emissions, Marshalls continues to report voluntarily to the Carbon Disclosure Project. We report in detail on our initiatives in the Sustainability Report published on our website.

Labour

From living wages in the UK to the elimination of child labour in India, we are committed to ensuring that what is good for business is good for society. Our approach to labour rights is driven by the Ethical Trading Initiative ("ETI") Base Code which we adopted in 2005. To ensure that the Base Code is embedded within operations and supply chains we have social auditors in India, China and Vietnam. Their role is to check each and every day that the Base Code is being upheld and to report any concerns or violations so that we can take swift action should we need to. Marshalls has worked closely with external organisations to evaluate our business and supply chain against the principles now embodied in the Modern Slavery Act 2015 and eliminate slavery in all its forms.

In 2016, the Board approved Marshalls' Modern Slavery Statement which applies across our business and supply chain relationships and sets out Marshalls' commitment to the abolition of slavery in all its forms.

Modern Slavery Statement **www.marshalls.co.uk/msa**

Anti-corruption

Marshalls is committed to conducting business with the utmost integrity and in accordance with the principles set out in the Bribery Act 2010. Greater transparency leads to increased trust. This in turn provides the solid foundations required for sustainable growth. By making our financial, social, environmental and ethical data transparent we can inspire trust which will lead to customers buying more of our products, investors purchasing more of our stock, and engaged employees working harder and smarter.

The Marshalls' Anti-Bribery Code embodied within our organisation, since its adoption in 2011, was extended through the supply chain. The Group's compliance and monitoring processes were also the subject of an internal control audit by KPMG.

Equality and diversity

The Group has policies that promote equality and diversity in the workforce as well as prohibiting discrimination in any form. The Group is developing a Code of Conduct, initially focusing on its supply chain, which clearly states its commitment to these principles and requires a similar commitment from its business partners.

Employees

Marshalls is proud to be a "Living Wage Employer", underscoring its commitment to its employees. The Group is establishing a new defined contribution pension scheme within a Master Trust operated by Aviva/Friends Life. This will provide a much improved pension proposition for all employees.

We welcome and give full and fair consideration to applications from individuals with recognised disabilities to ensure they have equal opportunity for employment and development in our business. Wherever practicable we offer training and make adjustments to ensure disabled employees are not disadvantaged in the workplace.

We also remain committed to employing a diverse workforce and, in particular, encouraging more women to enter what has traditionally been a highly male-dominated workplace. At the end of 2016 our workforce comprised 2,250 employees with the following gender balance:

	Male	Female
Total workforce	88%	12%
Senior managers	86%	14%
Directors	83%	17%

Employee engagement and development

Improving employee engagement across the Group continued to be an important priority in 2016. Initiatives ranged from charitable events, a mobile employee wellbeing kiosk and the introduction of mental health awareness training. Charitable activities in 2016 raised nearly £80,000 for our chosen charity, Prostate Cancer UK.

We have increased our focus on "Early Careers" by doubling the number of younger apprentices we employ in 2016 and through the introduction of a placement and work shadowing programme. To support development of the internal talent pool, we implemented a new management training programme during 2016, with more than 100 employees taking part in a personal insights and behavioural profiling initiative to improve their personal effectiveness. Marshalls is supporting a number of employees through a 4-year degree apprenticeship programme with Manchester Metropolitan University, and in 2017 we expect to see an increase in the number of apprenticeships offered by the Group (in particular manufacturing and engineering) with the introduction of the apprenticeship levy in April, driving our "Early Careers" agenda to create a sustainable and diverse talent pipeline for the future.

We are making a significant investment in our HR information systems in 2017. This will improve operational efficiency and reliability of data in personnel and payroll administration and improve our ability to ensure consistent, fair and transparent treatment of employees. It will also facilitate better decision making in our resource planning, performance management, recruitment and talent development initiatives.

We are planning our approach to gender pay gap reporting in accordance with the emerging government regulations and definitions. The Group remains committed to supporting equal pay and to identifying and eradicating any discrimination on gender grounds.

Carbon emissions – disclosure

Marshalls' Energy and Climate Change Policy confirms the Group's commitment to reducing the energy and carbon impact of its business. Our target is to reduce Group absolute CO_2e emissions in line with the UK Government's targets (34 per cent by 2020 and 80 per cent by 2050 from a 1990 baseline). The progress indicates that reductions are in line with the 2020 and 2050 targets.

The Group complied with its legal obligation under the Government's Carbon Reduction Commitment ("CRC") Energy Efficiency Scheme by submitting its Annual Report and surrendering appropriate carbon allowances for the period April 2015 to March 2016 within the time limit imposed by the legislation. The Group continues to be certified to the Carbon Trust Standard. The Group's approach to the Energy Savings Opportunity Scheme ("ESOS") legislation was to define its energy management in compliance with the international standard for energy management ISO50001, gaining certification in November 2015 and maintaining this through 2016. The Group continues to voluntarily disclose data to the "Carbon Disclosure Project" receiving a B rating for its 2016 submission. This disclosure includes the wider carbon management performance over time and also provides an insight for shareholders regarding the Group's energy, carbon and climate change impact management programme.

Marshalls has a mandatory duty to report its annual greenhouse gas emissions ("GHG") under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. Marshalls uses The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and the October 2016 "Defra" published CO_2e conversion factors to measure its GHG emissions.

The Group has conducted audits of its UK fugitive emissions and found these to be 0.57 per cent of the Group total emissions; accordingly these are excluded from the report.

The chart below (left) illustrates the Group's UK absolute CO_2e emissions in tonnes, including transport activities, between 2012 and 2016.

The chart below (right) illustrates the Group's CO_2e intensity emissions as a proportion of production output, including transport activities between 2012 and 2016.

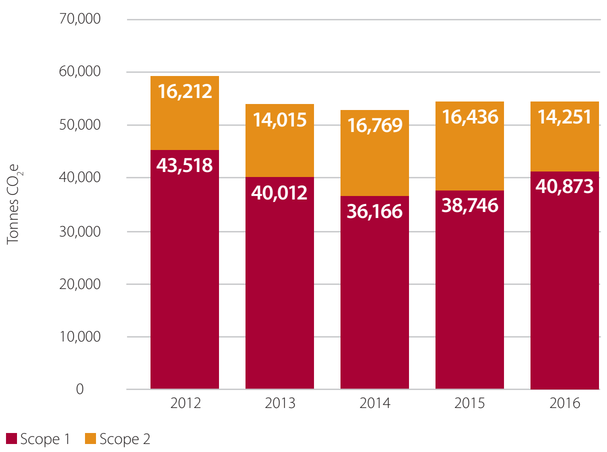
A number of factors have contributed to the Group's energy performance during the year including significant decreases in carbonisation of the electricity grid supply, product mix, weather (temperature impacting on the use of heating / cooling fuel) and energy management activities. Diesel use is responsible for the majority of the scope 1 emissions and during the year Marshalls increased its LGV fleet by 17 per cent full-time equivalent vehicles to satisfy customer requirements. This has resulted in the reporting of previous scope 3 emissions into scope 1.

The Group reports that it is responsible for the GHG emissions of Marshalls NV. The CO_2 emission (using Belgium Government Emissions data) from Marshalls NV activities in 2016 was (absolute) 654 tonnes and (intensity) 12.42 kg per tonne production.

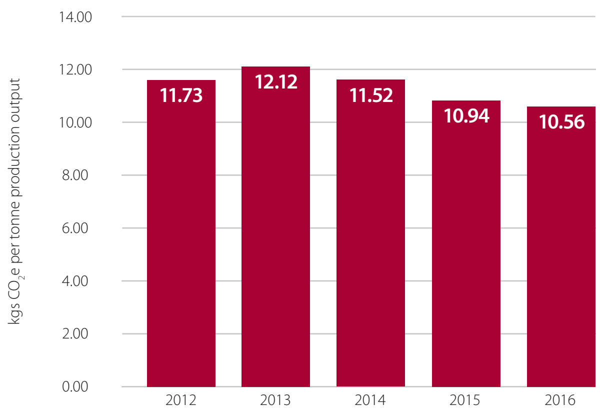
Marshalls aims to publish its environmental KPI performance for the financial year in a separate document, the Marshalls' Environmental KPI 2017 Report. This will cover the energy performance in more detail, together with reporting of the environmental governance, policies, management and key environmental impact areas such as waste, water and packaging. The Environmental KPI 2017 Report will also detail our work with internationally recognised expert bodies such as the Carbon Trust and the RSPB.

This section of the Annual Report has been audited by a qualified verifier on behalf of BSI. On the basis of the work undertaken this carbon statement is considered to be a fair reflection of the Group's performance during 2016 and contains no misleading information.

Scope 1 and 2 emissions



Relative CO_2e emissions for Scope 1 and 2 from UK operations per tonne of production



Climate Change Policy
www.marshalls.co.uk/ccp

Carbon Disclosure Project
www.cdp.net

Environmental
www.marshalls.co.uk/EnvKPI2016

Sustainability – *continued*

Health and safety

Marshalls remains committed to meeting the highest safety standards for all its employees, reinforcing and developing its safety processes and developing a competent workforce with a view to achieving long-term improvement gains, and this remains a key priority for the business.

Achievement of annual health and safety improvement targets is directly linked to the remuneration of the Executive Directors and senior management, as explained in the Remuneration Report on pages 46 to 65.

Our Safety, Health and Incident Prevention ("SHIP") teams, consisting of employee representatives and managers, are the cornerstone of the safety management system at site level and meet regularly to support and develop our safety programme and objectives. The Group's operating sites have been progressively implementing Integrated Management Registration systems accredited by the British Standards Institution incorporating accreditation to the Occupational Health and Safety Accreditation Standard ("OHSAS") 18001:2007. At the end of 2016 all UK operational sites within the Group held a BS OHSAS (18001:2007) registration.

The headline target for 2016 was to maintain days lost resulting from workplace incidents at a figure no higher than the 2015 actual result. The actual results achieved were:

- 20 per cent reduction in days lost resulting from workplace incidents;
- 2 per cent reduction in all-incident frequency rate;
- 4 per cent increase in lost time incidents ("LTIs") frequency rate; and
- 43 per cent increase in incidents reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR").

The primary target for 2017 will again be to achieve an accident rate for the year no higher than the "baseline" 2015 result. The table opposite shows the KPIs used by the Group to monitor performance and progress against those KPIs over the last 5 years.

Accident frequency and severity rates (per 1 million hours worked)	2012	2013	2014	2015	**2016**
All accidents	69.5	65.6	59.1	48.8	**49.2**
All lost time accidents	14.0	12.2	7.2	5.1	**5.6**
All RIDDORs	6.1	3.6	3.3	1.6	**2.3**
All days lost	134.5	114.6	80.7	45.8	**38.0**
Average UK headcount	2,252	2,055	2,132	2,237	**2,253**

During 2016, the Group has continued to invest in health and safety awareness training through its "Visible Felt Leadership" initiative, which is delivered to all managers and supervisory staff.

Strong balance sheet with growth in all key financial metrics

Significant cash generation has given rise to a net positive cash position at the year end.

Summary

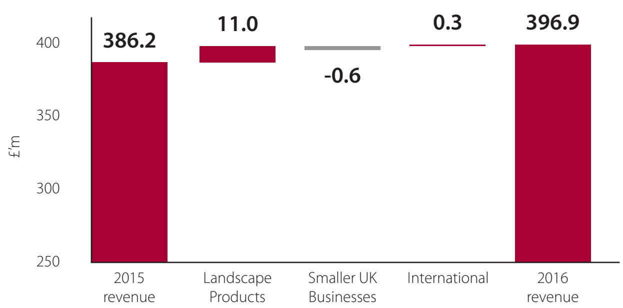
- Operating profit up 27% to £47.6 million.
- EBITDA up 17% to £60.8 million.
- Return on capital employed up 21% (400 basis points) to 23.0%.
- Strong operating cash flow at 94% of EBITDA.
- Significant headroom for investment.
- Increase in final ordinary dividend of 22%, plus additional supplementary dividend of 3.00 pence per share.

Trading summary

Revenue

Revenue for the year ended 31 December 2016 was £396.9 million (2015: £386.2 million), which represented an increase of 2.8 per cent. Revenue growth was particularly strong in the Domestic end market, which has seen growth of 10.2 per cent in the last year.

Revenue variance analysis 2015/2016

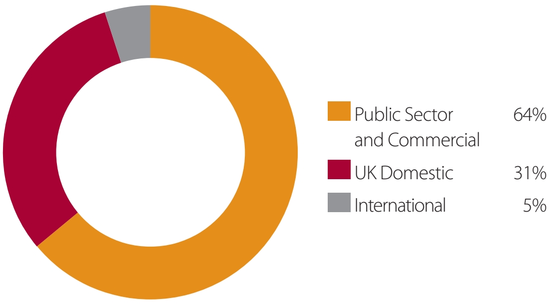


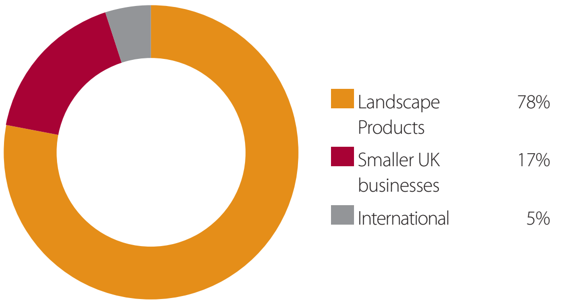
Analysis of revenue by end market is summarised in the table below:

Analysis of revenue by end market	**2016 £'m**	2015 £'m	Change %
UK Domestic	**120.8**	109.6	10.2
Public Sector and Commercial	**256.8**	257.6	(0.3)
International	**19.3**	19.0	1.7
	396.9	386.2	2.8
	%	%	
UK Domestic	**30.5**	28.4	
Public Sector and Commercial	**64.6**	66.6	
International	**4.9**	5.0	

"The strategy is to maintain a strong balance sheet, a flexible capital structure and a clear capital allocation policy that drives growth and rewards shareholders.

Revenue analysis





Trading summary *continued*

Public Sector and Commercial

In the Public Sector and Commercial end market, revenue was broadly flat compared with 2015. Sales in the Public Sector and Commercial end market now represent approximately 64 per cent of Group sales.

Marshalls' strategy continues to be to enhance its position as a market leading landscape products specialist. The Group's technical and sales teams remain particularly focused on those market areas where future demand is considered to be greatest and Water Management, Rail and New Build Housing continue to show strong order intake. We promote our full range of new products and sustainable integrated solutions to customers, architects and contractors and the Group is outperforming the market in these areas. The Group's "Design Space" office in Central London was opened specifically to showcase the Group's brand leading capabilities and provide customers with ready access to samples and technical advice.

Skilled engineers and technicians are integral to the Group's world-class Manufacturing, Innovation and New Product Development team. This capability delivers strong competitive advantage by combining machinery design and implementation with process improvement and continues to enable the Group to accelerate new product development across the business. As regards the Group's mineral reserves, the "Marshalls Stone Standard" quality mark gives our customers full assurance that all Marshalls natural stone not only meets, but exceeds, the base technical levels outlined in BS7533.

Domestic

In the Domestic end market, revenue increased by 10.2 per cent. Sales to the UK Domestic end market now represent approximately 31 per cent of Group sales.

Installer order books at the end of February 2017 were 10.9 weeks (February 2016: 10.5 weeks), compared with 11.0 weeks at the end of October 2016. The Group continues to receive good feedback from its customers and installers for the consistency and quality of service and we remain committed to producing new products that are better than any existing market offering.

The Group's operational strategy continues to be to drive more sales through quality installers. The Marshalls Register of approved domestic installers is unique and has now grown to almost 2,000 teams. The objective is to continually develop the Marshalls brand and improve the product mix, whilst ensuring a consistently high standard of quality, excellent customer service and marketing support across our national network.

The Group's industry leading standards remained high in 2016 giving a combined customer service measure of 98 per cent (2015: 98 per cent). Marshalls continues to receive good feedback from its customers and installers for the consistency and quality of its products and service.

International

Sales to International markets increased by 1.7 per cent. Trading conditions continue to be difficult in Western Europe and this represents a solid performance. The Group continues to develop its global supply chains and infrastructure. The continuing focus is to ensure that our international operations are aligned with market opportunities. The new sales office in Dubai was opened in early 2016 and is already making a positive contribution.

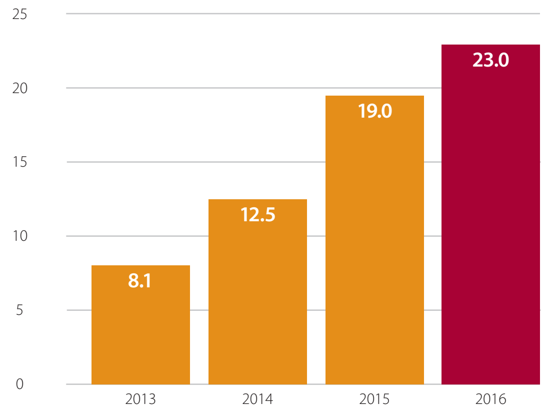
Operating profit

Trading results	**2016 £'m**	2015 £'m	Change %
EBITDA	**60.8**	51.8	17.3
Depreciation / amortisation	**(13.2)**	(14.3)	
Operating profit	**47.6**	37.5	27.1

Operating profit was £47.6 million (2015: £37.5 million), which represents an increase of 27.1 per cent. EBITDA increased by 17.3 per cent to £60.8 million (2015: £51.8 million) and EPS was 18.95 pence (2015: 14.32 pence), an increase of 32.3 per cent.

ROCE increased by 21.1 per cent to 23.0 per cent (2015: 19.0 per cent) driven by tight control and management of working capital. This represents a compound annual growth rate of 41.9 per cent over 3 years. Capital employed has increased by only 3.7 per cent to £211.7 million (2015: £204.2 million) notwithstanding the more significant increase in profit.

Return on capital employed (%)



First half / second half phasing

The following table summarises the relative performance of the second half of 2016 compared with that for the 6 months ended 30 June 2016. The table illustrates the continued improvement in the second half of 2016 with revenue increasing by 4 per cent and operating profit increasing by 40 per cent compared with the comparable 6-month period in 2015. This illustrates the impact of operational and manufacturing efficiency improvements and strong operational gearing.

First half / second half phasing	**2016 £'m**	2015 £'m	Change %	**2016 %**	2015 %
Revenue					
HY1	**202.4**	199.1	1.7	**51**	52
HY2	**194.5**	187.1	4.0	**49**	48
Total	**396.9**	386.2	2.8		
Operating profit					
HY1	**26.0**	22.0	18.1	**55**	59
HY2	**21.6**	15.5	39.9	**45**	41
Total	**47.6**	37.5	27.1		

Profit margins

The Group has continued to strengthen its market position and operating margin has increased by 23.7 per cent to 12.0 per cent (2015: 9.7 per cent, on a reported basis).

Margin analysis	Revenue £'m	Reported operating profit £'m	Margin impact %
2015	386.2	37.5	9.7
Landscape Projects	11.0	9.0	2.0
Smaller UK Businesses	(0.6)	0.5	0.1
International	0.3	0.6	0.2
2016	**396.9**	**47.6**	**12.0**

The table illustrates the impact of operational gearing in the UK businesses as a result of volume growth, which has been ahead of CPA forecasts. The Group's Landscape Products business is a reportable segment servicing both the UK Public Sector and Commercial and UK Domestic end markets. Revenue increased by £11.0 million and operating profit grew by £9.0 million in the Landscape Products business.

There has been continued performance improvement in the Smaller UK Businesses during 2016 and they have collectively delivered further profit growth of 13.3 per cent. The Smaller UK Businesses include Street Furniture, Mineral Products and Stone Cladding and continue to be a positive driver for growth.

Operational developments

Capital investment in property, plant, equipment and intangible assets in 2016 totalled £13.9 million (2015: £14.9 million). This compares with depreciation and amortisation of £13.2 million (2015: £14.3 million). In accordance with the Group's 2020 Strategy, we will increasingly invest in self help capital projects to deliver new, innovative products and drive through sustainable cost reductions and improvements in operational efficiency. We have a strong pipeline of such projects and capital expenditure of £20 million is targeted for 2017, including £6 million of additional, self help investment.

Research and development expenditure in the year ended 31 December 2016 amounted to £3.4 million (2015: £3.1 million). Investment in research and development covers a number of areas including the development of the Group's project engineering and manufacturing capabilities, technical innovations in concrete and other materials and extending the new product pipeline. Revenue from new products increased by 10 per cent during 2016 in the core Landscape Products business.

Net financial expenses

Net finance costs were £1.6 million (2015: £2.2 million) and interest was covered 29.9 times (2015: 17.2 times). External charges totalled £1.2 million (2015: £1.8 million) and, including scheme administration costs, there was an IAS 19 notional interest charge of £0.4 million (2015: £0.4 million) in relation to the Group's pension scheme. The IAS 19 notional interest includes interest on obligations under the defined benefit section of the Marshalls plc pension scheme net of the expected return on scheme assets.

Taxation

The effective tax rate was 18.5 per cent (2015: 20.9 per cent) and benefited from a credit arising on the finalisation of prior period tax computations. The tax charge includes a deferred tax credit of £1.1 million arising, in part, due to a further substantively enacted reduction in the rate of corporation tax to 17 per cent by April 2021. The Group has paid £7.1 million (2015: £7.0 million) of corporation tax during the year. Deferred tax of £0.2 million in relation to the actuarial gain arising on the defined benefit pension scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

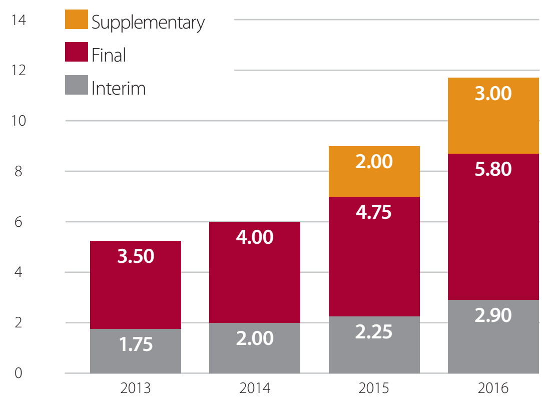
Marshalls has again been awarded the Fair Tax Mark, which recognises social responsibility and transparency in a company's tax affairs. The Group's tax policy has long been closely aligned with the Fair Tax Mark's objectives and this is now supported by additional tax disclosures and a declared tax policy.

Trading summary *continued*

Dividends

The recommended "supplementary dividend" of 3.00 pence (2015: 2.00 pence) per share is discretionary and non-recurring and recognises that the business has sufficient capital both to finance increased investment and to maintain a conservative and flexible capital structure. When added to the normal full-year dividend of 8.70 pence, this gives a total dividend for the year of 11.70 pence, which represents an increase against the prior year of 30 per cent. The incremental cash outflow in 2016 in relation to the supplementary dividend has been £3.9 million and will be approximately £5.9 million in 2017.

Dividends (p)



Capital allocation

The Group's capital allocation policy is to maintain a strong balance sheet with a flexible capital structure that recognises cyclical risk. The Group's capital structure has 3 guiding principles; security, efficiency and liquidity.

The capital allocation strategy prioritises organic capital investment, supported by an increase in new product development and research and development expenditure. The strategy also targets selective bolt-on acquisition opportunities. In addition the objective is to maintain a dividend cover of 2 times earnings over the medium term and to give consideration to supplementary dividends.

Balance sheet

Group balance sheet	**2016 £'m**	2015 £'m
Non-current assets	**193.4**	192.8
Current assets	**139.7**	137.0
Current liabilities	**(87.1)**	(87.1)
Non-current liabilities	**(28.9)**	(50.0)
Net assets	**217.1**	192.7
Net cash / (debt)	**5.4**	(11.5)

Net assets at 31 December 2016 were £217.1 million (2015: £192.7 million). The Group has a strong balance sheet with a good range of medium-term bank facilities available to fund investment initiatives to generate growth. At 31 December 2016 the Group had cash of at £5.4 million, compared with net debt of £11.5 million at 31 December 2015.

The Group continues to prioritise inventory management and improved stock turnover. We believe debtor days remain industry leading due to continued close control of credit management procedures. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and, ultimately, provides compensation if bad debts are incurred.

The Group's defined benefit pension scheme reported a surplus of £4.3 million at 31 December 2016 (2015: £3.4 million). The amount has been determined by the scheme actuary using assumptions that are considered to be prudent and in line with current market levels. The fair value of the scheme assets at 31 December 2016 was £360.1 million (2015: £302.2 million) and the present value of the scheme liabilities is £355.8 million (2015: £298.8 million). These changes have resulted in an actuarial gain, net of deferred taxation, of £1.4 million (2015: £3.9 million actuarial loss) and this has been recorded in the Consolidated Statement of Comprehensive Income. The Company has agreed with the Trustee that no cash contributions are now payable under the funding and recovery plan.

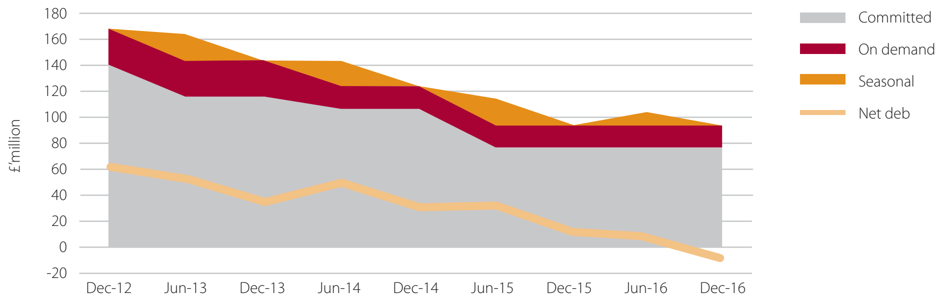
Analysis of net cash / (debt)

Analysis of net cash / (debt)	**2016 £'m**	2015 £'m
Cash and cash equivalents	**20.7**	25.0
Bank loans	**(14.9)**	(36.1)
Finance leases	**(0.4)**	(0.4)
	5.4	(11.5)

Priorities for capital

Capital investment in growth projects. Target £20 million in 2017	Increase research and development and new product development	Maintain dividend cover of 2 times earnings over the business cycle	Target selective bolt-on acquisition opportunities in Water Management, Street Furniture and Minerals	Supplementary dividends when appropriate. Discretionary and non-recurring

Banking facility headroom



Significant cash generation has given rise to a net positive cash position of £5.4 million at 31 December 2016 (2015: £11.5 million net debt). This improvement is due to the operating cash flow impact of strong trading together with a continuation of the close control of working capital. Cash management continues to be a high priority.

Borrowing facilities

In August 2016 following the continued steady reduction in net debt the Group renewed its short-term working capital facilities and reduced its seasonal working capital facility to £10.0 million. The Group also extended the maturity of each of its committed facilities by 12 months. The Group continues its policy of having a range of committed bank facilities in place with a positive spread of medium-term maturities that now extends to 2021. The Group's committed facilities are all revolving credit facilities with interest charged at a variable rate based on LIBOR.

The total bank borrowing facilities at 31 December 2016 amounted to £95.0 million (2015: £95.0 million), of which £80.0 million (2015: £58.9 million) remained unutilised. In addition, the Group has a seasonal working capital facility of £10.0 million which is available between 1 February and 31 August each year. The Group has significant headroom in its facilities.

Interest cover and net debt to EBITDA covenants in the facilities were comfortably met at the year end. The bank facilities are unsecured save for inter-company guarantees between the Group and its subsidiary undertakings in favour of the facility banks.

Expiry date	Facility £'m	Cumulative facility £'m
Committed facilities		
Q3 2021	20	20
Q3 2020	20	40
Q3 2019	20	60
Q3 2018	20	80
On-demand facilities		
Available all year	15	95
Seasonal (February to August inclusive)	10	105

Cash generation

The Group is significantly cash generative. In the year ended 31 December 2016 net cash flow from operating activities was £49.4 million (2015: £49.7 million).

Group cash flow	**2016 £'m**	2015 £'m
Net cash from operating activities	**49.4**	49.7
Net cash from investing activities	**(10.0)**	(13.8)
Net cash from financing activities	**(20.2)**	(17.9)
Movement in net debt in the period	**19.2**	18.0
Foreign exchange	**(2.3)**	1.0
Net debt at beginning of period	**(11.5)**	(30.5)
Net cash / (debt) at end of year	**5.4**	(11.5)

Analysis of cash utilisation	**2016 £'m**	2015 £'m
Net cash from operating activities	**49.4**	49.7
Capital expenditure	**(13.9)**	(14.9)
Proceeds from sale of property assets	**3.8**	1.1
Payments to acquire own shares/other	**(1.1)**	(5.6)
Cash returned to shareholders	**(19.0)**	(12.3)
Movement in net debt	**19.2**	18.0

Cash outflow on capital expenditure in the year was £13.9 million (2015: £14.9 million). The majority of this expenditure was invested in the replacement of existing assets, business improvements and new process technology. Proceeds from the sale of targeted property assets contributed £3.8 million (2015: £1.1 million). Dividend payments in the year were £19.0 million (2015: £12.3 million).

Jack Clarke
Finance Director

Board of Directors and Secretary

Andrew Allner
Chairman

BOARD COMMITTEES
Remuneration;
Nomination (Chairman).

TERM OF OFFICE
Joined the Board in July 2003; appointed as Chairman in May 2010. Last re-elected in May 2016. Also chairs the Nomination Committee.

LENGTH OF SERVICE
13 years 6 months
(5 years 6 months as Chairman)

INDEPENDENT
Yes (on appointment as Chairman)

SKILLS AND EXPERIENCE
Significant current listed company Board experience, as Chairman and as a Non-Executive Director; previously Non-Executive Director of AZ Electronic Materials SA (until 2014) and CSR plc (until 2013). Previous Executive roles include Group Finance Director of RHM plc, taking a lead role in its flotation in July 2005 on the London Stock Exchange, and CEO of Enodis plc. Also held senior Executive positions with Dalgety plc, Amersham International plc and Guinness plc.

Chartered Accountant, former partner of Price Waterhouse. Graduate of the University of Oxford.

EXTERNAL APPOINTMENTS
Chairman of The Go-Ahead Group plc and Fox Marble Holdings plc, and Non-Executive Director at Northgate plc.

Martyn Coffey
Chief Executive

BOARD COMMITTEES
None.

TERM OF OFFICE
Joined the Company and appointed to the Board in September 2013. Last re-elected in May 2016.

LENGTH OF SERVICE
3 years 3 months

INDEPENDENT
No

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

EXTERNAL APPOINTMENTS
Officer of the Construction Products Association. Director of the Mineral Products Association. Non-Executive Director of Eurocell plc.

Jack Clarke
Finance Director

BOARD COMMITTEES
None.

TERM OF OFFICE
Joined the Company and appointed to the Board on 1 October 2014. Last re-elected in May 2016.

LENGTH OF SERVICE
2 years 3 months

INDEPENDENT
No

SKILLS AND EXPERIENCE
Chartered Accountant. Joined Marshalls from AMEC Foster Wheeler plc, where he was Executive Vice President and Director of Change Management. He has extensive experience in managing international operations, having previously served as CFO of AMEC's £850 million power and process division and its US$1.5 billion environment and infrastructure division. He has extensive M&A experience. Previous experience includes senior finance and operational management roles with Halliburton and Mobil Oil. Holds an MSc (Civil Engineering) and BA (Economics and Management).

EXTERNAL APPOINTMENTS
None.

Janet Ashdown
Senior Independent Non-Executive Director

BOARD COMMITTEES
Audit; Remuneration (Chair);
Nomination.

TERM OF OFFICE
Appointed in March 2015. Became Senior Independent Non-Executive Director in May 2016 on Alan Coppin's retirement.

LENGTH OF SERVICE
1 year 9 months

INDEPENDENT
Yes

SKILLS AND EXPERIENCE
Non-Executive Director of SIG Plc and a member of its Audit, Remuneration, Nomination and Governance Committees. Janet was appointed to the Board of the Nuclear Decommissioning Authority in 2015 and, until the end of April 2017, continues to be a Non-Executive Director of Coventry Building Society and a member of its Audit and Remuneration Committees.

Janet's Executive career included 30 years with BP plc, most recently as Director, BP Oil UK Limited, and Head of UK Retail and Commercial Fuels. Between 2010 and 2012 she was CEO of Harvest Energy and is currently Chair of Trustees of the charity "Hope in Tottenham".

EXTERNAL APPOINTMENTS
Non-Executive Director of SIG Plc and the Nuclear Decommissioning Authority.

Mark Edwards
Non-Executive Director

BOARD COMMITTEES
Audit (Chair); Remuneration; Nomination.

TERM OF OFFICE
Appointed in May 2010.
Last re-elected in May 2016.

LENGTH OF SERVICE
6 years 7 months

INDEPENDENT
Yes

SKILLS AND EXPERIENCE
Chartered Accountant with a strong operating background gained in the USA, Europe and Asia. CEO of AIM Altitude, a leading supplier of cabin interiors for Boeing and Airbus aircraft on the world's leading airlines.

Formerly CEO of the Baxi Group and Vice President of the Construction Products Association.

EXTERNAL APPOINTMENTS
Chief Executive of AIM Aviation Holdings (which trades as AIM Altitude) and its group of companies, and Chairman of Atlas Fine Wines.

Tim Pile
Non-Executive Director

BOARD COMMITTEES
Audit; Remuneration; Nomination.

TERM OF OFFICE
Appointed in October 2010.
Last re-elected in May 2016.

LENGTH OF SERVICE
6 years 3 months

INDEPENDENT
Yes

SKILLS AND EXPERIENCE
Chairman of Cogent Elliott, the leading independent marketing agency; extensive cross-sector leadership and business experience, particularly in marketing and financial services, and formerly Chief Executive Officer of Sainsbury's Bank. Previous Non-Executive Director roles include Cancer Research UK.

EXTERNAL APPOINTMENTS
Deputy Chairman of the Royal Orthopaedic Hospital and Immediate Past-President of the Greater Birmingham Chambers of Commerce.

Alan Coppin
Senior Independent Non-Executive Director (retired May 2016)

BOARD COMMITTEES
Chair of the Remuneration Committee (retired May 2016).

TERM OF OFFICE
Appointed in May 2010.
Retired from the Board and as a Non-Executive Director in May 2016.

LENGTH OF SERVICE
6 years
(up to date of retirement)

INDEPENDENT
Yes

SKILLS AND EXPERIENCE
Significant cross-sector governance and management experience, including previous Non-Executive directorships at Berkeley Homes plc, Capital and Regional plc and Carillion plc. Previously Chairman of the Prince's Foundation for the Built Environment. Alan is a Companion of the Chartered Management Institute.

EXTERNAL APPOINTMENTS
Crown Representative in the Cabinet Office (Efficiency and Reform Group), Trustee and Chairman of the Campaign Board for the RAF Museums and Patron of the Windsor Leadership Trust.

Cathy Baxandall
Group Company Secretary

TERM OF OFFICE
Appointed in July 2008.

SKILLS AND EXPERIENCE
In addition to her role as Company Secretary, Cathy is General Counsel to the Marshalls Group and has responsibility for compliance and risk management. She also sits on the Marshalls pension scheme trustee board. She has previous experience as Company Secretary and Group Counsel with Silentnight Group, Thistle Hotels plc and Jacuzzi (UK). Qualified as a solicitor with Clifford Chance before becoming a partner in a national law firm, specialising in banking and corporate law. Graduate of the University of Oxford.

EXTERNAL APPOINTMENTS
Charity Trustee and Board member of Ilkley Literature Festival, the Open College of the Arts (part of the University for the Creative Arts) and the Bedales Grants Trust Fund.

High standards of governance

> "The Board seeks to promote consistently high standards of governance throughout the Group that are recognised and understood by all.

- ▶ **Nomination Committee Report** pages 42–43
- ▶ **Statement of Directors' Responsibilities** pages 44–45
- ▶ **Remuneration Committee Report** pages 46–65
- ▶ **Audit Committee Report** pages 66–69

Strategic objectives:

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

BOARD OBJECTIVES 2016

- Extend the strategy debate, establish strategy review day, review capital structure and articulate long term vision.
- Develop understanding of succession planning below Board level, "people" related processes and objectives.
- Establish more structure around Board and senior management succession planning and appraisals, and strengthen the role of the Nomination Committee, taking account of diversity.
- On risk management, incorporating best practice, develop risk reporting and Board involvement, with particular focus on safety culture and cyber risk.
- Improve visibility of risk assessment for projects at evaluation stage.

WHAT WE ACHIEVED

- Set 2020 Strategy (articulated in presentations to investors and employees), held separate strategy review day for Board and Executive Committee in September 2016, future strategy review days now programmed annually.
- Established regular reviews of capital structure; greater focus on assessing risk and developing mitigation strategies, particularly in relation to cyber security.
- Health and safety reporting developed, with Board training and participation in site safety inspections.
- Strengthened process around succession planning at Board and senior management level: successful handover from retiring to new Senior Independent Director / Remuneration Committee Chair, one-to-one appraisals completed.
- Promoted and supported increased focus on "people" initiatives, including the establishing of consistent Group-wide employment procedures and policies, investment in training and development and improved access to pension savings.

KEY THEMES FOR 2017

- Leading the development of corporate culture, values and vision across the business.
- Work to further develop business resilience, flexibility and agility.
- Pursue 2020 Strategy through, for example, organic growth and improved profitability resulting from innovation in products and processes, considering acquisitions and investment where appropriate and value adding.
- Ensure succession planning (Board and senior management) is designed to align with corporate culture and good practice and recognises our commitment to diversity.

Dear Shareholder,

This Corporate Governance Statement, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 42 to 69, explains how Marshalls' governance framework works and how we apply the principles of business integrity, high ethical values and professionalism in all our activities. As a Board, we recognise that we are accountable to shareholders for good corporate governance, and we seek to promote consistently high standards of governance throughout the Group that are recognised and understood by all.

Good governance depends on good and effective leadership and a healthy corporate culture, supported by robust systems and processes and a good understanding of risk and risk appetite. Your Board has continued throughout the year to engage with shareholders and other stakeholders, to maintain constructive dialogue and challenge and to focus on strategy and value. As a Board, we also keep abreast of developments in good governance and practice, such as the recommendations of the Hampton-Alexander review on gender diversity, the Parker review on ethnic diversity and the FRC's observations on corporate culture published in July 2016. This year, the Board and the Executive Committee have spent time on evaluating Marshalls' culture and values, recognising that a healthy corporate culture will both protect and generate value. The Board has a leading role in fostering and influencing the positive culture and values of the Group by ensuring a consistency of approach and message from the top. The work of our Board Committees, explained in this report, demonstrates our commitment to openness and accountability, acknowledging the value of diversity and good succession planning, how we align reward with our values and strategy and how as an organisation we seek to embed our values across the business, recognising that there is further work to do.

During 2016, the Board conducted its first externally led Board evaluation. This concluded that the Board composition was appropriate for the business, with a good balance of skills and experience, ensuring a well balanced and effective Board with a clear and inclusive strategy and a high degree of respect and trust at individual and collective level. The summary of our 2016 objectives, how we performed against them, and the objectives we have set for 2017 following the 2016 evaluation process, appears on the first page of this report. These priorities are closely linked to the strategic objectives of the business.

The Group's 2015 Annual Report and Accounts were reviewed by the FRC's Conduct Committee and matters arising have been reflected in this year's Annual Report and Accounts. The 2016 Annual Report takes account of the FRC review and seeks to maintain the clarity and transparency of previous reports while presenting our business performance as effectively as possible.

This Corporate Governance Statement, which is part of the Directors' Report, has been prepared in accordance with the principles of the UK Corporate Governance Code published in September 2014 (the "Code"), which the Board fully supports. The Board annually carries out a review of how the Code principles are applied within the structure, together with the processes and procedures adopted by the Company. The Board considers that the Company has complied with the relevant provisions of the Code throughout the year in all material respects. I can also confirm that in the opinion of the Directors these Annual Financial Statements present a fair, balanced and understandable assessment of the Group's position and prospects and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report on pages 44 to 45 and 72 to 77 respectively.

Andrew Allner
Chairman

Corporate Governance Statement – *continued*

Role of the Board

The Board currently comprises an Independent Non-Executive Chairman, 3 Non-Executive Directors and 2 Executive Directors who are equally responsible for the proper stewardship and leadership of the Company. Their biographical details are on pages 34 and 35.

Among the written Schedule of Matters Reserved for the Board, which is reviewed annually, are:

- approving and monitoring progress of strategy, business plans and budgets;
- approving any changes to capital, constitution or corporate structure;
- approving the annual and half-yearly accounts, and the approval and monitoring of the internal financial control system, risk management, health and safety and anti-bribery policies and procedures;
- Board appointments and succession planning, and setting Terms of Reference for Board Committees;
- approving transactions of significant value or major strategic importance; and
- remuneration matters, including major changes to pension schemes, the introduction of share and incentive schemes, and the general framework of remuneration.

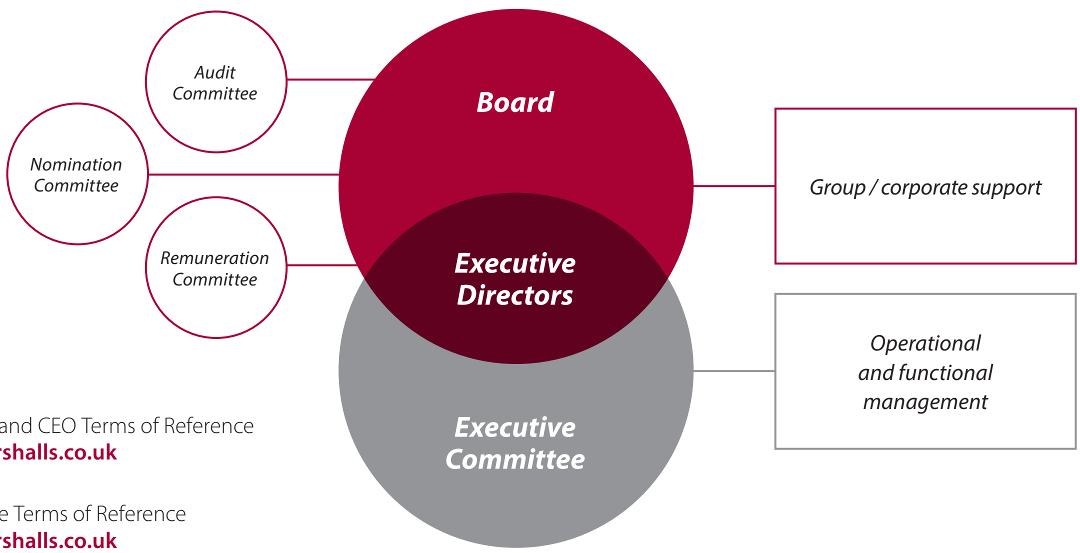
The Board has delegated specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report on pages 66 to 69 provides details of how the Board applies the Code in relation to financial reporting, risk management and internal controls. The Nomination Committee Report on pages 42 and 43 reports on the work done, particularly in relation to Board and senior management succession planning, diversity and Board development. The Remuneration Report on pages 46 to 65 incorporates the Remuneration Policy to be tabled at the 2017 Annual General Meeting, and gives details of Directors' remuneration for 2017. Other Board Committees are established periodically for particular purposes. For example, during the year, Board Committees were established to approve the preliminary and half-yearly results.

Day-to-day management and the implementation of strategies agreed by the Board are delegated to the Executive Directors. The Group's reporting structure below Board level is designed so that all decisions are made by the most appropriate people in a timely manner. Management teams report to members of the Executive Committee; this currently consists of 8 senior managers (of whom 7 are male and 1 is female), including the 2 Executive Directors. The Board receives regular updates from the Executive Committee in relation to business issues and developments. These policies and procedures collectively enable the Board to make informed decisions on a range of key issues including strategy and risk management. The interaction between these bodies is illustrated in the chart below.

Roles of the Chairman, Chief Executive and Non-Executive Directors

There is a clear division of responsibilities between the Chairman and Chief Executive, each of whom has annually reviewed written Terms of Reference. The Chairman leads the Board and sets its agenda, ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues, making sure all Directors, particularly the Non-Executive Directors, are able to contribute, and maintaining a constructive relationship between the Executive and the Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of strategy and policies approved by the Board.

Interaction between Board and management bodies



Chairman and CEO Terms of Reference
www.marshalls.co.uk

Committee Terms of Reference
www.marshalls.co.uk

> "All Directors receive training as part of the annual Board programme, which seeks to incorporate a range of in-depth topics of particular relevance to the business. Directors are also expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies.

The Senior Independent Director, who also has written Terms of Reference, is responsible for providing a sounding board for the Chairman and is an intermediary for other Non-Executive Directors. She is available to shareholders if they have concerns which are not resolved through the normal channels of contact.

The Chairman and the Non-Executive Directors were independent on appointment, and the Board considers each of the Non-Executive Directors to be independent in character and judgement in accordance with the principles of the Code.

At least once a year the Chairman holds a meeting with the Non-Executive Directors without the Executive Directors being present. The Non-Executive Directors also meet annually without the Chairman being present to appraise the Chairman's performance.

Directors are able to ensure that any concerns they raise about the running of the Company or a proposed action are recorded in the Board minutes. If a Non-Executive Director did have any such concerns on resignation the Chairman would invite that Director to provide a written statement for circulation to the Board.

Conflicts of interest

The Board has adopted procedures for the authorisation of existing situations and for considering (and authorising where appropriate) new situations which may give rise to a conflict of interest. These are recorded in a Conflicts Register, reviewed by the Nomination Committee at least annually. Currently, the only situations authorised are the holding by Directors of directorships or similar offices with companies or organisations not connected with the Company where the Board has not identified any actual conflict of interest. The Board has reviewed the procedures and is satisfied that they are operating effectively.

Board composition, commitment and election of Directors

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. We believe our Board is of sufficient size and has an appropriate balance of skills and experience to meet the needs of the business. Individual Director evaluations, succession planning and the work of the Nomination Committee are commented on further in the Nomination Committee Report.

On appointment, Board members, in particular the Chairman and the Non-Executive Directors, disclose their other commitments and agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution. The current Board commitments of the Chairman and of the remaining members of the Board are shown on pages 34 and 35. Any conflicts of interest are dealt with in accordance with the Board conflicts procedures.

The Company's Articles of Association contain powers of removal, appointment, election and re-election of Directors and provide that at least one-third of the Board must retire at each Annual General Meeting and each Director must retire by rotation every 3 years. In practice, the Company requires all Non-Executive Directors and Executive Directors to stand for re-election at each Annual General Meeting. All Directors will stand for re-election or election at the 2017 Annual General Meeting. The terms of appointment of the current Directors and the Directors' biographical details on pages 34 and 35 show their length of service on the Board.

Board induction, development and support

New Directors receive a full, formal and tailored induction on joining the Board. There is an induction pack for new Directors incorporating the Company's constitutional and governance documents, Group policies and other key information, and training is provided on the use of our active "virtual boardroom" board reporting tools. During 2016, Non-Executive Directors were trained to carry out site safety inspections as part of the Group's Visible Felt Leadership health and safety programme. Other tailored training may be arranged to meet individual needs, for example to update knowledge of developments in regulatory compliance. Typically, a new Director will meet the Chairman and other Non-Executive Directors in one-on-one sessions; he or she will have meetings with key management, briefings with external advisers and shareholders, and a programme of site visits will be arranged at which the Director meets site-based staff to gain a full understanding of the business.

Corporate Governance Statement – *continued*

Board induction, development and support *continued*

Directors are expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies. Training is also built into the annual Board programme, which is designed to cover a range of topics of particular relevance to the business. During 2016, there were Board briefings relating to health and safety, cyber risk and current issues of corporate governance and the new MAR regulatory regime. The Board also received senior management presentations in relation to business process initiatives, developments in HR processes and group learning, manufacturing operations and the Group's marketing strategy. Non-Executive Directors took the opportunity to meet senior managers to discuss areas of particular interest. Training needs are identified through the Board evaluation process and through the individual one-to-one reviews between the Directors and the Chairman.

Directors have access to the advice and services of the Company Secretary and are entitled to rely on the impartial and independent nature of that advice and those services. The Company Secretary is responsible for ensuring that Board procedures are complied with and, through the Chairman, advises the Board on corporate governance matters. Both the appointment and removal of the Company Secretary are matters for the Board as a whole.

The Board has an approved procedure for all Directors to take independent professional advice at the Company's expense. Board Committees are provided with sufficient resources to undertake their duties, including the option to appoint external advisers when they deem it appropriate.

Indemnities and insurance

The Company maintains directors' and officers' liability insurance cover to cover legal proceedings against its Directors and Officers acting in that capacity. The Group has also granted indemnities to its Directors to the extent permitted by law (which are qualifying third party indemnities within the meaning of Section 236 of the Companies Act 2006), and these remained in force during the year in relation to certain losses and liabilities that the Directors may incur to third parties in the course of action as Directors or employees of the Company, any subsidiary or associated company, or as a Director of the pension scheme trustee board. Neither the liability insurance nor the indemnities provide cover in the event of proven fraudulent or dishonest activity.

Board evaluation

The Company carries out a full evaluation of Board performance and that of its 3 principal Committees annually. As indicated in its 2015 report, the Board decided to commission an external evaluation for 2016. Accordingly, external evaluators, Equity Communications, were appointed after a competitive tender process to conduct the 2016 Board evaluation. Equity Communications have no other connection with the Company. The evaluation was carried out using a questionnaire, followed by one-to-one interviews with each of the Directors and the Company Secretary. The questionnaire was designed to stimulate thought and discussion rather than to deliver scores, and included questions about the effectiveness of Executive and Non-Executive Directors, and the performance of the Chairman.

The Senior Independent Director separately reviewed the Chairman's performance with other Non-Executive Directors. The results of the evaluation were then reviewed by the Chairman and the Company Secretary and discussed by the Board. The Board also reviewed progress against the priorities identified for 2016 from the 2015 evaluation process. The outcomes of the evaluation process and the themes that have emerged for focus in 2017 are highlighted on page 36.

The Board welcomed the independent assessment provided by Equity Communications, which confirmed that the Board was working very effectively and that there was a good level of challenge and support. The evaluation also demonstrated that the internally-led Board evaluation process in previous years had been successful in improving Board effectiveness. The Board expects to return to an internally led process in 2017.

Board meetings and attendance

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Andrew Allner (Non-Executive)	7/7	–	4/4	2/2
Janet Ashdown (Non-Executive)	7/7	4/4	4/4	2/2
Jack Clarke	7/7	–	–	–
Martyn Coffey	7/7	–	–	–
Alan Coppin (Non-Executive)	3/7	1/4	2/4	1/2
Mark Edwards (Non-Executive)	7/7	4/4	4/4	2/2
Tim Pile (Non-Executive)	7/7	4/4	4/4	2/2

The Board met 7 times in full session during 2016. In addition, the Audit Committee met 4 times, the Remuneration Committee met 4 times and the Nomination Committee met twice during the year. There were also Board Committee meetings in connection with the issue of financial results and the updating of Group banking details.

The Chief Executive and the Finance Director are usually invited to attend Audit Committee meetings, although the Audit Committee also meets the auditor without any Executive Director being present. The Chief Executive is invited to attend Remuneration Committee meetings where appropriate. The Company Secretary is also Secretary to the Board Committees and attends meetings for this purpose.

Alan Coppin retired from the Board in May 2016 and attended all meetings up to the date of his retirement. In 2017 there are 7 Board, 4 Audit Committee, 4 Remuneration Committee and 1 Nomination Committee meetings scheduled, with an additional day set aside for strategy. Outside this formal Board schedule, Board members are expected to participate in site visits, and are invited to other events such as the Group's two-day annual management conference.

How we assess our performance, prospects and viability

The Group has in place a comprehensive financial review process, including detailed annual budgets, business plans and regular forecasting. There are a range of performance indicators which are tracked by management on a daily, weekly and monthly basis, as appropriate, and addressed through a programme of operational meetings and action plans. All Directors receive regular and timely information to enable them to perform their duties, including information on the Group's operational and financial performance, customer service, health and safety performance and forward trends.

The Board reviews at each regular Board meeting the monthly financial results, taking account of performance indicators and the detailed annual business plan and budget. The Board also considers forward trends and performance against other key indicators, including areas where performance departs from forecasts, and contingency plans. The Board reviews and discusses medium and long-term strategy on a regular basis and meets at least annually with the Executive Committee to review strategy. It also holds separate meetings with individual members of senior management to ensure the Board receives regular updates on current business and strategic issues.

In this way, the Board assesses the prospects of the Group using all the information at its disposal, and considering historic performance, forecast performance for the current year, and longer-term forecasts over the 3-year business planning cycle as appropriate. In approving these accounts the Board has considered these matters in detail in order to be able to give the Viability Statement on page 21. The Board has a reasonable expectation that the Group is able to continue in operation and meet its liabilities as they fall due for at least the next 12 months.

Risk management and internal control

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control. The Board has during 2016 carried out a review of the effectiveness of the Group's risk management and internal controls systems covering all material controls, including financial, operational and compliance controls. The Strategic Report comments in detail (pages 20 to 24) on the nature of the principal risks facing the Group, in particular those that would threaten our business model, future performance, solvency or liquidity and the measures in place to mitigate them. In conducting its review, the Board has included a robust assessment of these risks, particularly operational risks that might affect the assessment of the Group's viability. The Board's risk review also incorporates an element of stress testing, by envisaging scenarios that might arise during the financial year and / or the planning cycle, and considering, with financial impact modelling where appropriate, the likely effect in the business and its prospects. The Audit Committee Report on pages 66 to 69 describes the internal control system and how it is managed and monitored. The Board acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss.

Relations with shareholders

The Board places great emphasis on good communications with shareholders. The Chief Executive and the Finance Director meet regularly with major shareholders to discuss the Group's performance, strategic issues and shareholder investment objectives, and also periodically arrange site visits for investors. Reports of these meetings and any shareholder communications during the year are provided to the Board. During 2016, 103 such meetings were held, at which 72 of the Group's institutional shareholders were represented. This approach ensures the views of major shareholders are understood by all Directors.

The Board also regularly receives copies of analysts' and brokers' briefings. The Chairman is available to meet major shareholders on request to discuss governance and strategy. The Senior Independent Director is also available to meet shareholders separately if requested. When appropriate, the Non-Executive Directors attend meetings or site visits with major shareholders and would be available to meet major shareholders if a meeting were requested.

There is a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors, and the Annual and Half-yearly Reports, together with the Marshalls website, are substantial means of communication with all shareholders during the year.

Annual General Meeting

The Notice of Annual General Meeting is dispatched to shareholders, together with explanatory notes or a circular on items of special business, at least 20 working days before the meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue, including a resolution relating to the Report and Accounts, and to put all resolutions to an electronic poll at the Annual General Meeting. All Directors normally attend the meeting, including the Chairs of the Audit, Remuneration and Nomination Committees, who are available to answer questions. The Board welcomes questions from shareholders who have an opportunity to raise issues informally or formally before or at the Annual General Meeting.

For each resolution the proxy appointment forms provide shareholders with the option to direct their proxy vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote make it clear that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

All valid proxy appointments are properly recorded and counted. Information on the number of shares represented by proxy, the proxy votes for and against each resolution, and the number of shares in respect of which the vote was withheld for each resolution, together with the voting result, are given at the meeting and made available on the Company's website.

Andrew Allner
Chairman
15 March 2017

Nomination Committee Report

Dear Shareholder,

I am pleased to report to shareholders on the main activities of the Committee and how it has performed its duties during 2016. I chair Nomination Committee meetings, but would not do so where the Committee was dealing with my own re-appointment or replacement as Chairman.

Andrew Allner
Chair of the Nomination Committee

"The Group's policies are designed to support positively the widening of opportunity for talented individuals regardless of gender, ethnicity or social background.

HIGHLIGHTS OF 2016

- The Committee reviewed Board succession planning against the Group's 2020 Strategy objectives.
- The Committee developed the process for individual performance and development reviews at Board level.
- The Board evaluation carried out independently by Equity Communications concluded that the Board was the right size for the business and was very well balanced, with a good mix of skills and experience.

OUR FUTURE TARGETS

- Succession planning will continue to be organised against a clear timetable to preserve continuity whilst regularly refreshing the composition of the Board.
- Recruitment and succession planning will recognise the changing needs of the business and its long-term strategic priorities.
- Recruitment and succession planning will be designed to incorporate fully the Group's inclusivity and diversity objectives.
- Recruitment and succession planning will be aligned with a healthy and well understood corporate culture.

NOMINATION COMMITTEE MEMBERS

- Andrew Allner – Chair
- Janet Ashdown
- Mark Edwards
- Tim Pile

Role and responsibilities

The Board's Nomination Committee fulfils a vital role in terms of succession planning and Board performance. Its Terms of Reference include:

- Board succession planning, including size, composition and balance of skills and experience, giving due weight to the achievement of diversity in its widest sense;
- recruitment and induction of candidates for appointment to the Board;
- reviewing individual performance evaluation outcomes for Directors standing for election or re-election in advance of the Annual General Meeting; and
- monitoring conflicts, reviewing the Board conflicts policy, maintaining the conflicts register and considering any new notifications.

The performance of the Committee was evaluated as part of the externally led Board evaluation process in 2016, and the Committee Terms of Reference were also reviewed.

During the year the Nomination Committee held 2 scheduled meetings, and additional meetings and discussions in connection with succession planning and recruitment were held by telephone. Attendance at meetings is shown on page 40.

Recruitment and succession planning

The philosophy of the Nomination Committee is that recruitment and succession planning should reflect the changing strategic needs and objectives of the Group, both now and in the future, as well as being an important factor in the development of a strong corporate culture. In this context, we are wholly committed to achieving diversity in its widest sense in the composition of the Board and senior management, and we welcome the increased focus on diversity from shareholders and other commentators. The Group's policies are designed to support positively the widening of opportunity for talented individuals regardless of gender, ethnicity or social background. The Strategic Report includes details of current gender ratios and some of the measures taken in 2016 to help achieve our objectives on page 26.

During 2016, the Committee reviewed Board succession planning against the 2020 Strategy objectives of the Group, and updated its written succession plan accordingly. It also developed the process for individual performance and development reviews at Board level. The 2016 Board evaluation carried out by Equity Communications was very positive in its comments on the composition and skills of the Board, concluding that the current Board size was appropriate, and that the range of skills and experience was well balanced, with all Directors making a valuable contribution to Board proceedings and to the wider business.

During 2017, the work of the Committee will give priority to an organised timetable for Board succession, taking care to preserve the good balance between Non-Executive and Executive Directors and the strengths identified in our external Board evaluation. We will increase our focus on inclusivity and diversity objectives both at Board and senior management level. In particular, in fostering corporate culture, we recognise the importance of Board leadership and we are fully engaged with the ongoing initiatives in the business as a whole to improve diversity ratios and gender balance. We will do this through meetings and discussions with management, monitoring progress and ensuring that these principles are followed in briefs to external recruitment agencies and search consultants.

Non-Executive Directors are appointed for specific terms, subject to re-appointment and the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director. The Committee's framework for succession planning is designed to phase future recruitment so that the composition of the Board can be refreshed whilst ensuring continuity.

Re-appointment of Directors

Each Non-Executive Director was, on joining, provided with a detailed description of his or her role and responsibilities, and received a detailed business induction. All Directors have an annual one-to-one development review meeting with the Chairman to appraise performance, set personal objectives and discuss any development and training needs to enable them to continue to add value to the Board, with an assessment of individual and collective performance with contributions from senior management and other business stakeholders.

Before any Director is proposed for re-election, or has their appointment renewed, the Committee considers the outcome of the reviews to ensure that the Director continues to be effective and demonstrates commitment to the role. The Chairman provides an explanation to shareholders as to why the Director should be re-elected and confirming that a formal performance evaluation has taken place when the resolution to re-elect is circulated.

It is the Company's policy that Executive Directors can only hold 1 external listed company Non-Executive directorship. Voluntary service on the governing board of a social, trade or charitable organisation is also permitted. Details of the external appointments held by the Executive Directors are included in the biographical notes on page 34.

During the year, I ceased to be Senior Independent Non-Executive Director and Chair of the Audit and Risk Committee at Northgate plc. There have been no other changes to my own other commitments during the year, which are also listed on page 34.

Governance

The Committee has acted in accordance with the principles of the Code in developing and applying its succession plans and policies. The Committee's effectiveness, including the effective application of those principles, is assessed as part of the annual Board evaluation process. The framework for the refreshment of skills, experience and diversity to support the needs of the business and its stakeholders in the future is transparent and well understood.

Andrew Allner
Chair
15 March 2017

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the European Union and Article 4 of the IAS Regulation, and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards, including FRS 101 "Reduced Disclosure Framework".

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

In preparing the Group Financial Statements, IAS 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors on the annual financial report

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on pages 34 and 35 confirm that, to the best of each of their knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware, and each Director has taken all the steps that he/she ought to have taken as a Director to make himself / herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Going concern

The Directors have adopted the going concern basis in preparing these Financial Statements in accordance with the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting", issued in September 2014. The Directors considered that it was appropriate to do so, having reviewed any uncertainties that may affect the Company's ability to continue as a going concern for at least the next 12 months from the date these Financial Statements were approved.

Cautionary statement and Directors' liability

This Annual Report 2016 has been prepared for, and only for, the members of the Company, as a body, and no other persons. Neither the Company nor the Directors accept or assume any liability to any person to whom this Annual Report is shown or into whose hands it may come except to the extent that such liability arises and may not be excluded under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

This Annual Report contains certain forward-looking statements with respect to the Group's financial condition, results, strategy, plans and objectives. These statements are not forecasts or guarantees of future performance and involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future.

There are a number of factors that could cause actual results or developments to differ materially from those expressed, implied or forecast by these forward-looking statements. All forward-looking statements in this Annual Report are based on information known to the Group as at the date of this Annual Report and the Group has no obligation publicly to update or revise any forward-looking statements, whether as a result of new information or future events. Nothing in this Annual Report should be construed as a profit forecast.

Annual General Meeting

The Notice convening the Annual General Meeting to be held at the Cedar Court Hotel, Ainley Top, Huddersfield HD3 3RH at 11.00 am on Wednesday 10 May 2017, together with explanatory notes on the resolutions to be proposed, is contained in a circular to be sent to shareholders with this Annual Report.

By Order of the Board:

Cathy Baxandall
Group Company Secretary
15 March 2017

Remuneration Committee Report

Dear Shareholder,

I am writing to you as the new Chair of Marshalls' Remuneration Committee, having succeeded Alan Coppin on his retirement in May 2016. I am pleased to report on how the Committee has carried out its objectives and responsibilities during 2016.

This report is divided into three: an introduction and "at a glance" summary of our activities, the proposed 2017 Remuneration Policy, and how it differs from the 2014 Policy, and our Annual Remuneration Report, showing how our Policy was applied during the year and the outcomes, particularly for Executive reward.

Janet Ashdown
Chair of the Remuneration Committee

- **Remuneration Committee Report** pages 46–48
- **Remuneration Policy** pages 49–57
- **Annual Remuneration Report** pages 58–65

Find out more online
www.marshalls.co.uk/remuneration

2016 PERFORMANCE

Strategic objective	Measure	Outcome
Delivering sustainable growth to increase profitability	EPS	EPS: 18.95p (+32%) (100% target achieved)
Maximise operational efficiencies to generate cash	OCF	OCF: £57.9m (96.96% target achieved)
Meet customer service expectations	Customer Service Index	Target achieved
Ensure a safe workplace for our employees	Health and safety accident reduction	Target achieved

AT A GLANCE PERFORMANCE IN 2016 AGAINST STRATEGIC OBJECTIVES LINKED TO REMUNERATION

- Strategic objectives are focused on improving operational efficiency, promoting innovation and strengthening the Marshalls brand through excellence in service and systems.
- Remuneration linked to delivering long-term sustainable growth through improvement in profitability and cash generation.
- Incentive awards require achievement of significant EPS growth and an operating cash flow ("OCF") target as proxies for measuring progress.
- Brand, market leadership and employee engagement objectives incorporated through non-financial criteria (customer service and health and safety improvement).
- 2016 targets set for maximum performance took account of "best case" consensus expectations and incorporated significant stretch against these expectations and the Group's 2016 budget.
- Payment of bonus balanced with shareholder returns. The regular dividend increased by 24 per cent (in line with our dividend policy) and, including the supplementary dividend, the overall dividend growth for 2016, was 30 per cent.

FUTURE OBJECTIVES

- Obtain approval for new Remuneration Policy in 2017, maintaining strong links with performance.
- Implement Policy, ensuring it is aligned with the interests of stakeholders in the widest sense.
- Continue to follow best practice principles in remuneration matters.

REMUNERATION COMMITTEE MEMBERS

- Janet Ashdown – Chair
- Andrew Allner
- Mark Edwards
- Tim Pile

Remuneration Policy

Our Remuneration Policy was last submitted to shareholders in May 2014 and will expire in May 2017. On my appointment I therefore reviewed the current Policy with the Committee. The conclusion the Committee reached was that the current Policy in substance remained fit for purpose to support the implementation of the Company's strategy over the next 3-year Policy period.

In reaching this decision the Committee took into account the following:

- latest guidance from the Investment Association, the Executive Remuneration Working Group's July 2016 report and other shareholder and investor bodies;
- the latest GC100 report on the implementation of the 2013 Regulations;
- the Company's performance against the main KPIs over the current Policy period; and
- the annual votes of shareholders on how the Committee has operated the current Policy (Remuneration Report voting approval of over 90 per cent in each year since the current Policy was introduced).

We also sought the views of major shareholders in reaching this conclusion. We will therefore be putting forward a Remuneration Policy for shareholders to approve at our AGM in May 2017 that is consistent with the previous Policy. The only material change that the Committee is proposing to make on the renewal of the Policy is to increase the minimum shareholding requirement to 200 per cent of salary for Executive Directors other than the Chief Executive (who was already at 200 per cent). The full Policy is set out in Section 2 of this Report.

Remuneration advisers

During 2016, the Committee also reviewed the appointment of its remuneration advisers, and carried out a competitive retendering of the work. The tender process included a full review of remuneration policy, the suitability and operation of the Group's incentive schemes and Executive remuneration generally. Following this process, the Committee re-appointed PricewaterhouseCoopers as its external remuneration adviser.

BEIS Green Paper on Executive Pay

The Committee and the Board, having carefully considered the proposals in the Green Paper issued in November 2016, submitted a detailed response to the Government's consultation in February 2017. Whatever the outcome of the consultation, the Committee would expect to continue to follow best practice in relation to Executive pay structure, engagement with shareholders and other stakeholders and reporting on remuneration matters.

Salary increases for 2017

In line with the current and the new Policy, the Committee resolved to increase the salary of the Executive Directors with effect from 1 January 2017 by 2 per cent, which is in line with the inflation-based percentage applied generally to salaries for the wider workforce. Fees for the Chairman and Non-Executive Directors were also increased by the same percentage.

Summary of activities during 2016

Date	Task
February 2016	Review 2015 bonus forecast and status of previous years' incentive scheme awards (MIP, LTIP). Determine detailed targets for performance-related incentive scheme awards for the 2016 financial year (under MIP) by reference to 2016 strategic objectives. Review remuneration reporting regulations for 2015 Annual Remuneration Report (including any changes to Remuneration Policy).
March 2016	Following audited accounts approval, review performance against incentive scheme targets, and approve Element A and Element B bonus awards under the MIP for the 2015 financial year; assess vesting levels of 2013 LTIP awards and approve arrangements for LTIP awards vesting in March 2016. Review and approve draft Remuneration Report to shareholders, checking it makes proper disclosure of remuneration.
July 2016	Review CEO expenditure against expenses policy; approve extension of current expenses policy.
August 2016	Remuneration adviser tender process; review appropriate comparator/sector group for remuneration purposes.
October 2016	Benchmarking of Executive and Non-Executive packages in line with current Policy; consider appropriateness and relevance of Policy and incentive schemes (with external advice); and write to shareholders regarding renewal of Remuneration Policy in 2017. Review contractual termination commitments; make recommendations on Executive Directors and Chairman's remuneration.
December 2016	Review Group remuneration trends and any changes in employee pay and benefits; review detailed remuneration proposals for Executive Directors and senior managers. Review Board expenses policy and expenses paid. Terms of Reference and Committee performance evaluation review.

Remuneration Committee Report – *continued*

Statement of shareholder voting

The table below shows the May 2016 Annual General Meeting voting results on the resolutions relating to remuneration.

		For and discretion	For and discretion as a percentage of votes cast	Against	Against as a percentage of votes cast	Withheld
Resolution 12 (Remuneration Report)	Votes	146,377,827	98.39	2,392,360	1.61	2,026,973

The Committee believes the percentage of votes in favour of the Remuneration Report and the wider share plan initiatives shows that shareholders remain very supportive of the Group's remuneration arrangements.

Remuneration disclosure

Our Remuneration Report has been prepared in accordance with the Companies Act 2008 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also meets the requirements of the UK Corporate Governance Code and the UK Listing Authority's Listing Rules and Disclosure and Transparency Rules.

Shareholder engagement

The Committee is supportive of the principle of active engagement with shareholders and other stakeholders and transparent reporting of remuneration. As Chair, I welcome dialogue, and the Committee will continue to seek opportunities to improve the way in which our policies and their implementation can be seen to support our strategy for the benefit of shareholders, the wider workforce, our customers and other stakeholder groups. We believe that the current approach strikes a good balance.

We are pleased that the design of the MIP, introduced in 2014 to replace the 2005 LTIP, continues to meet best practice guidance for long-term incentive plans, including extended holding periods, deferred bonus, malus and clawback and targets that are clearly aligned with shareholder interests.

I would like to thank our shareholders for their continued support, and also record thanks to my predecessor, Alan Coppin, for his effective leadership of the Committee over the past 6 years. I will be available at the Company's Annual General Meeting on 10 May 2017 to answer any questions on our Policy, its application and this Remuneration Report.

Janet Ashdown
Chair of the Remuneration Committee
15 March 2017

Remuneration Policy

The Remuneration Committee is required to put its new Remuneration Policy to a formal shareholder vote at the Company's Annual General Meeting on 10 May 2017. This new Policy is intended to apply for the 3 years beginning on the date of approval at the 2017 Annual General Meeting.

The Remuneration Committee, having reviewed its current Remuneration Policy and invited shareholder comment, concluded that the current Policy in substance remained fit for purpose to support the implementation of the Company's strategy over the next 3-year Policy period. The new Remuneration Policy set out below has therefore not materially changed from the current Policy.

Overview of the new Policy

The Committee's policy is to target a remuneration package that is at around median, for median performance, and in the upper quartile for exceptional performance, and which is closely linked with the Company's strategic objectives. In setting all elements of remuneration the Committee is advised by independent consultants and periodically uses data from external research into the salaries and benefits paid by companies of a comparable size and complexity to the Company.

The aim of the Policy is to attract, retain and continue to motivate talented Executive Directors while aligning remuneration with shareholder interests and with the achievement of strategic performance objectives. This is achieved by balancing a basic fixed package, which is periodically benchmarked against a comparator group, with the opportunity to achieve upper quartile remuneration from a combination of stretching but achievable incentives. The terms of reference for the Committee also include the responsibility for setting the policy on incentive reward for senior employees, in particular those who could have a material impact on the risk profile of the Group. The Committee has, in the design and application of the Company's variable performance related incentive plan, incorporated risk adjustment mechanisms to encourage consistent and sustainable levels of Company performance and to ensure, when selecting performance conditions and the level of challenge within those conditions, that they support the long-term future of the Company. In reviewing its policy and determining remuneration the Committee also considers the wider economic conditions and pay and reward packages elsewhere in its sector and within the business.

Policy table

Element	Purpose and how it supports the strategy	Operation	Maximum
Fixed remuneration			
Salary	Base salary recognises the market value of the Executive's role, skills, responsibilities, performance and experience.	An Executive Director's basic salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • general salary rises for employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group; • the experience of the relevant Director; • the economic environment; and • whether a benchmarking exercise is appropriate (using salaries within the ranges paid by the companies in the comparator groups for remuneration benchmarking). Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	Typically, the base salaries of Executive Directors in post at the start of the Policy period and who remain in the same role throughout the Policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group. The exceptions to this rule may be where: • an individual's package is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or • there is a material increase in scope or responsibility in the individual's role. The Committee ensures that maximum salary levels are positioned in line with companies of a similar size and validated against industry / sector peers, so that they are competitive. The Committee intends to review the comparators periodically and may add or remove companies from the group as it considers appropriate. Any changes to the comparator groups will be explained in the report on the implementation of Remuneration Policy in the following financial year.
Pension	To enable Executive Directors to make appropriate provision for retirement.	Executive Directors are entitled to join the defined contribution scheme operated by Marshalls. The Company contributes at an agreed percentage of basic salary. Executive Directors may take a pensions allowance in place of the Company's contribution to the Scheme. Pension allowances are excluded for the purposes of calculating any other element of remuneration based on a percentage of salary.	The maximum Company contribution or pension allowance is 20% of salary.

Remuneration Policy – *continued*

Policy table *continued*

Element	Purpose and how it supports the strategy	Operation	Maximum
Fixed remuneration *continued*			
Benefits	The Company is required to provide benefits in order to be competitive and to ensure it is able to recruit and retain Executive Directors.	Benefits include car or car allowance, health insurance, life assurance, income protection and membership of the Group's employee share plans (the Executive Directors will also be eligible to participate in any other all employee plan operated by the Company from time to time). The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment.	The maximum is the cost of providing the relevant benefits as described.

Element	Purpose and how it supports the strategy	Operation	Maximum	Performance conditions
Variable performance-based remuneration				
Management Incentive Plan ("MIP") Element A	Enabling the successful implementation of Group strategy through setting relevant targets to measure Executive Director performance. Aligns the interests of Executives with shareholders and contributes to the retention of key individuals by ensuring that Executives take part of their annual bonus in shares or share-linked units rather than cash.	Annual performance conditions and targets are set at the beginning of the plan year. As well as determining the performance conditions, targets and relative weighting, the Committee will also determine, within the approved range, the level of target bonus at the beginning of the plan year. Upon assessment of performance by the Committee, a contribution will be made by the Company into the participant's plan account and 50% of the cumulative balance will be paid in cash. Any remaining balance will be converted into shares or share-linked units. 100% of the balance in the final year of the plan will be paid in shares to the participant. During the plan period, 50% of the retained balance is at risk of forfeiture based on a minimum level of performance determined annually by the Committee. Full details of the relevant targets and their weighting, and how they have been measured, will be reported in the Remuneration Report for the relevant financial year. The Committee may award dividend equivalents on shares or share-linked units held under the Plan to Plan participants to the extent that they vest.	Maximum 150% of salary	An award under the Plan is subject to satisfying relevant performance conditions and targets determined annually by the Remuneration Committee by reference to financial and non-financial objectives that are closely linked to the strategy of the business and may also contain individual performance objectives, measured over a period of one financial year. A minimum of 50% of the bonus is based on financial performance measures. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the bonus, disclosing precise targets for the Plan in advance would not be in shareholder interests. Targets, performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs under the Plan. In exceptional circumstances the Committee retains the discretion to: • change the performance measures and targets and the weighting attached to the performance measures and targets part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and • make downward or upward adjustments to the amount of bonus contribution earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. The Plan contains malus and clawback provisions.

Element	Purpose and how it supports the strategy	Operation	Maximum	Performance conditions
MIP Element B	To link variable pay to achievement of annual financial and business objectives. To promote long-term shareholding in the Company and strengthen alignment between interests of Executive Directors and senior managers and those of shareholders.	Annual targets set by reference to financial, strategic and operational objectives by the Remuneration Committee. Awards are made annually in shares. Awards are subject to continued employment for 3 years. Awards, once vested (net of tax), may not be sold for a further 2 years. There is a financial underpin which, if not achieved over 3 years results in the loss of up to 50% of unvested awards. Details of the performance conditions, targets and their level of satisfaction for the year being reported on will be set out in the Remuneration Report for the relevant financial year. The Committee may award dividend equivalents on shares or share-linked units held under the Plan to Plan participants to the extent that they vest.	Maximum 100% of salary	An award under the Plan is subject to satisfying relevant performance conditions and targets determined annually by the Remuneration Committee by reference to financial and non-financial objectives that are closely linked to the strategy of the business and may also contain individual performance objectives, measured over a period of one financial year. The Committee takes the same view on commercial sensitivity as for Element A of the MIP. The discretions set out above for Element A also apply to Element B. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. The plan contains malus and clawback provisions.

Minimum shareholding requirement

The Committee has adopted minimum shareholding requirements for Executive Directors, who must build up over a 5-year period and then subsequently hold a shareholding equivalent to a minimum of 200 per cent of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned. In addition, Executive Directors are required to retain 50 per cent of the post-tax amount of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained.

The following table sets out the minimum shareholding requirements:

Role	Shareholding requirement (percentage of salary)
Chief Executive Officer	200%
Other Directors	200%

The Committee retains the discretion to increase the shareholding requirements.

Malus and clawback

Malus is the adjustment of Company Element A contributions or the balance in a participant's Element A Plan Account or unvested Element B awards because of the occurrence of one or more circumstances listed below. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments made under Element A of the MIP or vested Element B awards as a result of the occurrence of one or more circumstances listed below. Clawback may apply to all or part of a participant's payment under Element A of the MIP or an Element B award and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- if the assessment of any performance condition or condition in respect of a Company Element A contribution or Element B award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the Company Element A contribution or Element B award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which amounts to fraud or gross misconduct; or
- events or the behaviour of a participant have led to the censure of a Group company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

Remuneration Policy – *continued*

Malus and clawback *continued*

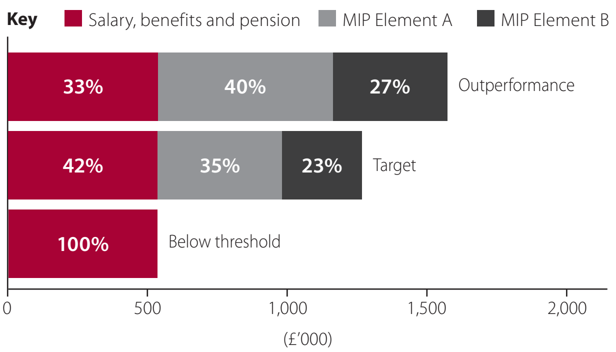
	Element A	Element B
Malus	Up to the date of a payment under the Plan	To the end of the 3-year vesting period
Clawback	2 years post the date of any payment under the Plan	2 years post vesting

The Committee believes that the rules of the Plan provide sufficient powers to enforce malus and clawback where required.

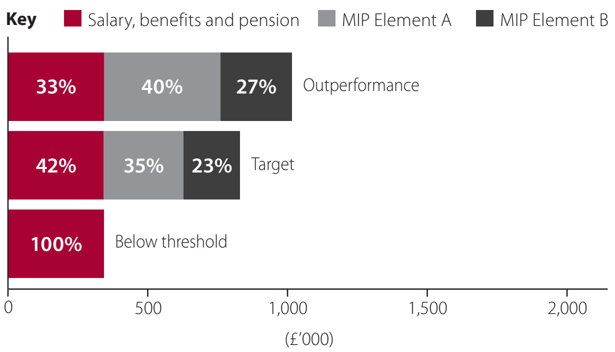
Total remuneration opportunity

In future years, the total remuneration opportunity under the Policy for each of the Executive Directors at 3 different levels of performance is shown below:

Chief Executive



Finance Director



Notes:

(a) Base salary, benefits and pension information is taken from the single figure remuneration table in the 2016 Annual Remuneration Report. The benefits value reflects a fully expensed company car, medical insurance and any other taxable benefits and pension includes the level of pensions allowance paid instead of contractual employer pension contributions.

(b) Achievement of performance targets in line with expectations will result in 70 per cent of the annual award under the MIP.

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

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

Pay at risk

The charts below set out the single figure for each Executive Director based on whether the elements remain 'at risk'. For example:

- payment is subject to continuing employment for a period;
- performance conditions have to still be satisfied; and
- elements are subject to malus or clawback for a period, over which the Company can recover sums paid or withhold vesting.

Figures have been calculated based on target performance (fixed elements plus 70 per cent of the maximum MIP). The charts have been based on the same assumptions as set out for the illustrations of the application of the total remuneration opportunity under the new Policy.

Chief Executive

At risk	£739,000
Salary	£422,000
Pension and benefits	£110,000

Finance Director

At risk	£485,000
Salary	£277,000
Pension and benefits	£68,000

Consideration of Remuneration Policy for other employees

The Committee takes into account pay and reward packages of the UK workforce as a whole and of other groups of employees in applying its Policy and determining the remuneration of the Executive Directors. Senior management participates in the MIP. The criteria for performance related pay under the MIP and the retention periods are the same for senior management as for the Executive Directors, with varying percentages of salary dependent on seniority and the strategic impact of the role. For other tiers of management and below, the Company operates annual and long-term incentive arrangements using criteria that may be job-specific and which also link with Company or individual performance. In general any salary increases for the Executive Directors will be in line with the average rise for UK employees.

The Committee has not specifically canvassed the views of the Company's employees on its Remuneration Policy, although the views of employees on matters that include pay and conditions generally are canvassed by means of periodic surveys, the results of which are regularly and openly communicated to the Board. In setting the Policy, the Company has not used any remuneration comparison measurements.

Recruitment policy

The remuneration of any new recruit will be determined in accordance with the same principles as for the Executive Directors, as set out in the Remuneration Policy table above. The Committee is mindful of the need to avoid paying more than it considers necessary to secure a preferred candidate of the appropriate calibre and with the experience needed for the role. In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration to the appropriateness of any performance measures associated with an award.

The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised below:

Remuneration element	Recruitment policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors.
MIP	Maximum participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 250% of salary.
Maximum variable remuneration	The maximum variable remuneration which may be granted is 250% of salary.
"Buy out" of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justify the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: • the proportion of the performance period completed on the date of the Executive Director's cessation of employment; • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • any other terms and conditions having a material effect on their value ("lapsed value"). The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plan. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plan, a bespoke arrangement would be used.
Relocation Policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences / housing allowance and schooling.

Where an existing employee is promoted to the Board, the Policy set out above would apply from the date of promotion but there would be no retrospective application of the Policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the person concerned. These would be disclosed to shareholders in the Remuneration Report for the relevant financial year.

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to current Non-Executive Directors.

Service contracts and policy on termination payments

Service contracts

Element	Executive Directors		Non–Executive Directors			
Term	Martyn Coffey	Jack Clarke	Andrew Allner	Janet Ashdown	Mark Edwards	Tim Pile
Date of contract /appointment	September 2013	October 2014	July 2003 (renewed in July 2013 and May 2016)	March 2015	May 2010 (renewed in July 2013 and May 2016)	October 2010 (renewed in July 2013 and May 2016)
Notice period in months						
Company	12	12	6	6	6	6
Director	(6)	(6)	(6)	(6)	(6)	(6)

CORPORATE GOVERNANCE

Remuneration Policy – *continued*

Service contracts and policy on termination payments *continued*

Service contracts *continued*

In accordance with Policy, Executive Directors' service contracts do not contain liquidated damages clauses, nor any contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement, or providing for compensation for loss of office or employment that occurs because of a takeover bid.

Non-Executive Directors, including the Chairman, are appointed under letters of appointment, usually for a term of 3 years. Either the Company or the Non-Executive Director may terminate the appointment before the end of the current term on 6 months' notice. If the unexpired term is less than 6 months, notice does not need to be served. No compensation is payable if a Non-Executive Director is required to stand down.

All Directors are subject to annual re-election.

Policy on termination payments

When considering compensation for loss of office, the Committee will always seek to minimise the cost to the Company and apply mitigation to any payment. Compensation for loss of office can only be paid if consistent with the Policy or otherwise with shareholder approval by Ordinary Resolution.

Remuneration element	Treatment on cessation of employment
General	The Committee will honour Executive Directors' contractual entitlements. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. Service contracts do not contain liquidated damages clauses. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation), or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.
Salary, benefits and pension	These will be paid over the notice period. The Company has discretion to make a lump sum payment in lieu.

	Good leaver reason [1]	Other reason	Discretion
MIP Element A	**For the year of cessation**		
	Good leavers: Performance conditions will be measured at the normal measurement date. The Company bonus contribution will normally be pro-rated for the period worked during the financial year.	Other leavers: No Company bonus contribution payable for year of cessation.	The Remuneration Committee has the following elements of discretion: • to determine that an Executive is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; and • to determine whether to pro-rate the Company bonus contribution. The Remuneration Committee's normal policy is that a variable bonus will be pro-rated depending on the proportion of the measurement / vesting period in which the executive remained in employment. It is the Remuneration Committee's intention to use discretion not to pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders.
	Deferred balances in participant's Element A plan account		
	Good leavers: The balance in the participant's Element A Plan Account will be payable on cessation of employment.	Other leavers: The balance in the participants' Element A Plan Account will be forfeited on cessation of employment.	The Remuneration Committee has the following elements of discretion: • to determine that an Executive is a good leaver (subject to the principles set out above); • to determine whether settlement of the balance of the participant's Element A Plan Account should be in cash or shares or a combination of both; and • to determine whether to pro-rate the balance of the participant's Element A Plan Account payable on cessation. A participant's Element A Plan Account balance reflects prior year achievement, so, subject to any malus or clawback, the Remuneration Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of the Executive's departure.

	Good leaver reason [1]	Other reason	Discretion
MIP Element B	**For the year of cessation**		
	Good leavers: Performance conditions will be measured at the normal measurement date. The award will normally be pro-rated for the period worked during the financial year and will vest on grant. The sale restrictions will continue to apply for 2 years post cessation.	Other leavers: No award for year of cessation.	The Remuneration Committee has the following elements of discretion: • to determine that an individual is a good leaver and in accordance with the principles set out previously; and • to determine whether to make an award or to pro-rate the award by reference to the period during which the Executive remained in employment. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to use discretion to not pro-rate only in circumstances where there is an appropriate business case which will be explained in full to shareholders.
	Subsisting awards		
	Good leavers: Pro-rated to time and performance in respect of each subsisting award and subject to the satisfaction of the financial underpin on vesting. Sale restrictions will continue to apply from vesting.	Other leavers: Lapse of any unvested awards. Vested awards will continue to be subject to the sale restrictions.	The Remuneration Committee has the following elements of discretion: • to determine that an individual is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • to determine to pay cash in lieu of shares; • to vest the award at the end of the original deferral period or at the date of cessation. The Remuneration Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and • to determine whether to pro-rate the maximum number of shares to the time from the date of grant to the date of cessation. The Remuneration Committee's normal policy is that it will pro-rate awards for time. It is the Remuneration Committee's intention to use discretion to not pro-rate only in circumstances where there is an appropriate business case which will be explained in full to shareholders. It should be noted that the performance targets for subsisting awards will already have been satisfied at the date of grant.
Other contractual obligations	There are no contractual obligations to participants in relation to the incentive schemes other than those set out above.		

(1) A good leaver reason is defined as cessation by reason of death, ill-health, injury or disability, redundancy, retirement, the employing company ceasing to be a Group company, the transfer of employment to a company which is not a Group company, or otherwise at the discretion of the Committee (as described above). Cessation of employment in circumstances other than those set out above is cessation for other reasons.

Change of control

Name of Incentive Plan	Impact	Discretion
Element A of the MIP For the year of the change of control	Performance conditions will be measured at the date of the change of control. The Company bonus contribution will normally be pro-rated to the date of the change of control.	The Remuneration Committee has the following element of discretion: • to determine whether to pro-rate the Company bonus contribution to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders.
Element A of the MIP Deferred balances in participant's Element A Plan Account	The balance in the participant's Element A Plan Account will be payable on the change of control.	The Remuneration Committee has the following elements of discretion: • to determine whether the payment of the balance of the participant's Element A Plan Account should be in cash or shares or a combination of both; and • to determine whether to pro-rate the balance of the participant's Element A Plan Account payable on change of control. The Remuneration Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control. It should be noted that the deferred balances in a participant's Element A Plan Account relate to bonuses earned based on the satisfaction of performance conditions in previous financial years.
Element B of the MIP For the year of the change of control	Performance conditions will be measured at the date of the change of control. The award will normally be pro-rated to the date of the change of control and will vest on grant. The sale restrictions will not apply.	The Remuneration Committee has the following elements of discretion: • to determine whether to pro-rate the award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention only to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and • to determine to pay cash in lieu of shares.
Element B of the MIP Subsisting awards on a change of control	Awards will vest on a change of control subject to the satisfaction of the financial underpin on vesting. Sale restrictions will not apply.	The Remuneration Committee has the following elements of discretion: • to determine whether to pro-rate the maximum number of shares to the time from the date of grant to the date of the change of control. The Remuneration Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control; and • to determine to pay cash in lieu of shares. It should be noted that the Element B awards that are outstanding would have been made following satisfaction of performance targets for previous years.

Discretion

The Committee has discretion in several areas of policy as set out in this Report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

Consideration of shareholder views

The Committee regularly consults with shareholders on Executive remuneration. The Remuneration Committee gave shareholders the opportunity to comment on the new Policy set out in this Remuneration Committee Report before its finalisation. The Committee is committed to consulting in advance with shareholders before making any material changes to any element of Executive remuneration.

Chairman and Non-Executive Directors' Remuneration Policy

Element	Purpose and how it supports the strategy	Operation	Maximum
Fees	Annual fee to attract and retain experienced and skilled Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company. Fees reflect the time commitment and responsibilities of the roles.	The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chairman's fees. Non-Executive Directors are paid an annual fee and additional fees for chairmanship of committees and the Company retains the flexibility to pay fees for the membership of committees. The Chairman does not receive any additional fees for membership of committees. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. Non-Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements.	The fees for Non-Executive Directors and the Chairman are broadly set at a competitive level against the comparator group. In general the level of fee increase for the Non-Executive Directors and the Chairman will be set taking account of any change in responsibility and salary increases for UK employees generally. The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman in the performance of their duties and may settle any tax incurred in relation to these.

Entitlements under the current policy

Provisions of the current Policy that will continue to apply following the approval of the new Policy at the 2017 Annual General Meeting.

The following table sets out subsisting entitlements granted to Executive Directors under the current Policy where the entitlements have not yet vested or been paid.

The 2005 LTIP expired in 2014 and it is the intention to make no further awards under this incentive scheme following approval of the MIP. The Committee approved a final grant of performance shares under the 2005 LTIP in March 2014, and set EPS and OCF growth targets that were at the grant date closely related to the medium-term plans of the Group. The targets were met in full, and these LTIP awards will vest in March 2017, ensuring that there is no incentive gap before the first potential awards under Element B of the MIP are capable of vesting in 2018.

Provisions of the previous policy that will continue to apply

	Grants	**Operation**	**Performance measures and period**
LTIP awards made in 2014 under the 2005 Long Term Incentive Plan ("LTIP")	Performance Shares equal to 100% of salary for Executive Directors.	Annual grant of nil-cost options linked to performance conditions measured over a 3-year period.	Performance conditions measured over 3 financial years. Performance measures and relative weightings are: • 75% EPS; and • 25% OCF.

Vesting of 75% of the award subject to EPS performance conditions:

Performance (EPS growth)	% of award Vesting*
75%	0%
100%	50%
125%	100%

Vesting of 25% of the award subject to OCF growth

Performance (annual OCF growth)	% of award vesting*
5%	0%
10%	50%
15%	100%

* Straight line vesting between points.

Definitions and calculations

EPS is measured using International Financial Reporting Standards ("IFRSs") based on the audited results of the Group and subject to the discretion of the Committee with regard to one-off items.

OCF growth is calculated by taking the aggregated OCF for the 3 financial years preceding the year of grant of the award and comparing it with the aggregate OCF over the 3 years from the date of grant.

Annual Remuneration Report

This report covers the reporting period from 1 January 2016 to 31 December 2016 and explains how the Remuneration Policy has been implemented. Comparative figures for the 2015 financial year have also been provided.

Single total figure of remuneration in 2016 – Executive Directors (audited)

	Fixed (£'000)						Performance related (£'000)							
					Salary supplement in lieu of pension		Annual bonus				Long-term incentives			
	Salary		Other benefits				MIP Element A		MIP Element B		LTIP/MIP		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Martyn Coffey	**422**	412	**26**	23	**84**	82	**547**	525	**205**	206	**629**	816	**1,913**	2,064
Jack Clarke	**277**	237	**13**	11	**55**	47	**297**	209	**134**	119	**327**	–	**1,103**	623
Total	**699**	649	**39**	34	**139**	129	**844**	734	**339**	325	**956**	816	**3,016**	2,687
			Note a		Note b		Note c				Notes d and e			

Notes:

(a) Benefits are car / car allowance, fuel / fuel allowance, private medical insurance, life insurance and travel and accommodation expenses.

(b) All Directors received salary supplement allowance in lieu of contributions into the Group's pension scheme throughout the year. No Director had any entitlement under the defined benefit section of the pension scheme and no additional benefit was received as a result of early retirement.

(c) The annual bonus column shows 50 per cent of the total bonus contribution earned under the MIP Element A in respect of 2016 performance, and 50 per cent of the total value of Element B shares awarded which are deferred but are not subject to further performance conditions (other than continued employment). The remaining 50 per cent in respect of 2016 Element A is deferred into shares in the MIP account which are subject to performance and employment-based forfeiture for a further holding period. The remaining 50 per cent of 2016 Element B shares is subject to performance and employment-based forfeiture for a 3-year deferred period. These deferred elements will be disclosed in the LTIP column when the conditions are satisfied. The deferred shares in relation to both Element A and Element B may change in value during the holding period depending on the Marshalls share price.

(d) The LTIP column shows the aggregate value of sums released from MIP or LTIP account balances from earlier years that are no longer subject to deferral and forfeiture risk based on performance in 2016.

(e) The LTIP comprises the 2014 Performance Share Award under the 2005 LTIP.

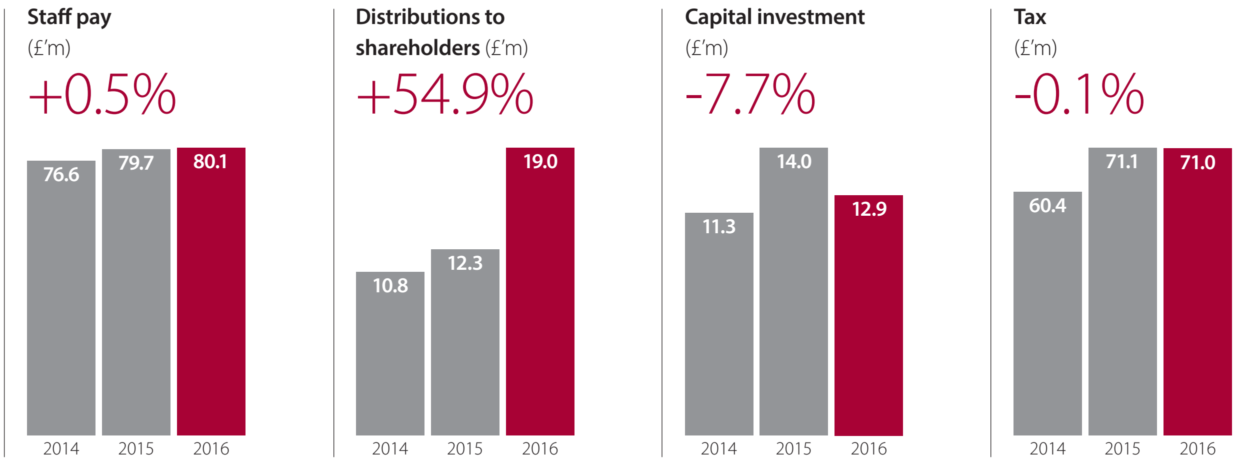
Setting pay in context

The following graphs illustrate the relationship between total expenditure on remuneration and other disbursements from profit over the past 3 years.

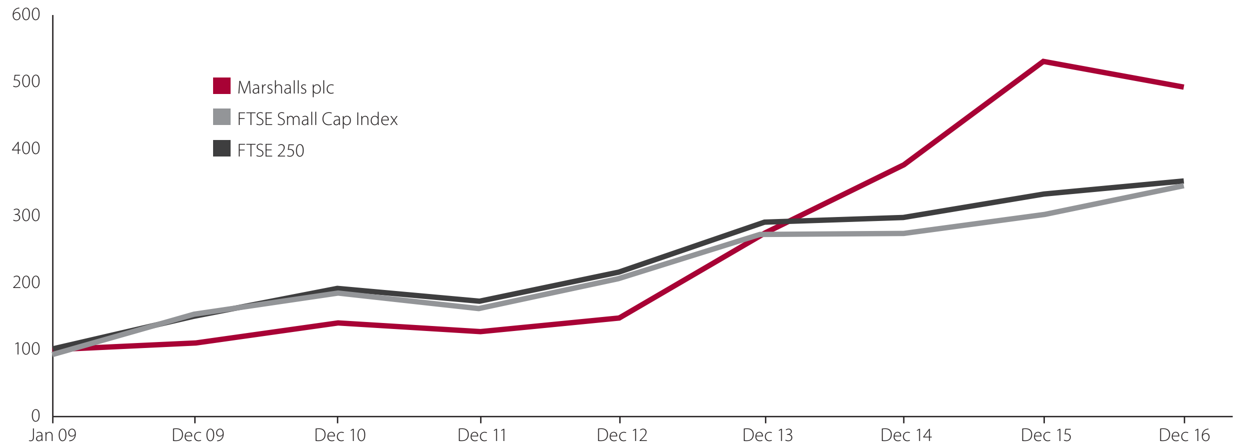
The 4 elements represent the most significant outgoings for the Company during the financial year. In addition to staff pay and shareholder distributions, capital investment and taxation are shown for the following reasons:

- investment – the Company's strategy is to increase capital investment to take advantage of market demand and in order to ensure that the business grows in a sustainable manner with a corresponding long-term benefit for all stakeholders; and
- tax – the Company is a UK taxpayer and feels that it is beneficial to demonstrate to all its stakeholders its total UK tax contribution. The most significant elements of the Company's UK tax contribution are VAT, employer's NI, corporation tax, fuel duty and aggregates levy.
  As profitability increases, corporation tax will also increase. In 2016 the Group was re-accredited with the Fair Tax Mark.

Relative importance of spend on pay (percentage change)



Total shareholder return



This chart shows the Group's total shareholder return ("TSR") performance compared to (i) the FTSE Small Cap Index and (ii) the FTSE 250. TSR is defined as share price growth plus reinvested dividends. Marshalls plc was a constituent of the FTSE Small Cap Index for the period from January 2009 to August 2015 and became a constituent of the FTSE 250 in August 2015. This chart shows the value at 31 December 2016 of £100 invested in Marshalls plc on 1 January 2009 compared with the value of £100 invested in (i) the FTSE Small Cap Index and (ii) the FTSE 250. The other plotted points are the intervening financial year ends. Marshalls' TSR performance was 42 per cent better than the overall performance of the FTSE Small Cap Index and 40 per cent better than the FTSE 250 in 2015.

CEO pay in the last 7 years

This table shows how pay for the CEO role has changed in the last 7 years.

Year	2010 (Note a) £'000	2011 £'000	2012 £'000	2013 (Note b) £'000	2014 £'000	2015 £'000	**2016 £'000**
Single figure remuneration	671	752	938	3,143	1,101	2,064	**1,913**
% of maximum annual bonus earned	38.6%	78.1%	33.0%	63.6%	99.3%	100%	**96.9%**
% of maximum LTIP awards vesting	0	0	0	63.0%	0	100%	**100%**

Notes:

(a) The years up to 2013 show the previous CEO's (Graham Holden's) remuneration.

(b) The 2013 single figure is made up of the previous CEO's base salary and benefits up to 10 October 2013 and Martyn Coffey's proportionate entitlement to salary, benefits and annual bonus for his period of service in 2013. It also includes the various incentive payments that crystallised as a result of Graham Holden being a "good leaver" by reason of retirement in 2013 (see 2013 Remuneration Report for full details).

Annual Remuneration Report – *continued*

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2015 and 2016 compares with the percentage change in the average of each of those components of pay for the UK-based employees of the Group as a whole.

	Salary £'000		Percentage change (Note a)	Taxable benefits £'000		Percentage change	Bonus (Note b) £'000		Percentage increase
	2016	2015	%	**2016**	2015	%	**2016**	2015	%
CEO pay	**422**	412	2.5	**26**	23	13.0	**752**	731	3.4
UK total pay	**78,450**	76,927	2.0	**2,337**	2,244	4.1	**4,207**	4,111	2.3
Number of employees	**2,252**	2,236	0.7	**361**	382	(5.5)	**432**	385	12.2
Average per employee	**34.8**	34.4	1.3	**6.5**	5.9	10.2	**9.7**	10.1	(8.8)

Notes:

(a) Martyn Coffey's salary was increased on 1 January 2016 by 2.5 per cent, the same percentage increase as given to the workforce as a whole.

(b) The bonus is the non-deferred amount earned for the relevant year taken from the total remuneration table.

(c) A 2.5 per cent increase was awarded to the workforce on 1 January 2016. The table above shows, however, that the average salary per employee for 2016 saw an increase of 1.3 per cent compared with the comparative for 2015. This is due to reduced levels of overtime in the current year and specific variations relating to the impact and timing of leavers and new starters.

(d) The table above shows that the average bonus per employee decreased by 8.8 per cent in 2016 compared with the prior year. This is due to a significant increase in the number of employees eligible for bonus schemes at lower salary grades in the current year and because sales bonus targets were not met in full in 2016, when they had been in 2015.

Outcomes of incentive schemes in 2016 (audited)

This section explains how 2016 performance is reflected in rewards earned under the Company's incentive schemes.

Management Incentive Plan ("MIP")

The MIP incorporates:

- Element A, an annual bonus award carrying a maximum of 150 per cent of salary, of which 50 per cent must be deferred into shares or share-linked units; and
- Element B, an award normally in the form of a nil-cost option to acquire shares, carrying a maximum of 100 per cent of salary, conditional on continued employment for 3 years from grant and 50 per cent of which is also subject to a financial condition over the 3-year period. Element B shares must be held for a further 2 years after vesting.

Both awards depend on achievement of the performance conditions set by the Committee at the date of award. The table below shows the 2016 performance conditions and the extent to which they have been satisfied.

Measurement	Percentage of maximum contribution based on measurement	Minimum target	Maximum target	**2016 actual**	Percentage of target achieved	Percentage of salary earned (Element A)	Percentage of salary earned (Element B)
EPS	75%	16.47p	18.94p	**18.95p**	100%	112.5%	75.0%
Operating cash flow (before restructuring costs)	25%	£47.2m	£61.5m	**£57.9m**	87.85%	32.9%	22.0%
Non-financial targets	20% deduction if not met	95% (customer service) To match or improve on 2015 performance (health and safety)	N/A	**Both achieved**	100%	No deduction	No deduction

Performance conditions were set at the beginning of 2016 and the Committee took account of both internal budgets and external factors such as the market consensus of investors for the full year 2016. During the year, cash flow from sales improved significantly and pre-tax profit grew by 30 per cent. This performance meant that the stretching EPS target was met in full and the operating cash flow target set at the beginning of the year was 87.85 per cent achieved. This resulted in a combined 96.96 per cent achievement against target. The share price fell by 10 per cent during the year (31 December 2015: 325 pence; 31 December 2016: 292.5 pence), which means the underlying value of share and share-linked awards from previous years decreased.

EPS

EPS relates to our strategic objective to grow profits. The Group's profit before tax increased by 30 per cent from £35.3 million to £46.0 million. EPS improved by 32 per cent from 14.32 pence in 2015 to 18.95 pence in 2016. EPS is measured using International Financial Reporting Standards ("IFRSs") based on the audited results of the Group and subject to the discretion of the Committee with regard to one-off items.

Operating cash flow

Operating cash flow is relevant for measurement of cash flow and overall sustainability. The Group's operating cash flow for the year ended 31 December 2016 was close to the higher end of the target range set by the Committee at the beginning of the year.

Additional performance conditions

Our customers are at the heart of our business model, and our measurement of customer service uses factors such as product availability, on-time delivery performance and administrative and delivery accuracy to assess performance. The Group's average customer service performance, assessed monthly, exceeded its minimum target of 95 per cent throughout 2016. The Group also continued its excellent performance against its stated objective of keeping days lost to accidents to a minimum, by reference to the 2015 rate. Days lost to accidents year on year actually reduced by a further 20 per cent. Had these 2 targets not been met, the overall level of MIP award would have reduced by 20 per cent; the achievement of these measures means that no reduction factor will apply.

MIP awards 2016

Element A

Plan accounts	Martyn Coffey	Jack Clarke
Opening balance (number of shares) (Note a)	161,900	64,361
2016 contribution (% of salary earned)	145.4%	145.4%
Value	£613,613	£402,516
2016 element released (Note b)	£(547,431)	£(296,915)
Closing balance (deferred into shares)	£547,431	£296,915
Number of shares represented by closing balance (Note c)	190,344	103,238

Element B

	Martyn Coffey	Jack Clarke
Number of shares awarded	142,237	93,304
Percentage of salary	96.9%	96.9%
Value	£409,075	£268,344
EPS forfeiture threshold (Note d)	10.13p	10.13p

Notes:

(a) 50 per cent of the earned Element A award is released to the participant as annual bonus; the remaining 50 per cent is deferred into the participant's MIP account and converted into shares. The previously deferred proportion of the 2015 Element A award was converted into shares by reference to the mid-market average value for the 30-day period ending on 31 December 2015. Dividends paid during the year are also added to the carried-forward plan account. The chart above shows the resulting opening balance value calculated by reference to the mid-market average value for the 30-day period ended 31 December 2016 and adding the value of dividends of 9.65 pence per share paid during 2016.

(b) 2016 is year 3 of the 4-year MIP. The earned Element A award for 2016 is added to the individual's plan account, and 50 per cent of the resulting balance is released to the participant as an annual bonus; the remaining 50 per cent is deferred into the participant's MIP account and converted into shares. The deferral is repeated in each subsequent year up to the final year, in which, subject to any forfeiture provisions, 100 per cent of any balance in the MIP account is released.

(c) The carried-forward balance is converted back into shares by reference to the mid-market average value for the 30-day period ended 31 December 2016 (287.6 pence).

(d) If the actual EPS falls below the forfeiture threshold over the 3 years before vesting, 50 per cent of the balance of the award is forfeited. Once Element B shares have vested, they must normally be held for a further 2 years. Element B shares lapse on cessation of employment except in "good leaver" circumstances, in which case they vest on leaving and must be held for 2 years from the date of leaving.

2005 LTIP award: 2014 performance share awards

The vesting of performance shares granted in 2014 under the 2005 LTIP is dependent on achievement of EPS and OCF growth targets over the 2014, 2015 and 2016 financial years. The expected outcome is shown in the table below.

Executive Director	Number of performance shares awarded 2014	2014 target EPS (75%) and OCF (25%) growth	Actual 2014 awards	Level of vesting of 2014 award
Martyn Coffey	222,124	EPS growth (75% to 125%)	EPS growth = 237.2%	EPS = 100%
Jack Clarke	115,676	OCF growth (5% to 15%)	OCF growth = 112.7%	OCF = 100%

No further awards are outstanding under the 2005 LTIP, which has now expired.

CORPORATE GOVERNANCE

Single total figure of remuneration: Non-Executive Directors (audited)

Non-Executive Directors do not participate in any of the Company's incentive arrangements. Their fees are reviewed periodically and were last reviewed in October 2016. The Chairman's fees are set by the Committee and the Chief Executive; other Non-Executive Directors' fees are set by the Board as a whole. The Non-Executive Directors also received travel and accommodation expenses associated with attendance at Board meetings, and where this is a taxable benefit it is shown below as a grossed-up taxable amount.

	Board fee £'000		Committee fees £'000		Expenses £'000		Total £'000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Andrew Allner Chairman and Chairman of Nomination Committee	**141**	137	**–**	–	**1**	1	**142**	138
Janet Ashdown Senior Independent Director, Chairman of Remuneration Committee and member of Audit and Nomination Committees	**45**	33	**4**	–	**1**	1	**50**	34
Mark Edwards Chairman of Audit Committee and member of Remuneration and Nomination Committees	**45**	43	**6**	6	**1**	1	**52**	50
Tim Pile Member of Audit, Remuneration and Nomination Committees	**44**	43	**–**	–	**1**	1	**45**	44
Alan Coppin (retired 18 May 2016)	**17**	44	**3**	6	**1**	1	**21**	51
Total	**292**	300	**13**	12	**5**	5	**310**	317

The fees were increased by 2 per cent from 1 January 2017 in line with other Group employees. Janet Ashdown became Chair of the Remuneration Committee in May 2016 on the retirement of Alan Coppin.

The Non-Executive Directors reclaim travel and expenses incurred in the performance of their duties.

Statement of implementation of Remuneration Policy in the following financial year (2017)

Executive Directors

Salary

The Committee approved a 2 per cent salary increase for Executive Directors effective from 1 January 2017, in line with inflation and increases for UK employees generally.

Director	**1 January 2017 £'000**	1 January 2016 £'000	Change %
Martyn Coffey	**430**	422	2.0
Jack Clarke	**283**	277	2.0

Benefits and pension

Benefits continue on the same basis as in 2016.

Statement of implementation of Remuneration Policy in the following financial year (2017) *continued*

Variable pay / incentives

Executive Directors will be granted performance awards under the MIP conditional upon achieving certain performance conditions in 2017. The Committee has discretion under the Remuneration Policy to change the weightings of performance criteria to align with its priorities, including measures relating to performance on ESG issues. Our strategic priorities for 2017 are focused on improving profit margins, growing our business and developing our brand, while also remaining innovative and operating sustainably with the highest standards of health, safety and social responsibility. The Committee believes that EPS and the ratio of OCF to EBITDA are the most appropriate criteria for measuring achievement of our financial objectives and that a combination of financial and non-financial criteria avoids inadvertently motivating irresponsible behaviour. The weighting for the operation of 2017 awards under the MIP will be:

EPS	75%
OCF to EBITDA	25%

Targets are set between a minimum (0 per cent) and maximum (100 per cent) range in each case, with on-target (budget) performance expected to deliver 70 per cent of maximum.

Additional non-financial performance conditions to reflect our focus on brand, customers and employees will apply:

- customer service (must remain at or above 95 per cent); and
- health and safety incidence: the rate of accidents must not fall below an agreed threshold, benchmarked by reference to the "base" year (2015).

If they are not met, there is a reduction of award value earned by 10 per cent in relation to each of these additional conditions.

Element A awards have a forfeiture threshold set annually at the time of confirmation of the award. If this is breached, 50 per cent of the deferred balance in a participant's Element A MIP account is forfeited.

Element B awards also have a long-term financial underpin based on a minimum EPS threshold that must be maintained over the 3 years from the date of grant. If this is breached, 50 per cent of the Element B award is forfeited. Element B awards are granted after the end of the financial period by reference to which they have been earned and the underpin is set at the time of grant.

The measurement period under the MIP by reference to which these targets must be met will be the full financial year ending 31 December 2017. It is the view of the Committee that the targets for the MIP are commercially sensitive as they are primarily related to budgeted future profit and debt levels in the Company and therefore their disclosure in advance is not in the interests of the Company or shareholders. The Committee will, however, provide full retrospective disclosure to enable shareholders to judge the level of award against the targets set.

Non-Executive Directors

The Board approved an increase in the fees of 2 per cent from 1 January 2017, in line with Executive Directors and UK employees. Non-Executive Directors reclaim business expenses incurred in the performance of their duties retrospectively against duly presented invoices.

Director	**1 January 2017 £'000**	1 January 2016 £'000	Percentage increase
Andrew Allner (Chairman)	**143.3**	140.5	2.0
Janet Ashdown (SID)	**52.7**	43.8	2.0
Mark Edwards	**51.6**	50.6	2.0
Tim Pile	**44.7**	43.8	2.0

Annual Remuneration Report – *continued*

Shareholdings of Directors (audited)

In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain a meaningful shareholding in the Company. There are no minimum holding requirements for Non-Executive Directors, but they would usually be expected to hold some shares in the Company.

The minimum shareholding requirements for Executive Directors are as follows:

Executive Director	Percentage of salary
Martyn Coffey	200%
Jack Clarke	200%*

* Increased in 2017 from 100 per cent. The minimum shareholding should be reached within 5 years of appointment. Where the minimum percentage is increased, following appointment, the timescale for achieving the increase is 5 years from the year of increase.

Directors' shareholdings and share interests

The following table sets out, in respect of each of the Directors:

- the number of shares the Director holds unconditionally;
- the number of deferred and conditional shares held under the incentive schemes that will vest following the 2016 results; and
- the number of shares subject to unvested incentive awards.

	Shareholding requirement		Beneficially owned	Shares that may vest following 2016 results (Note b)	Deferred shares (Note c)	Deferred and contingent share interests (Note d)	Total interests in shares (including contingent interests)
Director	% of salary	Number of shares required (Note a)	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Executive							
Martyn Coffey	200	288,472	170,034	222,124	211,765	403,488	1,007,411
Jack Clarke	200	189,231	5,670	115,676	127,524	231,311	480,181
Non-Executive							
Andrew Allner	–	–	57,246	–	–	–	57,246
Janet Ashdown	–	–	11,210	–	–	–	11,210
Mark Edwards	–	–	98,000	–	–	–	98,000
Tim Pile	–	–	44,740	–	–	–	44,740

Notes:

(a) The closing price on 31 December 2016 of 292.5 pence per share has been used to measure the number of shares required.

(b) The 2005 LTIP performance shares awarded in 2014 represent 100 per cent of the award.

(c) This column includes the 50 per cent proportion of share interests awarded in 2014, 2015 and 2016 under Element B of the MIP in the form of nil-cost options or conditional shares that may be exercised after the 3-year deferral period but where vesting is only dependent on continuing employment throughout the 3-year deferral period with no other performance conditions.

(d) This column comprises share interests awarded under the MIP (Element A deferred shares and Element B deferred shares) that remain subject to a financial performance conditions as well as to continued employment over the relevant deferral period. 50 per cent of Element A awards and 100 per cent of Element B awards shown in this column may be forfeited if the financial condition is not satisfied.

(e) Share interests under Element A and Element B of the MIP are calculated by reference to the mid-market average value for the 30-day period ended 31 December 2016 (287.6 pence).

(f) The table above includes the interests of "persons closely associated" as defined under the Financial Services and Markets Act (Market Abuse) Regulations 2016.

Service contracts and policy on termination payments

Each Executive Director has a service contract with the Company which is terminable by the Company on not more than 12 months' notice and by the Director on 6 months' notice. Directors' service contracts do not contain liquidated damages clauses. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Non-Executive Directors, including the Chairman, are appointed under letters of appointment, usually for a term of 3 years. Either the Company or the Non-Executive Director may terminate the appointment before the end of the current term on 6 months' notice. If the unexpired term is less than 6 months, notice does not need to be served. All Non-Executive Directors are subject to annual re-election. No compensation is payable if a Non-Executive Director is required to stand down.

Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office on application to the Company Secretary and will also be on display at the Company's Annual General Meeting.

The Committee and its advisers

Role of the Remuneration Committee

The Committee's responsibilities include:

- setting remuneration policy for Executive Directors;
- determining specific remuneration packages for Executive Directors and for the Chairman;
- operating the Company's employee share incentive arrangements;
- providing guidance on remuneration for senior employees who report to the CEO; and
- considering the broader remuneration policies for Group employees below Board level.

The Board determines the remuneration of the Non-Executive Directors. No Director plays a part in any decision about his own remuneration. Janet Ashdown, Mark Edwards and Tim Pile are all Independent Non-Executive Directors within the definition of the Code, and Andrew Allner satisfied the independence condition on his appointment as Non-Executive Chairman in 2010. None of them have any personal financial interest (other than as shareholders) in matters to be decided, nor do they have any conflicts of interest from cross-directorships or any day-to-day involvement in running the business.

External advisers

The Company has re-appointed external remuneration advisers, PricewaterhouseCoopers LLP ("PwC"). PwC attends meetings of the Committee by invitation. The Chief Executive attends as appropriate but may not participate in discussions about his own remuneration. The Company Secretary acts as secretary to the Committee and attends Committee meetings.

PwC's fees are agreed by the Remuneration Committee according to the work performed. The terms of its engagement are available on request from the Company Secretary. PwC also provided advice to the Company during the year in relation to corporate tax and pension matters. The Committee is satisfied that the advice from PwC is independent based on the separation of the team advising the Committee from any other work undertaken by PwC and the fact that PwC is a signatory to the Remuneration Consultants' Group's Code of Conduct. PwC's work relating to Executive remuneration during 2016 included assistance in the preparation of the 2016 Remuneration Committee Report, benchmarking of total remuneration in respect of the Company and its comparator group, and general advice on remuneration trends, regulations and best practice. The amount paid to PwC in respect of remuneration advice received during 2016 was £25,000.

Audit Committee Report

Dear Shareholder,

I am pleased to present the Audit Committee Report for 2016. It sets out the Audit Committee's objectives and responsibilities and also explains the activities undertaken during the year and the priorities for 2017. This report, which is part of the Directors' Report, explains how the Audit Committee has discharged its responsibilities during 2016.

The role of the Audit Committee is to oversee financial reporting and to review the ongoing effectiveness of the Group's internal controls. The Committee provides assurance on the Group's risk management processes and assesses information received from the external and internal audit functions. This report explains the Group's procedures in relation to internal control, risk management and financial reporting.

KPMG LLP, who were appointed to carry out the internal audit in 2015, conducted 8 separate detailed reviews during 2016 and reported to the Committee with recommendations, all of which have been implemented or will be implemented during 2017. One of our key priorities remains to monitor the risk management and control environment, ensuring that it aligns with best practice and that any improvements are implemented in a timely and efficient way. Cyber security remained a key priority during 2016. Other areas of focus and further details in relation to the Committee's activities during the year are provided in this report.

The Committee has reviewed the Group's Financial Statements contained in this Annual Report and, following its review, is satisfied that the Committee has provided assurance to the Board that they present a fair, balanced and understandable assessment of the Group's position and prospects.

Mark Edwards
Chair of the Audit Committee

HIGHLIGHTS OF 2016

- The Committee reviewed the significant financial judgements made during the year and in the preparation of the 2016 Financial Statements. The significant areas considered by the Committee in 2016 were inventory provisioning, revenue and rebate recognition and the potential for management override of controls.
- The Committee provided assurance to the Board on whether the 2016 Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable.
- A review of cyber security controls was undertaken by KPMG LLP as part of a wider Cyber Security Review. A number of recommendations have been, or are in the process of being, addressed.
- During the year the Committee commissioned KPMG LLP to review the delegation of powers to operational management and the appropriateness of authorisation limits across all functional areas. The Committee is satisfied that robust controls are in place that cover delegation of authority procedures across the Group.
- During the year a high level review of strategic risk was undertaken by the Committee which was subsequently integrated into the overall Risk Register.

OUR FUTURE TARGETS

- Continue to oversee the significant financial judgements made by management.
- Continue to assess the effectiveness of risk management systems and internal control processes.
- Continue to review the delivery of the external and internal audit and monitor progress.
- Continue to assess and improve cyber security controls and to ensure that IT controls remain appropriate and robust.
- Continue to review the findings from internal audit reviews undertaken by KPMG LLP and monitor the implementation of recommendations made in these reports and the status of progress made against previously agreed actions. There are 8 individual internal audit reviews planned for 2017 and these include:
  - a further cyber security audit;
  - ongoing cyclical reviews of key financial processes, including the payments cycle;
  - a supply chain review, including supplier selection and third party contract management; and
  - a review of the Group's budget process.
- Continue to monitor changes in external regulatory environment and best practice.

AUDIT COMMITTEE MEMBERS

- Mark Edwards – Chair
- Janet Ashdown
- Tim Pile

Committee Terms of Reference
www.marshalls.co.uk/documents

Role and responsibilities

The key responsibilities of the Committee are:

- to keep under review the Group's financial and other systems and controls and financial reporting procedures;
- to plan and scope the annual audit and half-yearly audit review, receive audit reports and review financial statements, taking account of accounting policies adopted and applicable reporting requirements;
- to review the Annual Report and Financial Statements and advise the Board on whether they give a fair, balanced and understandable explanation of the Company's business and performance over the relevant period;
- to conduct a detailed review of internal controls and the internal audit process and report findings at least twice yearly to the Board;
- to review and update the Company's Risk Register;
- to review external auditor independence and audit and non-audit fees, to review and monitor the appropriateness of the provision of non-audit services by the auditor, and make recommendations regarding audit tender and the appointment and remuneration of the auditor; and
- to review the Anti-Bribery Code and procedures, the Serious Concerns Policy and other policies relevant to financial security, compliance and business ethics.

The Audit Committee is the body appointed by the Board with responsibility for carrying out the functions required by the Listing Rules DTR 7.1.3R. The Committee's Terms of Reference are reviewed annually and approved by the Board.

How the Audit Committee operates

During the year, the Audit Committee held 4 formal meetings and there were also meetings between the Audit Committee Chairman, the Finance Director and the external auditor.

The Committee meets both the external and internal auditor independently of management, giving the opportunity to ensure that it has full visibility of matters that have been the subject of particular discussions. The Committee also reports to the Board in relation to the going concern statement and the viability statement and whether the accounts are fair, balanced and understandable.

Effectiveness of the Audit Committee

During the year an external evaluation of the Committee's performance was undertaken as part of the Board evaluation conducted by Equity Communications, an independent external evaluator. The review found the Committee to be effective and well run. No areas of concern were highlighted during this review.

The Chairman of the Committee is a Chartered Accountant and the Board is satisfied he is independent and has recent and relevant financial experience as required by the Code. Other members also have relevant sectoral and financial experience. Their biographical details are on pages 34 and 35, and attendance at meetings is shown on page 40.

Financial reporting

The Committee has reviewed, with both management and the external auditor, where the more significant judgements have been made and the quality and appropriateness of the Group's accounting policies. The Committee has also reviewed the assumptions and provided assurance to support the long-term viability statement.

The Group's 2015 Annual Report and Accounts were reviewed by the FRC's Conduct Committee under Part 2 of its Operations Procedures. Those matters that were drawn to the Board's attention through this review have been addressed in this year's Annual Report and Accounts. The FRC review gives no assurance as to the accuracy of the accounts and may not be relied on. The FRC has no liability to any third party.

Significant issues related to the Financial Statements

When reviewing the annual and half-yearly results, the Committee exercises its judgement in relation to matters drawn to its attention by the Finance Director from the internal audit function, the Risk Committee and the Group's external auditor. The significant areas considered by the Committee for 2016 were:

- **Revenue and rebate recognition –** management's assessment of the appropriate level of accruals to recognise for rebates due to customers at the year-end. The Committee discussed the policy on rebate recognition with operational management. The external auditor presented its findings with regard to the audit testing in this area to the Committee. The Committee is satisfied with the controls and procedures that support the timeliness and completeness of recognition of rebates due to customers.
- **The risk of management override of controls –** management's assessment of the control framework including authorisation controls and segregation of duties. The Committee considered those areas where management applies judgement in determining the appropriate accounting and discussed this with the external auditor. The external auditor presented its findings with regard to the audit testing of journals to the Committee. This testing included the use of data analytics to profile the entire journal population.
- **Inventory provisioning –** management's assessment of the appropriate level of provisioning against inventory obsolescence. The gross levels of finished goods inventory held and the provisions recorded against obsolescence and in respect of items that might be sold at lower than cost were reviewed by the Committee. The review included meetings with operational management to discuss the inventory provisioning strategy. The external auditor presented its findings with regard to the audit testing over inventory valuation and the Committee concurred with management's assessment of the carrying value of Group inventories.

Fair, balanced and understandable

The Committee has considered whether, in its opinion, the 2016 Annual Report and Financial Statements is, taken as a whole, fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. In making this assessment, the Committee has advised the Board in relation to the statement required by the UK Corporate Governance Code.

The Committee has concluded that the disclosures, and the process and controls underlying their production, were appropriate to enable it to determine that the 2016 Annual Report and Financial Statements are fair, balanced and understandable.

Risk management and internal control

The Board is responsible for reviewing the effectiveness of the system of risk management and control, and for ensuring that it meets the necessary standards. The systems and controls are also subject to a regular rolling programme of review, the results of which are periodically reported to the Board.

The Group's Risk Committee, comprising the Executive Directors and members of senior management with Executive accountability for particular risk areas, meets at least twice yearly to identify, evaluate and consider steps to manage any material risks which might threaten the Group's business objectives.

The Group has an established internal control framework, the key features of which include clearly defined reporting lines and authorisation procedures and a comprehensive budget and monthly reporting system. The internal control framework governs the internal financial reporting process of the business, with checks and balances built into the system that are designed to reduce the likelihood of material error or fraud.

The Audit Committee has carried out an assessment of the effectiveness of the Group's risk management and internal control system, covering all material controls including its financial, operational and compliance controls and risk management systems for the year to 31 December 2016.

The Group maintains a written Risk Register that identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have on the Group. Against each risk, the effectiveness of the controls that exist to manage and, where possible, minimise or eliminate those risks are also listed. The Risk Register process identifies areas for action and independent audit assessment in order to test the effectiveness of the Group's risk control systems. Information relating to the management of risks and any changes to the assessment of key risks is regularly reported to the Board, and the Risk Register is updated to reflect changes. To the extent that any failings or weaknesses are identified during the review process, appropriate measures are taken to remedy these. The key risks affecting the Group, how they relate to strategy and how they changed during the year, together with a description of the controls and mitigation associated with such risks, are highlighted in the Strategic Review on pages 20 to 24.

External audit, auditor independence and objectivity

The Audit Committee has primary responsibility for making a recommendation to the Board on the appointment, re-appointment and removal of the external auditor. It keeps under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor. The Group's current auditor, Deloitte LLP, has processes in place designed to maintain independence, including regular rotation of the audit partner. Deloitte LLP was appointed in May 2015 as statutory auditor following a tender process, Christopher Robertson has acted as audit partner since the appointment of Deloitte LLP as auditor in May 2015. The Company has complied with the Competition and Markets Authority's Order for the financial year under review.

The Committee has adopted policies to safeguard the independence of its external auditor. It is the policy of the Company that the external auditor should not provide non-audit services other than those of a "de minimis" value of less than £5,000 in aggregate in any financial year. Any other non-audit services, require the specific approval of the Committee. Where the Committee perceives that the independence of the auditor could be compromised, the work will not be awarded to the external auditor. Details of amounts paid to the external auditor for audit and non-audit services in 2016 are analysed in Note 3 on page 94. Other than the auditor's Half-yearly review of Marshalls plc, no amounts were paid for non-audit work. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £245,000 (2015: £172,000).

Effectiveness of the external audit

An annual review of external audit effectiveness was undertaken by the Committee in 2016. The conclusion of the review was that the external auditor had conducted a comprehensive, appropriate and effective audit. Communication, at all levels, had been open and constructive and areas where the external auditor could work more effectively, in respect of each phase of the audit, were identified.

Internal audit

The Committee has responsibility for monitoring the effectiveness of internal controls and reviews these on an ongoing basis. The internal audit process of reviewing and reporting on the internal control system is carried out by KPMG LLP, appointed by the Committee in 2015 to act as internal auditor for the Group. The annual internal audit programme is derived from a risk-based assessment that takes into account the Risk Register and management input. This risk-based assessment is reviewed and approved by the Audit Committee. This process is overseen by the Finance Director. KPMG LLP are independent from the Company's external auditor and have no other connection with the Group.

The Company operates a self-certification internal control process to support the internal audit process throughout the year. The internal audit programme includes both regular audit checks and assignments to look at areas of critical importance. These assignments form part of a much wider programme of independently audited aspects of the Group's operations. Any areas of weakness that are identified through this process prompt a detailed action plan and a follow-up audit check to establish that actions have been completed. Instances of fraud or attempted fraud (if any) and preventative action plans are also reported to the Committee and recorded in a fraud register.

During the year, in addition to the regular internal control process, KMPG LLP conducted specific reviews on cyber security risk and the controls over delegated authority, as well as updating earlier reports on Bribery Act compliance, business resilience planning and other IT-related risks.

The Committee is pleased to report that, although the wider risk of cyber fraud continues to increase, no significant failings or weaknesses were identified during the year. There was only one incidence of fraud affecting the Group's business identified during 2016. This was an externally instigated fraud and no material losses were incurred.

Effectiveness of the internal audit

An annual review of internal audit effectiveness and of the performance of KPMG LLP as independent internal auditor was undertaken by the Committee in 2016.

The conclusion was very positive and was that the current internal audit process continues to be an efficient and effective means of managing the internal audit function. The Committee has considered, with KPMG LLP, how this process can be developed further during 2017 and further improvements have been reflected in the current year plan.

Whistleblowing and bribery

The Audit Committee monitors any reported incidents under the Serious Concerns Policy (our whistleblowing policy), which is available to all employees. This policy is displayed on operating site noticeboards and on the Company's intranet, and sets out the procedure for employees to raise legitimate concerns about any wrongdoing without fear of criticism, discrimination or reprisal. The Serious Concerns Policy was reviewed during the year and the Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Audit Committee also takes responsibility for reviewing the policies and procedures adopted by the Company to prevent bribery. The Company is committed to a zero-tolerance position with regard to bribery, made explicit through its Anti-Bribery Code and supporting guidance for its employees, agents and contractors on hospitality and gifts. The policy and procedures are published on the Company website and displayed on operating site noticeboards. Online training is available to all employees via the Group's internal learning zone to reinforce the Anti-Bribery Code and procedures, and classroom-based training sessions are also held throughout the year. All employees in decision-making roles with potential exposure to bribery risk have completed the training and must self-certify annually that they continue to comply. There is a maintained register of employee interests and a gifts and hospitality record. The internal audit review programme included a review of the adequacy of the Company's procedures in relation to the prevention of bribery, and recommendations from the internal audit process have been implemented.

The Audit Committee Report has been approved by the Board and signed on its behalf by:

Mark Edwards
Chair of the Audit Committee
15 March 2017

Directors' Report – Other Regulatory Information

The information required by the Listing Rules (DTR 4.1.8R) is contained in the Strategic Report and the Directors' Report. Marshalls plc is registered with company number 5100353.

The Directors of the Company are listed on pages 34 and 35.

Political donations: The Group made no donations during the year to any political party or political organisation or to any independent election candidate, whether in the European Union or elsewhere (2015: £nil).

Risk management: The Group's risk management objectives, its approach to managing risk generally and its use of financial instruments are described in the Strategic Report on pages 20 to 24. Further details of the Group's risk management in relation to financial risks and its use of financial instruments to mitigate such risks are set out in Note 17 on pages 102 to 107.

Greenhouse gas emissions: The Group's CO_2 (greenhouse gas) emissions in 2016 are disclosed in the Strategic Report on page 27.

Employees: The Company's policies in relation to disabled employees and employee involvement and communication are explained in the Strategic Report on page 26.

Corporate governance: Details of how the Group complies with the UK Corporate Governance Code are set out on pages 36 to 41.

Post-balance sheet events of importance since 31 December 2016: There have been no important events affecting the Group since the end of the financial year.

Research and development: Activity and likely future developments for the business are described in the Strategic Report on pages 2 to 33.

Dividends

The Board is recommending a final dividend of 5.80 pence (2015: 4.75 pence) per share which, together with the interim dividend of 2.90 pence (2015: 2.25 pence) per share, makes a combined dividend of 8.70 pence (2015: 7.00 pence) per share. The Board is also recommending payment of a supplementary dividend of 3.00 pence per share, which is discretionary and non-recurring. Payment of the final dividend and the supplementary dividend, if approved at the Annual General Meeting, will be made on 30 June 2017 to shareholders registered at the close of business on 16 June 2017. The ex-dividend date will be 15 June 2017.

The dividend paid in the year to 31 December 2016 and disclosed in the Consolidated Income Statement is 9.65 pence (2015: 6.25 pence) per share, being the previous year's final dividend of 4.75 pence (2015: 4.00 pence) per share, the interim dividend of 2.90 pence (2015: 2.25 pence) per share in respect of the year ended 31 December 2016 and the prior year supplementary dividend of 2.00 pence per share. The 2015 final and supplementary dividends were paid on 8 July 2016 and the 2016 interim dividend was paid on 2 December 2016.

Share capital and authority to purchase shares

The Company's share capital at 1 January 2017 was 199,378,755 Ordinary Shares of 25 pence. There has been no change between 31 December 2016 and 15 March 2017. Details of the share capital are set out in Note 20 on page 116.

The Ordinary Shares of the Company carry equal rights to dividends, voting and return of capital on the winding up of the Company, as set out in the Company's Articles of Association. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any arrangement between holders of its shares which may result in restrictions on the transfer of securities or voting rights, nor any arrangement whereby a shareholder has waived or agreed to waive dividends (other than the EBT – see below).

The Marshalls plc Employee Benefit Trust ("EBT") holds shares for the purposes of satisfying future awards that may vest under the Company's share-based incentive schemes. The EBT may purchase shares in the Company from time to time to satisfy awards granted to Directors and Senior Executives subject to the achievement of performance targets under the Company's incentive schemes. At 31 December 2016 the EBT held 2,127,022 Ordinary Shares in the Company (2015: 2,715,747 shares) in respect of future incentive awards under the Company's employee share schemes. Details of outstanding awards are set out in Note 18 on pages 111 to 114. The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The Trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

UK-based employees of the Group with more than 6 months' service may participate in the Marshalls plc Share Purchase Plan during any offer period. Employees purchase Ordinary Shares in the Company with their pre-tax salary. The shares are purchased in the market and then held in trust by Yorkshire Building Society. Employees receive dividends on these shares and may give voting instructions to the Trustee.

At the Annual General Meeting in May 2016 shareholders gave authority to the Directors to purchase up to 29,523,367 shares, representing approximately 14.99 per cent of the Company's issued share capital in the Company, in the market during the period expiring at the next Annual General Meeting at a price to be determined within certain limits. No Ordinary Shares in the Company were purchased during the year or between 31 December 2016 and 15 March 2017 under this authority, which will expire at the Annual General Meeting in May 2017. The Directors will seek to renew the authority at that meeting.

Contracts of significance and related parties

There were no contracts of significance between any member of the Group and (a) any undertaking in which a Director has a material interest, or (b) a controlling shareholder (other than between members of the Group). There have been no related party transactions between any member of the Group and a related party since the publication of the last Annual Report.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Group. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole.

Articles of Association

The Company's Articles of Association give powers to the Board to appoint Directors. Newly appointed Directors are required to retire and submit themselves for re-election by shareholders at the first Annual General Meeting following their appointment.

The Board of Directors may exercise all the powers of the Company, subject to the provisions of relevant laws and the Company's Memorandum and Articles of Association. These include specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing and buying back of shares are included in the Articles of Association and such authorities are renewed by shareholders each year at the Annual General Meeting.

The Articles of Association may be amended by Special Resolution of the shareholders.

Directors' indemnities are referenced on page 40 of the Corporate Governance section of the Directors' Report. The Group has not indemnified any Director under the indemnities currently in place.

Directors' interests

Details of Directors' remuneration, their interests in the share capital of the Company and the share-based payment awards are contained in the Remuneration Committee Report on pages 46 to 65. No change in the interests of the Directors has been notified between 31 December 2016 and the date of this report.

Listing Rule requirements

The applicable requirements of Listing Rule 9.8.4R in respect of long-term incentive schemes (pages 111 to 114) and contracts of significance (page 71) are included in this Annual Report.

Substantial shareholdings

The Company has no controlling shareholder. As at 15 March 2017, the Company had been notified, in accordance with DTR Rule 5, of the following disclosable interests of 3 per cent or more in its voting rights:

	As at 15 March 2017 %	As at 31 December 2016 %
Standard Life Investments	**9.84**	9.36
Majedie Asset Management	**9.13**	9.10
BlackRock	**6.83**	6.49
Legal & General Investment Management	**5.60**	3.03
Royal London Asset Management	**4.43**	4.41
Montanaro Investment Managers	**3.91**	4.04
Henderson Global Investors	**3.61**	3.59
Unicorn Asset Management	**3.56**	3.62
M&G Investment Management	**3.19**	3.20
JP Morgan Asset Management	**3.12**	3.16

The Directors' Report, comprising the Strategic Report, the Corporate Governance Report and the reports of the Audit, Remuneration and Nomination Committees, has been approved by the Board and signed on its behalf by:

Cathy Baxandall
Group Company Secretary
15 March 2017

Independent Auditor's Report

to the members of Marshalls plc

Opinion on Financial Statements of Marshalls plc

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

The Financial Statements that we have audited comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group Cash Flow Statement;
- the Group and Parent Company Statements of Changes in Equity;
- the Statement of Accounting Policies; and
- the related Notes 1 to 40.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • carrying value of inventory; and • completeness of rebate expense. These risks are the same as those identified in the prior year.
Materiality	The materiality that we used in the current year was £2.3 million, which was determined on the basis of 5 per cent of pre-tax profits.
Scoping	The Group audit team performed the audit of all UK components, which accounted for 96 per cent of Group revenue, 98 per cent of Group net assets and 98 per cent of Group profit before tax. Marshalls NV, the subsidiary based in Belgium, was audited by Deloitte Antwerp under the supervision of the Group audit team.
Significant changes in our approach	There have been no significant changes in our audit approach since the previous year.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the Group Financial Statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board ("IASB"). In our opinion the Group Financial Statements comply with IFRSs as issued by the IASB.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' Statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the Financial Statements and the Directors' Statement on the longer-term viability of the Group contained within the Strategic Report, on page 21.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 21 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 20 to 24 that describe those risks and explain how they are being managed or mitigated;
- the Directors' Statement in Note 1 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements; and
- the Directors' explanation on page 21 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Independent Auditor's Report – *continued*

to the members of Marshalls plc

Carrying value of inventory

Risk description	The Group is primarily involved in the manufacture and sale of landscape and natural stone products, selling to Public Sector and Commercial and Domestic end users. The Group carries a large amount of inventory in order to meet customer demand at any given point in time. Inventory of £68.7 million at the year end (2015: £65.3 million) is stated at the lower of cost and net realisable value and is net of relevant provisions. The Group offers a wide range of non-perishable products that are manufactured and subsequently stored in large quantities at various locations. A risk exists that the sales prices of inventories, particularly those which are aged or in excess of specific customer requirements, may need to be discounted before they can be sold. The risk of discounting, combined with potential costs to move inventory to a location of higher demand, may result in some items of inventory being sold at a price which is below cost. The Directors are responsible for making judgements surrounding: • the length of time required to sell inventories; • the level of discounts necessary to sell inventories; • whether inventories will need to be discounted below their cost price; and • the appropriateness of standard costs and the level of provisioning applied. The carrying value of the Group's finished goods inventory as disclosed in Note 12 is noted as an area considered by the Audit Committee in its report on page 68.
How the scope of our audit responded to the risk	We have: • reviewed business processes surrounding the recording of inventory quantities and management's review of the valuation and provisioning of inventory items; • evaluated the design and implementation and tested the operating effectiveness of key controls relating to purchasing and inventory provisioning across the Group; • attended inventory counts at key locations to observe the count procedure being undertaken and inspect the condition of inventories; • selected a sample of inventory items and agreed key inputs in the valuation such as materials costs, rebates, shipping costs, the overheads absorbed and expected sales prices to supporting documentation; • tested the standard cost assessment and year-end adjustment to actual cost; and • used data analytic techniques to compare sales and related transport costs by product line to inventory cost to identify any inventory sold for less than its cost.
Key observations	The results of our testing were satisfactory and no issues were identified which raised concerns over the basis of valuation of inventory and the level of inventory provisions.

Completeness of rebate expense

Risk description	The Group enters into a number of commercial rebate agreements with its customers which have varying terms and as such a risk exists that rebate agreements with customers are not correctly or completely accounted for, potentially resulting in an overstatement of revenue and profit. The Directors are responsible for making judgements relating to the level of year-end accruals to record for rebates due to customers. This is further noted as a matter considered by the Audit Committee in its report on page 68.
How the scope of our audit responded to the risk	We have: • reviewed business processes surrounding the recording of customer rebate expense and the calculation of the year-end accrual; • evaluated the design and implementation of key controls relating to the customer rebate expense cycle; • reviewed a sample of customer rebate agreements and recalculated rebates due at the year end to assess whether accruals are calculated in line with contractual terms; • performed testing of rebate cut-off to assess whether customer rebate expenses are recognised in the appropriate period; • performed procedures to consider the accuracy of past rebate accrual estimates by comparing the brought forward rebate accrual to cash payments during the year; and • reviewed post year-end customer transactions to consider the completeness of the closing accruals.
Key observations	We concluded that the overall levels of year end rebate accruals and the rebate expense recognised by management were reasonable.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report – *continued*

to the members of Marshalls plc

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Group materiality	£2.3 million (2015: £1.8 million)
Basis for determining materiality	We determined materiality for the Group to be £2.3 million (2015: £1.8 million), which is 5 per cent of pre-tax profit (2015: 5 per cent of pre-tax profit) and below 1.5 per cent of equity.
Rationale for the benchmark applied	In our professional judgement, profit before tax is a principal benchmark within the Financial Statements that is relevant to users of the Financial Statements.

Following a reassessment of the levels at which we would report to the Audit Committee, we discussed and agreed with the Audit Committee that all audit differences in excess of £100,000 (2015: £35,000) would be reported as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement both at the Group and component level. There have been no significant changes to the scope of our audit since the previous year. The Group and Parent Company audits are performed at the Group's head office in Elland, West Yorkshire. All subsidiaries of the Group except Marshalls NV, based in Belgium, are both accounted for and have their operations directed from the Group's head office. The Group audit team performed the audit of all UK components, which accounted for 96 per cent of Group revenue, 98 per cent of Group net assets and 98 per cent of Group profit before tax.

Marshalls NV accounted for the remaining revenue, net assets and profit before tax of the Group and was audited by Deloitte Antwerp under the supervision of the Group audit team to a component materiality of £0.75 million.

The Group audit team followed a programme of planned visits to the Group's Belgium site during the year. In addition, the Senior Statutory Auditor has been involved in the planning and reporting procedures for all of the Group's components. In future years we will continue to include the component audit partner and team in our team briefing, discuss their risk assessment and review documentation of the findings from their work.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' Statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Christopher Robertson (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, UK
15 March 2017

Consolidated Income Statement

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Revenue	2	**396,922**	386,204
Net operating costs	3	**(349,283)**	(348,752)
Operating profit	2	**47,639**	37,452
Financial expenses	5	**(1,594)**	(2,181)
Financial income	5	**1**	7
Profit before tax	2	**46,046**	35,278
Income tax expense	6	**(8,539)**	(7,387)
Profit for the financial year		**37,507**	27,891
Profit for the year			
Attributable to:			
Equity shareholders of the Parent		**37,350**	28,149
Non-controlling interests		**157**	(258)
		37,507	27,891
Earnings per share			
Basic	7	**18.95p**	14.32p
Diluted	7	**18.61p**	14.10p
Dividend			
Pence per share	8	**9.65p**	6.25p
Dividends declared	8	**19,034**	12,291

All results relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the financial year	**37,507**	27,891
Other comprehensive income / (expense)		
Items that will not be reclassified to the Income Statement:		
Remeasurements of the net defined benefit liability	**1,394**	(3,866)
Deferred tax arising	**(237)**	773
Total items that will not be reclassified to the Income Statement	**1,157**	(3,093)
Items that are or may in the future be reclassified to the Income Statement:		
Effective portion of changes in fair value of cash flow hedges	**1,123**	(940)
Fair value of cash flow hedges transferred to the Income Statement	**1,681**	1,984
Deferred tax arising	**(561)**	(209)
Impact of the change in rate of deferred taxation	**–**	(375)
Exchange difference on retranslation of foreign currency net investment	**2,729**	(980)
Exchange movements associated with borrowings	**(2,641)**	847
Foreign currency translation differences – non-controlling interests	**169**	(78)
Total items that are or may be reclassified subsequently to the Income Statement	**2,500**	249
Other comprehensive income / (expense) for the year, net of income tax	**3,657**	(2,844)
Total comprehensive income for the year	**41,164**	25,047
Attributable to:		
Equity shareholders of the Parent	**40,838**	25,383
Non-controlling interests	**326**	(336)
	41,164	25,047

Consolidated Balance Sheet

at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**146,995**	147,489
Intangible assets	10	**40,093**	40,168
Trade and other receivables	13	**208**	415
Employee benefits	18	**4,276**	3,427
Deferred taxation assets	19	**1,821**	1,316
		193,393	192,815
Current assets			
Inventories	12	**68,713**	65,254
Trade and other receivables	13	**49,010**	44,542
Cash and cash equivalents	14	**20,681**	24,990
Assets classified as held for sale	9	**624**	2,231
Derivative financial instruments	17	**657**	–
		139,685	137,017
Total assets		**333,078**	329,832
Liabilities			
Current liabilities			
Trade and other payables	15	**79,646**	79,607
Corporation tax		**7,388**	5,281
Interest-bearing loans and borrowings	16	**34**	34
Derivative financial instruments	17	**–**	2,149
		87,068	87,071
Non-current liabilities			
Interest-bearing loans and borrowings	16	**15,234**	36,418
Deferred taxation liabilities	19	**13,655**	13,625
		28,889	50,043
Total liabilities		**115,957**	137,114
Net assets		**217,121**	192,718
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital	20	**49,845**	49,845
Share premium account		**22,695**	22,695
Own shares		**(3,622)**	(5,529)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**590**	(1,653)
Retained earnings		**283,821**	263,894
Equity attributable to equity shareholders of the Parent		**215,656**	191,579
Non-controlling interests	21	**1,465**	1,139
Total equity		**217,121**	192,718

Approved at a Directors' meeting on 15 March 2017.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 84 to 118 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit for the financial year		**37,507**	27,891
Income tax expense	6	**8,539**	7,387
Profit before tax		**46,046**	35,278
Adjustments for:			
Depreciation	9	**12,146**	13,054
Amortisation	10	**1,009**	1,322
Associates		**–**	582
Gain on sale of property, plant and equipment	3	**(609)**	(149)
Equity settled share-based payments		**2,884**	2,202
Financial income and expenses (net)		**1,593**	2,174
Operating cash flow before changes in working capital and pension scheme contributions		**63,069**	54,463
Increase in trade and other receivables		**(4,602)**	(443)
(Increase) / decrease in inventories		**(2,419)**	1,706
Increase in trade and other payables		**1,868**	7,262
Operational restructuring costs paid	3	**(476)**	(175)
Pension scheme contributions		**–**	(4,350)
Cash generated from operations		**57,440**	58,463
Financial expenses paid		**(940)**	(1,775)
Income tax paid		**(7,107)**	(7,003)
Net cash flow from operating activities		**49,393**	49,685
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**3,839**	933
Financial income received		**1**	7
Net proceeds from disposal of associates		**–**	200
Acquisition of property, plant and equipment		**(12,939)**	(14,016)
Acquisition of intangible assets		**(934)**	(909)
Net cash flow from investing activities		**(10,033)**	(13,785)
Cash flows from financing activities			
Payments to acquire own shares		**(1,175)**	(4,582)
Net decrease in other debt and finance leases		**(40)**	(166)
Decrease in borrowings		**(23,791)**	(14,182)
Equity dividends paid		**(19,034)**	(12,291)
Net cash flow from financing activities		**(44,040)**	(31,221)
Net (decrease) / increase in cash and cash equivalents		**(4,680)**	4,679
Cash and cash equivalents at the beginning of the year		**24,990**	20,320
Effect of exchange rate fluctuations		**371**	(9)
Cash and cash equivalents at the end of the year		**20,681**	24,990

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	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	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Current year										
At 1 January 2016	**49,845**	**22,695**	**(5,529)**	**75,394**	**(213,067)**	**(1,653)**	**263,894**	**191,579**	**1,139**	**192,718**
Total comprehensive income for the year										
Profit for the financial year attributable to equity shareholders of the Parent	–	–	–	–	–	–	**37,350**	**37,350**	**157**	**37,507**
Other comprehensive income / (expense)										
Foreign currency translation differences	–	–	–	–	–	–	**88**	**88**	**169**	**257**
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	**1,123**	–	**1,123**	–	**1,123**
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	**1,681**	–	**1,681**	–	**1,681**
Deferred tax arising	–	–	–	–	–	**(561)**	–	**(561)**	–	**(561)**
Defined benefit plan actuarial gain	–	–	–	–	–	–	**1,394**	**1,394**	–	**1,394**
Deferred tax arising	–	–	–	–	–	–	**(237)**	**(237)**	–	**(237)**
Total other comprehensive income	–	–	–	–	–	**2,243**	**1,245**	**3,488**	**169**	**3,657**
Total comprehensive income for the year	–	–	–	–	–	**2,243**	**38,595**	**40,838**	**326**	**41,164**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	–	–	–	–	–	–	**2,884**	**2,884**	–	**2,884**
Deferred tax on share-based payments	–	–	–	–	–	–	**122**	**122**	–	**122**
Corporation tax on share-based payments	–	–	–	–	–	–	**442**	**442**	–	**442**
Dividends to equity shareholders	–	–	–	–	–	–	**(19,034)**	**(19,034)**	–	**(19,034)**
Purchase of own shares	–	–	**(1,175)**	–	–	–	–	**(1,175)**	–	**(1,175)**
Disposal of own shares	–	–	**3,082**	–	–	–	**(3,082)**	–	–	–
Total contributions by and distributions to owners	–	–	**1,907**	–	–	–	**(18,668)**	**(16,761)**	–	**(16,761)**
Total transactions with owners of the Company	–	–	**1,907**	–	–	**2,243**	**19,927**	**24,077**	**326**	**24,403**
At 31 December 2016	**49,845**	**22,695**	**(3,622)**	**75,394**	**(213,067)**	**590**	**283,821**	**215,656**	**1,465**	**217,121**

	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	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Prior year										
At 1 January 2015	49,845	22,695	(6,689)	75,394	(213,067)	(2,488)	254,729	180,419	1,475	181,894
Total comprehensive income / (expense) for the year										
Profit / (loss) for the financial year attributable to equity shareholders of the Parent	–	–	–	–	–	–	28,149	28,149	(258)	27,891
Other comprehensive income / (expense)										
Foreign currency translation differences	–	–	–	–	–	–	(133)	(133)	(78)	(211)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	(940)	–	(940)	–	(940)
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	1,984	–	1,984	–	1,984
Deferred tax arising	–	–	–	–	–	(209)	–	(209)	–	(209)
Defined benefit plan actuarial losses	–	–	–	–	–	–	(3,866)	(3,866)	–	(3,866)
Impact of change in rate of deferred tax	–	–	–	–	–	–	(375)	(375)	–	(375)
Deferred tax arising	–	–	–	–	–	–	773	773	–	773
Total other comprehensive income / (expense)	–	–	–	–	–	835	(3,601)	(2,766)	(78)	(2,844)
Total comprehensive income / (expense) for the year	–	–	–	–	–	835	24,548	25,383	(336)	25,047
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	–	–	–	–	–	–	2,202	2,202	–	2,202
Deferred tax on share-based payments	–	–	–	–	–	–	(5)	(5)	–	(5)
Corporation tax on share-based payments	–	–	–	–	–	–	445	445	–	445
Impact of the change in rate of deferred tax on share-based payments	–	–	–	–	–	–	8	8	–	8
Dividends to equity shareholders	–	–	–	–	–	–	(12,291)	(12,291)	–	(12,291)
Purchase of own shares	–	–	(4,582)	–	–	–	–	(4,582)	–	(4,582)
Disposal of own shares	–	–	5,742	–	–	–	(5,742)	–	–	–
Total contributions by and distributions to owners	–	–	1,160	–	–	–	(15,383)	(14,223)	–	(14,223)
Total transactions with owners of the Company	–	–	1,160	–	–	835	9,165	11,160	(336)	10,824
At 31 December 2015	49,845	22,695	(5,529)	75,394	(213,067)	(1,653)	263,894	191,579	1,139	192,718

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshalls plc (the "Company") is a company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2016 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 2017.

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

The Consolidated Financial Statements have been prepared in accordance with IFRSs as adopted for use in the EU and therefore the Group Financial Statements comply with Article 4 of the EU IAS Regulations. 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.

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Financial Statements.

- Amendments to IAS 1 *"Disclosure Initiative".* The Group has adopted the amendments to IAS 1 *"Disclosure Initiative"* for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

  In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

  The amendments also address the structure of the financial statements by providing examples of systematic ordering or grouping of the notes.

  The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

- Amendments to IAS 16 and IAS 38 *"Clarification of Acceptable Methods of Depreciation and Amortisation".* The Group has adopted the amendments to IAS 16 and IAS 38 *"Clarification of Acceptable Methods of Depreciation and Amortisation"* for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

  (a) when the intangible asset is expressed as a measure of revenue; or

  (b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

  Other than in relation to queries, where a rate of extraction basis for depreciation is applied the Group uses the straight line method for depreciation and amortisation for all other items if property, plant and equipment and intangible assets. Consequently, the adoption of these amendments has had no impact on the Group's Consolidated Financial Statements.

- *"Annual Improvements to IFRSs 2012-2014 Cycle".* The Group has adopted the amendments to IFRSs included in the *"Annual Improvements to IFRSs 2012-2014 Cycle"* for the first time in the current year.

  The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

  The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

  The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on Government bonds denominated in that currency should be used instead.

  The adoption of these amendments has had no effect on the Group's Consolidated Financial Statements.

1 Accounting policies *continued*

Significant accounting policies *continued*

At the date of authorisation of these Financial Statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

- IFRS 9 "*Financial Instruments";*
- IFRS 15 *"Revenue from Contracts with Customers";*
- IFRS 16 "*Leases";*
- IFRS 2 (amendments) "*Classification and Measurement of Share-based Payment Transactions";*
- IAS 7 (amendments) "*Disclosure Initiative"; and*
- IAS 12 (amendments) "*Recognition of Deferred Tax Assets for Unrealised Losses".*

The Directors do not expect that the adoption of the standards listed above will have a material impact on the Financial Statements of the Group in future periods, except as noted below:

- IFRS 9 will impact both the measurement and disclosure of financial instruments;
- IFRS 15 is not expected to have a material to have a material impact on revenue recognition and related disclosures; and
- IFRS 16 will have a material impact on the reported assets, liabilities, income statement and cash flows of the Group. Furthermore, extensive disclosures will be required by IFRS 16. The Group has disclosed operating lease commitments at 31 December 2016 amounting to £71.0 million (2015: £74.0 million) and full disclosures of these are included in Note 23 on page 117.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

(a) Statement of compliance

The Group Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs"). The Parent Company has elected to prepare its Financial Statements in accordance with FRS 101 and these are presented on pages 119 to 126.

(b) Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 33. 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 17 includes the Group's policies and procedures for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

Details of the Group's funding position are set out in Note 17 and are subject to normal covenant arrangements. The Group's on-demand overdraft facility is reviewed on an annual basis and the current arrangements were renewed and signed on 16 August 2016. In the opinion of the Directors there are sufficient unutilised facilities held which mature after 12 months. The Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. Based on current expectations, the Group's cash forecasts continue to meet half-year and year-end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully. Accordingly, they 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 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).

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 26 on page 118. 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.

1 Accounting policies *continued*

Significant accounting policies *continued*

(b) Basis of preparation *continued*

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 26.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries (which are set out in detail in Note 30 on pages 123 and 124) 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 1 or more of the 3 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) Associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustment to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) 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.

(iv) 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 net assets are initially measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at the initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

1 Accounting policies *continued*

Significant accounting policies *continued*

(d) Foreign currency transactions

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

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.

(e) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, fuel pricing and interest rate 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. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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)).

(f) Hedging

(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 forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted 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 overleaf) and impairment losses (see accounting policy (m)). The cost of self-constructed assets includes the cost of materials, 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) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see overleaf) and impairment losses (see accounting policy (m)).

(iii) 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.

1 Accounting policies *continued*

Significant accounting policies *continued*

(g) Property, plant and equipment *continued*

(iv) 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 and long leasehold buildings	–	2.5 per cent to 5 per cent per annum
Short leasehold property	–	over the period of the lease
Fixed plant and equipment	–	3.3 per cent to 25 per cent per annum
Mobile plant and vehicles	–	14 per cent to 30 per cent per annum
Quarries	–	based on rates of extraction

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

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

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

Depreciation commences when commercial extraction commences and is based on the rate of extraction.

In accordance with IAS 37, provision is made for quarry restoration where a legal or constructive obligation exists, it is probable that an outflow of economic benefits will occur and the financial cost of restoration work can be reliably measured. The lives of quarries are almost always long and it is difficult to estimate the length with any precision. The majority of quarry restoration work is undertaken while extracting minerals from new areas (backfilling) and therefore work can be completed without additional cost. As a result of the particular characteristics of the Group's quarries, the IAS 37 criteria have not been met to date based on the assets so far acquired and, therefore, no provisions have been recognised.

(h) Intangible assets

(i) Goodwill

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

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

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

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

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

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure 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 business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired. The classification and accounting treatment of business combinations that occurred prior to 1 January 2016 were not adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2016.

1 Accounting policies *continued*

Significant accounting policies *continued*

(h) Intangible assets *continued*

(i) Goodwill *continued*

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.

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.

(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 below) 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 below) and impairment losses (see accounting policy (m)).

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

(i) Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses (see accounting policy (m)).

(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 1 year from the date of classification, and the asset is available for immediate sale in its present condition.

1 Accounting policies *continued*

Significant accounting policies *continued*

(m) Impairment

(i) Impairment review

The carrying amounts of the Group's assets, other than inventories (see accounting policy (j)) and deferred tax assets (see accounting policy (w)), 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) 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.

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.

1 Accounting policies *continued*

Significant accounting policies *continued*

(q) 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") and there are also outstanding awards from previous years under the 2005 Long Term Incentive Plan ("LTIP").

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.

(r) Own shares held by the Employee Benefit Trust

Transactions of the Group-sponsored Employee Benefit Trust are included in the Group Financial Statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

(s) 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.

(t) Trade and other payables

Trade and other payables are stated at nominal amount (discounted if material).

(u) Revenue

Revenue from the sale of goods is recognised in the Consolidated Income Statement upon the despatch of goods, when the significant risks and rewards of ownership of the goods have been transferred to the buyer. Revenue represents the invoiced value of sales to customers less returns, allowances, rebates and value added tax.

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.

(v) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the Consolidated Income Statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the Consolidated Income Statement over the life of the lease.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) 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 (including finance leases) calculated using the effective interest rate method, dividends on non-equity shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the Consolidated Income Statement (see accounting policy (f)).

1 Accounting policies *continued*

Significant accounting policies *continued*

(w) 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 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.

(x) 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 performance. As far as Marshalls is concerned the CODM is regarded as being the Executive Directors. The Directors have concluded that the Group's Landscape Products business is a single reportable segment, which includes the UK operations of the Marshalls Landscape Products hard landscaping business, servicing both the UK Domestic and the Public Sector and Commercial end markets. Financial information for Landscape Products is now reported to the Group's CODM for the assessment of segment performance and to facilitate resource allocation.

2 Segmental analysis

Segment revenues and results

	2016			2015		
	Landscape Products £'000	**Other £'000**	**Total £'000**	Landscape Products £'000	Other £'000	Total £'000
Total revenue	**311,100**	**89,070**	**400,170**	299,650	90,915	390,565
Inter-segment revenue	**(89)**	**(3,159)**	**(3,248)**	(123)	(4,238)	(4,361)
External revenue	**311,011**	**85,911**	**396,922**	299,527	86,677	386,204
Segment operating profit	**50,441**	**3,157**	**53,598**	41,816	1,763	43,579
Unallocated administration costs			**(5,959)**			(5,545)
Associates			**–**			(582)
Operating profit			**47,639**			37,452
Finance charges (net)			**(1,593)**			(2,174)
Profit before tax			**46,046**			35,278
Taxation			**(8,539)**			(7,387)
Profit after tax			**37,507**			27,891

2 Segmental analysis *continued*

Segment revenues and results *continued*

The Group has 2 customers who each contributed more than 10 per cent of total revenue in the current and prior year.

The Landscape Products reportable segment operates a national manufacturing plan that is structured around a series of production units throughout the UK, in conjunction with a single logistics and distribution operation. A national planning process supports sales to both of the key end markets, namely the UK Domestic and Public Sector and Commercial end markets and the operating assets produce and deliver a range of broadly similar products that are sold into each of these end markets. Within the Landscape Products operating segment the focus is on the 1 integrated production, logistics and distribution network supporting both end markets.

Included in "Other" are the Group's Street Furniture, Mineral Products, Stone Cladding and International operations, which do not currently meet the IFRS 8 reporting requirements.

The accounting policies of the Landscape Products operating segment are the same as the Group's accounting policies. Segment profit represents the profit earned without allocation of the share of profit of associates and 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

	2016 £'000	2015 £'000
Fixed assets and inventory:		
Landscape Products	**157,786**	156,112
Other	**57,922**	56,631
Total segment fixed assets and inventory	**215,708**	212,743
Unallocated assets	**117,370**	117,089
Consolidated total assets	**333,078**	329,832

For the purpose of monitoring segment performance and allocating resources between segments, the Group's CODM monitors the tangible fixed assets and inventory. Assets used jointly by reportable segments are not allocated to individual reportable segments.

Other segment information

	Depreciation and amortisation		Fixed asset additions	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Landscape Products	**9,462**	10,465	**9,131**	11,678
Other	**3,693**	3,911	**3,883**	3,816
	13,155	14,376	**13,014**	15,494

Geographical destination of revenue

	2016 £'000	2015 £'000
United Kingdom	**377,659**	367,248
Rest of the World	**19,263**	18,956
	396,922	386,204

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.

Notes to the Consolidated Financial Statements – *continued*

3 Net operating costs

	2016 £'000	2015 £'000
Raw materials and consumables	**142,011**	141,471
Changes in inventories of finished goods and work in progress	**2,591**	(1,801)
Personnel costs	**98,128**	96,716
Depreciation	**12,146**	13,054
Amortisation of intangible assets	**1,009**	1,322
Own work capitalised	**(1,381)**	(1,810)
Other operating costs	**97,069**	100,707
Restructuring costs	**476**	–
Operating costs	**352,049**	349,659
Other operating income	**(2,157)**	(1,340)
Net gain on asset and property disposals	**(609)**	(149)
Associates	**–**	582
Net operating costs	**349,283**	348,752

	2016 £'000	2015 £'000
Net operating costs include:		
Auditor's remuneration (see below)	**163**	160
Leasing costs	**10,151**	9,203
Hire of plant and machinery	**4,943**	4,881
Research and development costs	**3,364**	3,134

In respect of the year under review, Deloitte LLP carried out work in relation to:

	2016 £'000	2015 £'000
Audit of Marshalls plc	**20**	20
Audit of financial statements of subsidiaries of the Company	**123**	120
Half-yearly review of Marshalls plc	**20**	20
	163	160

4 Personnel costs

	2016 £'000	2015 £'000
Personnel costs (including amounts charged in the year in relation to Directors):		
Wages and salaries	**79,605**	79,691
Social security costs	**9,361**	9,260
Share-based payments	**3,750**	2,490
Contributions to defined contribution pension scheme	**5,412**	5,275
Included within net operating costs (Note 3)	**98,128**	96,716
Personnel costs relating to restructuring (Note 3)	**476**	–
Total personnel costs	**98,604**	96,716

4 Personnel costs *continued*

	2016 £'000	2015 £'000
Remuneration of Directors:		
Salary	**699**	649
Other benefits	**39**	34
MIP Element A bonus	**844**	734
MIP Element B bonus	**339**	325
Amounts receivable under the 2005 LTIP	**956**	816
Salary supplement in lieu of pension	**139**	129
Non-Executive Directors' fees and fixed allowances	**310**	317
	3,326	3,004

The aggregate of emoluments and amounts receivable under the MIP and the 2005 LTIP of the highest paid Director was £1,913,000 (2015: £2,064,000), including a salary supplement in lieu of pension of £84,000 (2015: £82,000).

There are no Directors to whom retirement benefits are accruing in respect of qualifying services. As set out in the Annual Remuneration Report on page 58, the Executive Directors receive a salary supplement in lieu of pension equal to their contractual entitlement of 20 per cent of basic salary.

Further details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed in the Annual Remuneration Report on pages 58 to 65.

The average monthly number of persons employed by the Group during the year was:

	2016 Number	2015 Number
Continuing operations	**2,253**	2,237

5 Financial expenses and income

	2016 £'000	2015 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	**445**	406
Interest expense on bank loans, overdrafts and loan notes	**1,143**	1,767
Finance lease interest expense	**6**	8
	1,594	2,181
(b) Financial income		
Interest receivable and similar income	**1**	7

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

6 Income tax expense

	2016 £'000	2015 £'000
Current tax expense		
Current year	**10,611**	8,164
Adjustments for prior years	**(921)**	289
	9,690	8,453
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**(1,098)**	(684)
Adjustments for prior years	**(53)**	(382)
Total tax expense	**8,539**	7,387

6 Income tax expense *continued*

	2016 %	**2016 £'000**	2015 %	2015 £'000
Reconciliation of effective tax rate				
Profit before tax	**100.0**	**46,046**	100.0	35,278
Tax using domestic corporation tax rate	**20.0**	**9,209**	20.2	7,144
Impact of capital allowances in excess of depreciation	**0.4**	**173**	2.0	710
Short-term timing differences	**1.0**	**480**	(0.2)	(81)
Adjustment to tax charge in prior year	**(2.0)**	**(921)**	0.8	289
Expenses not deductible for tax purposes	**1.6**	**749**	1.1	391
Corporation tax charge for the year	**21.0**	**9,690**	23.9	8,453
Impact of capital allowances in excess of depreciation	**(1.0)**	**(443)**	(1.0)	(355)
Short-term timing differences	**(0.1)**	**(66)**	(0.2)	(79)
Pension scheme movements	**0.3**	**127**	2.1	746
Other items	**(0.9)**	**(397)**	(0.3)	(100)
Adjustment to tax charge in prior year	**(0.1)**	**(53)**	(1.1)	(382)
Impact of the change in the rate of corporation tax on deferred taxation	**(0.7)**	**(319)**	(2.5)	(896)
Total tax charge for the year	**18.5**	**8,539**	20.9	7,387

The net amount of deferred taxation (debited) / credited to the Consolidated Statement of Comprehensive Income in the year was £798,000 debit (2015: £189,000 credit).

The majority of the Group's profits are earned in the UK with the standard rate of corporation tax being 20 per cent for the year to 31 December 2016.

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 to 31 December 2016 the depreciation charge for the year exceeded the capital allowances due to the Group.

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

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

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

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, China and Dubai. The sales of these units, in total, were less than 5 per cent of the Group's turnover in the year to 31 December 2016. In total, the trading profits were not material and no tax was due.

7 Earnings per share

Basic earnings per share of 18.95 pence (2015: 14.32 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £37,350,000 (2015: £28,149,000) by the weighted average number of shares in issue during the period of 197,130,419 (2015: 196,574,435).

7 Earnings per share *continued*

Profit attributable to Ordinary Shareholders

	2016 £'000	2015 £'000
Profit for the financial year	**37,507**	27,891
(Profit)/loss attributable to non-controlling interests	**(157)**	258
Profit attributable to Ordinary Shareholders	**37,350**	28,149

Weighted average number of Ordinary Shares

	2016 Number	2015 Number
Number of issued Ordinary Shares (at beginning of the year)	**199,378,755**	199,378,755
Effect of shares transferred into employee benefit trust	**(2,248,336)**	(2,804,320)
Weighted average number of Ordinary Shares at end of the year	**197,130,419**	196,574,435

Diluted earnings per share of 18.61 pence (2015: 14.10 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £37,350,000 (2015: £28,149,000) by the weighted average number of shares in issue during the period of 197,130,419 (2015: 196,574,435) plus potentially dilutive shares of 3,561,243 (2015: 3,092,619), which totals 200,691,662 (2015: 199,667,054).

Weighted average number of Ordinary Shares (diluted)

	2016 Number	2015 Number
Weighted average number of Ordinary Shares	**197,130,419**	196,574,435
Potentially dilutive shares	**3,561,243**	3,092,619
Weighted average number of Ordinary Shares (diluted)	**200,691,662**	199,667,054

8 Dividends

After the balance sheet date a final dividend of 5.80 pence (2015: 4.75 pence) per qualifying Ordinary Share was proposed by the Directors. In addition a supplementary dividend of 3.00 pence (2015: 2.00 pence) per qualifying Ordinary Share was proposed by the Directors. These dividends have not been provided for and there are no income tax consequences. The total dividends proposed in respect of the year are as follows:

	Pence per qualifying share	2016 £'000	2015 £'000
2016 supplementary	**3.00**	**5,917**	
2016 final	**5.80**	**11,440**	
2016 interim	**2.90**	**5,720**	
	11.70	**23,077**	
2015 supplementary	2.00		3,988
2015 final	4.75		9,470
2015 interim	2.25		4,425
	9.00		17,883

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

	Pence per qualifying share	2016 £'000	2015 £'000
2016 interim	**2.90**	**5,720**	
2015 supplementary	**2.00**	**3,945**	
2015 final	**4.75**	**9,369**	
	9.65	**19,034**	
2015 interim	2.25		4,425
2014 final	4.00		7,866
	6.25		12,291

Notes to the Consolidated Financial Statements – *continued*

8 Dividends *continued*

The Board recommends a 2016 final dividend of 5.80 pence per qualifying Ordinary Share (amounting to £11,440,000), alongside a supplementary dividend of 3.00 pence per qualifying Ordinary Share (amounting to £5,917,000), to be paid on 30 June 2017 to shareholders registered at the close of business on 16 June 2017.

9 Property, plant and equipment

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2015	85,932	21,410	304,850	412,192
Exchange differences	(449)	–	(300)	(749)
Additions	1,343	1,541	11,701	14,585
Reclassified as held for sale	(2,231)	–	–	(2,231)
Disposals	(203)	–	(2,817)	(3,020)
At 31 December 2015	84,392	22,951	313,434	420,777
At 1 January 2016	**84,392**	**22,951**	**313,434**	**420,777**
Exchange differences	**944**	**–**	**624**	**1,568**
Additions	**551**	**446**	**11,083**	**12,080**
Reclassified as held for sale	**(1,910)**	**–**	**–**	**(1,910)**
Disposals	**(297)**	**–**	**(1,665)**	**(1,962)**
At 31 December 2016	**83,680**	**23,397**	**323,476**	**430,553**
Depreciation and impairment losses				
At 1 January 2015	34,752	6,656	221,039	262,447
Depreciation charge for the year	1,825	348	10,881	13,054
Exchange differences	(3)	–	(158)	(161)
Disposals	(7)	–	(2,045)	(2,052)
At 31 December 2015	36,567	7,004	229,717	273,288
At 1 January 2016	**36,567**	**7,004**	**229,717**	**273,288**
Depreciation charge for the year	**1,814**	**531**	**9,801**	**12,146**
Reclassifications and transfers to assets held for sale	**(1,286)**	**288**	**–**	**(998)**
Exchange differences	**15**	**–**	**382**	**397**
Disposals	**(94)**	**–**	**(1,181)**	**(1,275)**
At 31 December 2016	**37,016**	**7,823**	**238,719**	**283,558**
Net book value				
At 1 January 2015	51,180	14,754	83,811	149,745
At 31 December 2015	47,825	15,947	83,717	147,489
At 31 December 2016	**46,664**	**15,574**	**84,757**	**146,995**

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

During the year ended 31 December 2016, land and buildings with a book value of £624,000 (2015: £2,231,000) have been reclassified as held for sale in accordance with IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"*. Assets disclosed as held for sale as at 31 December 2015 have been disposed of in the year ended 31 December 2016.

9 Property, plant and equipment *continued*

The carrying amount of tangible fixed assets includes £402,000 (2015: £402,000) in respect of assets held under finance leases. Group cost of land and buildings and plant and machinery includes £nil (2015: £140,000) and £999,000 (2015: £8,011,000) respectively for assets in the course of construction.

Capital commitments

	2016 £'000	2015 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**1,427**	550

Depreciation charge

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

	2016 £'000	2015 £'000
Net operating costs (Note 3)	**12,146**	13,054

10 Intangible assets

	Goodwill £'000	Customer relationships £'000	Supplier relationships £'000	Patents, trademarks and know-how £'000	Development costs £'000	Software £'000	Total £'000
Cost							
At 1 January 2015	43,691	2,210	1,200	1,660	159	10,767	59,687
Additions	–	–	–	–	–	909	909
At 31 December 2015	43,691	2,210	1,200	1,660	159	11,676	60,596
At 1 January 2016	**43,691**	**2,210**	**1,200**	**1,660**	**159**	**11,676**	**60,596**
Additions	**–**	**–**	**–**	**–**	**–**	**934**	**934**
At 31 December 2016	**43,691**	**2,210**	**1,200**	**1,660**	**159**	**12,610**	**61,530**
Amortisation and impairment losses							
At 1 January 2015	8,912	2,210	668	1,334	85	5,897	19,106
Amortisation for the year	–	–	60	32	8	1,222	1,322
At 31 December 2015	8,912	2,210	728	1,366	93	7,119	20,428
At 1 January 2016	**8,912**	**2,210**	**728**	**1,366**	**93**	**7,119**	**20,428**
Amortisation for the year	**–**	**–**	**60**	**32**	**8**	**909**	**1,009**
At 31 December 2016	**8,912**	**2,210**	**788**	**1,398**	**101**	**8,028**	**21,437**
Carrying amounts							
At 1 January 2015	34,779	–	532	326	74	4,870	40,581
At 31 December 2015	34,779	–	472	294	66	4,557	40,168
At 31 December 2016	**34,779**	**–**	**412**	**262**	**58**	**4,582**	**40,093**

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.

10 Intangible assets *continued*

The recoverable amounts of the CGUs are determined from value-in-use calculations and at both 31 December 2016 and 31 December 2015 the full amount of goodwill in the Group Balance Sheet related to the Landscape Products CGU. These calculations use cash flow projections based on a combination of individual financial 5-year forecasts, containing assumptions for revenue growth and operational gearing, and appropriate long-term growth rates of 2.5 per cent. 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 9.5 per cent (2015: 10.0 per cent). The Directors have reviewed the recoverable amounts of the CGUs and do not consider that any reasonable change in the assumptions would give rise to the need for further impairment.

Included in software additions is £819,000 (2015: £739,000) of own work capitalised.

Amortisation charge

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

	2016 £'000	2015 £'000
Net operating costs (Note 3)	**1,009**	1,322

11 Investment in associates

	2016 £'000	2015 £'000
Carrying value		
At 1 January	**–**	782
Share of results of associates	**–**	71
Impairment losses	**–**	(653)
Disposals	**–**	(200)
At 31 December	**–**	–

	2016 £'000	2015 £'000
Investment at cost	**–**	2,250
Impairment losses	**–**	(2,219)
Cumulative share of results of associates	**–**	169
Disposals	**–**	(200)
Carrying value at 31 December	**–**	–

On 31 December 2015 the Group disposed of its 25 per cent stake in Creeton Quarry Limited and Oathill Quarry Limited for proceeds of £200,000.

The Group's share of results of associates in the year ended 31 December 2016 was £nil (2015: £71,000 profit) and, on the grounds of materiality, no additional disclosure has been made.

12 Inventories

	2016 £'000	2015 £'000
Raw materials and consumables	**13,788**	12,998
Finished goods and goods for resale	**54,925**	52,256
	68,713	65,254

Inventories stated at a net realisable value less than cost at 31 December 2016 amounted to £7,848,000 (2015: £6,745,000). The write down of inventories made during the year amounted to £2,868,000 (2015: £3,797,000). There were no reversals of inventory write-downs made in previous years in either 2016 or 2015.

13 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	**42,133**	38,101
Other receivables	**3,003**	2,174
Prepayments and accrued income	**3,874**	4,267
	49,010	44,542

Ageing of trade receivables

	2016 £'000	2015 £'000
Neither impaired nor past due	**23,687**	19,932
Not impaired but overdue by less than 30 days	**14,499**	13,214
Not impaired but overdue by between 30 and 60 days	**2,032**	2,397
Not impaired but overdue by more than 60 days	**1,915**	2,558
	42,133	38,101

Receivables totalling £208,000 (2015: £415,000) were due after more than 1 year. All amounts disclosed above are considered recoverable and are disclosed net of an allowance for doubtful debts of £804,000 (2015: £833,000).

14 Cash and cash equivalents

	2016 £'000	2015 £'000
Bank balances	**20,661**	24,964
Cash in hand	**20**	26
Cash and cash equivalents in the Consolidated Cash Flow Statement	**20,681**	24,990

15 Trade and other payables

	2016 £'000	2015 £'000
Current liabilities		
Trade payables	**36,605**	37,356
Taxation and social security	**9,217**	8,775
Other payables	**19,148**	16,942
Accruals	**14,676**	16,534
	79,646	79,607

All trade payables are due in 6 months or less.

16 Loans

	2016 £'000	2015 £'000
Current liabilities		
Finance lease liabilities	**34**	34
Non-current liabilities		
Bank loans	**14,975**	36,125
Finance lease liabilities	**259**	293
	15,234	36,418

Bank loans

The bank loans are secured by intra-group guarantees with certain subsidiary undertakings.

Finance lease liabilities

	2016			2015		
	Minimum lease payments £'000	**Interest £'000**	**Principal £'000**	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	**40**	**6**	**34**	40	6	34
1 to 2 years	**40**	**5**	**35**	40	6	34
2 to 5 years	**120**	**11**	**109**	120	13	107
In more than 5 years	**120**	**5**	**115**	160	8	152
	320	**27**	**293**	360	33	327

17 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group's bank loans are non-equity funding instruments, further details of which are set out on page 106.

As directed by the Board, the Group does not engage in speculative activities using derivative financial instruments. Group cash reserves are held centrally to take advantage of the most rewarding short-term investment opportunities. Forward foreign currency contracts are used in the management of currency risk.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and pricing risk. The Board reviews and agrees the policies for managing each of these risks and they have remained unchanged since 2015.

Capital management

The Group defines the capital that it manages as its total equity and net debt balances. The Group manages its capital structure in light of current economic conditions and its strategic objectives to ensure that it is able to continue as a going concern whilst maximising the return to stakeholders through the optimisation of debt and equity balances.

The Group manages its medium-term bank debt to ensure continuity of funding and the policy is to arrange funding ahead of requirements and to maintain sufficient undrawn committed facilities. A key objective is to ensure compliance with the covenants set out in the Group's bank facility agreements.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's incentive schemes. Buy and sell decisions are made on a specific transaction basis by the Board.

There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2016 and 31 December 2015.

17 Financial instruments *continued*

Financial risks

The Group has exposure to a number of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, guidelines and authorisation procedures, which are outlined in the Strategic Report on pages 20 to 24. The key financial risks resulting from financial instruments are liquidity risk, interest rate risk, credit risk, foreign currency risk and pricing risk.

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings. For instance, a weakening of Pound Sterling on the foreign currency market would increase the cost of certain raw materials, whereas a strengthening would have the opposite effect.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board is responsible for ensuring that the Group has sufficient liquidity to meet its financial liabilities as they fall due and does so by monitoring cash flow forecasts and budgets. Cash resources are largely and normally generated through operations and short-term flexibility is achieved by bank facilities. Bank debt is raised centrally and the Group aims to maintain a balance between flexibility and continuity of funding by having a range of maturities on its borrowings. Details of the Group borrowing facilities are provided on page 106.

(b) Interest rate risk

The Group's policy is to review regularly the terms of its available short-term borrowing facilities and to assess individually and manage each long-term borrowing commitment accordingly. The Group borrows principally at floating rates of interest and, where appropriate, uses interest rate swaps to generate the desired interest rate profile, thereby managing the Group's exposure to interest rate fluctuations.

Approximately 60 to 70 per cent of core debt is covered by interest rate swaps of varying maturities up until 2018, which reflects the maturity date of the related loans and medium-term requirements, in accordance with Group policy. The Group classifies its interest rate swaps as cash flow hedges and states them at fair value. The fair value of interest rate swaps is a £49,000 liability (2015: £77,000 liability) and is adjusted against the hedging reserve on an ongoing basis.

The period that the swaps cover is matched against the debt maturity in order to fix the impact on the Income Statement. During the year £nil (2015: £144,000) has been recognised in other comprehensive income for the year with £75,000 (2015: £109,000) being reclassified from equity to the Income Statement. The interest rate swaps have been fully effective in the period.

With the addition of the fuel hedges (Note 17(e)) and forward contracts this gives a total of £1,123,000 (2015: £940,000) recognised in other comprehensive income for the year with £1,681,000 (2015: £1,984,000) being reclassified from equity to the Income Statement.

Sensitivity analysis

A change of 100 basis points in interest rates at the balance sheet date would have decreased equity and profit by the amounts shown below. The sensitivity analysis has been undertaken before the effect of tax. The sensitivity analysis of the Group's exposure to interest rate risk has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis was performed on the same basis for 2015.

	2016 £'000	2015 £'000
Increase of 100 basis points	**(185)**	(349)
Decrease of 100 basis points	**185**	349

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17 Financial instruments *continued*

Financial risks *continued*

(c) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and, where appropriate, credit insurance cover is obtained. This provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. An ageing of trade receivables is shown in Note 13 on page 101.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group. Transactions involving derivative financial instruments are with counterparties with whom the Group has a signed netting agreement as well as sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

(d) Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Sterling. The currencies giving rise to this risk are primarily Euros and US Dollars.

The Group's policy is to cover all significant foreign currency commitments in respect of trade receivables and trade payables by using forward foreign currency contracts. All the forward exchange contracts have maturities of less than 1 year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The Group classifies its forward exchange contracts as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £30,000 asset (2015: £19,000 liability) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2016 all outstanding forward exchange contracts had a maturity date within 6 months.

The foreign currency profile of monetary items was:

	2016					2015				
	Sterling £'000	**Euro £'000**	**US Dollar £'000**	**AED £'000**	**Total £'000**	Sterling £'000	Euro £'000	US Dollar £'000	AED £'000	Total £'000
Cash and cash equivalents	**16,733**	**2,373**	**1,510**	**65**	**20,681**	22,925	1,164	901	–	24,990
Trade receivables	**38,804**	**2,972**	**357**	**–**	**42,133**	35,341	2,549	211	–	38,101
Secured bank loans	**–**	**(14,975)**	**–**	**–**	**(14,975)**	(20,000)	(16,125)	–	–	(36,125)
Trade payables	**(28,333)**	**(8,014)**	**(258)**	**–**	**(36,605)**	(35,083)	2,743	(5,016)	–	(37,356)
Forward exchange contracts	**627**	**37**	**(7)**	**–**	**657**	(2,110)	(23)	(16)	–	(2,149)
Balance sheet exposure	**27,831**	**(17,607)**	**1,602**	**65**	**11,891**	1,073	(9,692)	(3,920)	–	(12,539)

A 10 per cent strengthening and weakening of the following currencies against the Pound Sterling at 31 December 2016 would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis was performed on the same basis for 2015:

	2016 £'000	2015 £'000
10 per cent strengthening of £ against €	**1,654**	1,045
10 per cent weakening of £ against €	**(1,654)**	(1,045)
10 per cent strengthening of £ against $	**(157)**	462
10 per cent weakening of £ against $	**157**	(462)
10 per cent strengthening of £ against Dhs	**(23)**	–
10 per cent weakening of £ against Dhs	**23**	–

(e) Pricing risks

Where appropriate the Group uses hedging instruments to mitigate the risks of significant forward price rises of fuel in relation to expected consumption. The current hedges held are in place until 31 December 2017. The Group classifies its fuel hedges as cash flow hedges and states them at fair value. The fair value of the fuel hedges is £676,000 asset (2015: £2,053,000 liability) and is adjusted against the hedging reserve on an ongoing basis. The period that the fuel hedges cover is matched against future expected purchases in order to fix the impact on the Income Statement. During the year £1,123,000 (2015: £796,000) has been recognised in other comprehensive income, with £1,606,000 (2015: £1,875,000) being reclassified from equity to the Income Statement. The fuel hedges have been fully effective in the period.

17 Financial instruments *continued*

Financial risks *continued*

(f) Other risks

Further information about the Group's strategic and financial risks is contained in the Strategic Report on pages 20 to 24.

Effective interest rates and maturity of liabilities

At 31 December 2016 there were £293,000 (2015: £327,000) of Group borrowings on a fixed rate. Interest rate swaps have been taken out with the intention to fix the interest on approximately 60 to 70 per cent of the Group's core debt. The interest rate profile of the financial liabilities was:

	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2016								
Cash and cash equivalents (Note 14)	Variable	**1.50**	**(20,681)**	**(20,681)**	**–**	**–**	**–**	**–**
Bank loans	Variable	**1.50**	**14,975**	**–**	**–**	**10,048**	**4,927**	**–**
Finance lease liabilities	Fixed	**10.0**	**293**	**–**	**34**	**35**	**109**	**115**
			(5,413)	**(20,681)**	**34**	**10,083**	**5,036**	**115**

	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2015								
Cash and cash equivalents (Note 14)	Variable	2.27	(24,990)	(24,990)	–	–	–	–
Bank loans	Variable	2.27	36,125	–	–	19,438	16,687	–
Finance lease liabilities	Fixed	10.0	327	–	34	34	107	152
			11,462	(24,990)	34	19,472	16,794	152

At 31 December the undiscounted outstanding contractual payments (including interest) of financial liabilities were as follows:

	Fixed or variable rate	Carrying value £'000	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2016								
Bank loans	Variable	**14,975**	**15,182**	**43**	**43**	**10,108**	**4,988**	**–**
Trade payables	Variable	**36,605**	**36,605**	**36,605**	**–**	**–**	**–**	**–**
Finance lease liabilities	Fixed	**293**	**320**	**3**	**37**	**40**	**120**	**120**
Financial liabilities	Fixed	**(657)**	**(624)**	**(416)**	**(208)**	**–**	**–**	**–**
		51,216	**51,483**	**36,235**	**(128)**	**10,148**	**5,108**	**120**

	Fixed or variable rate	Carrying value £'000	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2015								
Bank loans	Variable	36,125	37,020	204	203	19,746	16,867	–
Trade payables	Variable	37,356	37,356	37,356	–	–	–	–
Finance lease liabilities	Fixed	327	360	3	37	40	120	160
Financial liabilities	Fixed	2,149	2,177	1,294	841	42	–	–
		75,957	76,913	38,857	1,081	19,828	16,987	160

17 Financial instruments *continued*

Borrowing facilities

The total bank borrowing facilities at 31 December 2016 amounted to £95.0 million (2015: £95.0 million), of which £80.0 million (2015: £58.9 million) remained unutilised. There are additional seasonal bank working capital facilities of £10.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2016, in respect of which all conditions precedent had been met, were as follows:

	2016 £'000	2015 £'000
Committed:		
Expiring in more than 2 years but not more than 5 years	**65,025**	43,875
Expiring in 1 year or less	**–**	–
Uncommitted:		
Expiring in 1 year or less	**15,000**	15,000
	80,025	58,875

On 16 August 2016, the Group renewed its short-term working capital facilities and reduced its seasonal working capital facility to £10.0 million. The Group also extended the maturity of each of its committed facilities by 12 months. The committed facilities are all revolving credit facilities with interest charged at variable rates based on LIBOR. The Group's bank facilities continue to be aligned with the current strategy to ensure that headroom against available facilities remains at appropriate levels.

The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium-term debt. The current facilities are set out as follows:

	Facility £'000	Cumulative facility £'000
Committed facilities:		
Q3: 2021	20,000	20,000
Q3: 2020	20,000	40,000
Q3: 2019	20,000	60,000
Q3: 2018	20,000	80,000
On-demand facilities:		
Available all year	15,000	95,000
Seasonal (February to August inclusive)	10,000	105,000

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 2016 is shown below:

	2016		2015	
	Book amount £'000	**Fair value £'000**	Book amount £'000	Fair value £'000
Trade and other receivables	**46,033**	**46,033**	40,690	40,690
Cash and cash equivalents	**20,681**	**20,681**	24,990	24,990
Bank loans	**(14,975)**	**(14,192)**	(36,125)	(34,906)
Finance lease liabilities	**(293)**	**(320)**	(327)	(360)
Trade and other payables	**(70,939)**	**(70,939)**	(71,293)	(71,293)
Interest rate swaps, forward contracts and fuel hedges	**657**	**657**	(2,149)	(2,149)
Financial instrument assets and liabilities – net	**(18,836)**		(44,214)	
Non-financial instrument assets and liabilities – net	**235,957**		236,932	
	217,121		192,718	

17 Financial instruments *continued*

Borrowing facilities *continued*

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

(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) Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

(d) Trade and other receivables / payables

For receivables / payables with a remaining life of less than 1 year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

(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 2016				
Derivative financial assets	**–**	**657**	**–**	**657**
31 December 2015				
Derivative financial liabilities	–	(2,149)	–	(2,149)

18 Employee benefits

The Company sponsors a pension scheme for employees in the UK which incorporates a funded defined benefit pension section and a defined contribution section (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, which closed to future service accrual on 30 June 2006, provides pension and lump sums to members on retirement and to dependants on death. Members of the defined benefit section became entitled to a deferred pension on closure. 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 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.

Notes to the Consolidated Financial Statements – *continued*

18 Employee benefits *continued*

The defined benefit section of the Scheme is subject to regular actuarial valuations, which are usually carried out every 3 years. The next actuarial valuation is expected to be carried out with an effective date of 5 April 2018. 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 2015. The results of that valuation have been projected to 31 December 2016 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method.

During 2015 an exercise was carried out offering eligible defined benefit section members and current pensioners and dependants the option to commute small pensions for a cash lump sum representing the value of their benefits. This represents a settlement of benefits for members taking the option. The cash lump sums were determined by the Trustee on a best estimate basis after taking advice from the actuary.

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

	2016 £'000	2015 £'000	2014 £'000
Present value of Scheme liabilities	**(355,793)**	(298,812)	(309,067)
Fair value of Scheme assets	**360,069**	302,239	312,516
Net amount recognised at year end (before any adjustments for deferred tax)	**4,276**	3,427	3,449

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 Statement of Comprehensive Income. Remeasurements of the net defined benefit surplus are included in other comprehensive income.

	2016 £'000	2015 £'000
Net interest expense recognised in the Consolidated Income Statement	**545**	506
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	**(59,979)**	14,164
Loss / (gain) arising from changes in financial assumptions	**62,474**	(5,063)
Gain arising from changes in demographic assumptions	**–**	(7,412)
Experience (gain) / loss	**(3,889)**	2,177
(Credit) / charge recorded in other comprehensive income	**(1,394)**	3,866
Total defined benefit (credit) / charge	**(849)**	4,372

18 Employee benefits *continued*

The principal actuarial assumptions used were:

	2016 £'000	2015 £'000
Liability discount rate	**2.65%**	3.70%
Inflation assumption – RPI	**3.20%**	3.10%
Inflation assumption – CPI	**2.20%**	2.10%
Rate of increase in salaries	**n/a**	n/a
Revaluation of deferred pensions	**2.20%**	2.10%
Increases for pensions in payment:		
CPI pension increases (maximum 5% p.a.)	**2.20%**	2.10%
CPI pension increases (maximum 5% p.a., minimum 3% p.a.)	**3.10%**	3.10%
CPI pension increases (maximum 3% p.a.)	**2.10%**	2.00%
Proportion of employees opting for early retirement	**0%**	0%
Proportion of employees commuting pension for cash	**50.0%**	50.0%
Mortality assumption – before retirement	**Same as post retirement**	Same as post retirement
Mortality assumption – after retirement (males)	**S2PMA tables**	S2PMA tables
Loading	**105%**	105%
Projection basis	**Year of birth**	Year of birth
	CMI_2015 1.0%	CMI_2015 1.0%
Mortality assumption – after retirement (females)	**S2PFA tables**	S2PFA tables
Loading	**105%**	105%
Projection basis	**Year of birth**	Year of birth
	CMI_2015 1.0%	CMI_2015 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	**86.5**	86.5
Female aged 65 at year end	**88.5**	88.5
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	**87.8**	87.7
Female aged 45 at year end	**89.8**	89.8

Notes to the Consolidated Financial Statements – *continued*

18 Employee benefits *continued*

Changes in the present value of assets over the year

	2016 £'000	2015 £'000
Fair value of assets at start of the year	**302,239**	312,516
Interest income	**10,943**	11,120
Return on assets (excluding amount included in net interest expense)	**59,837**	(14,164)
Assets distributed on settlement	**–**	(1,508)
Contributions from the employer	**–**	4,350
Benefits paid	**(12,291)**	(9,332)
Administration expenses	**(659)**	(743)
Fair value of assets at end of the year	**360,069**	302,239
Actual return on assets over the year	**70,922**	(3,044)

Changes in the present value of liabilities over the year

	2016 £'000	2015 £'000
Liabilities at start of the year	**298,812**	309,067
Interest cost	**10,829**	10,930
Remeasurement losses / (gains):		
Actuarial losses / (gains) arising from changes in financial assumptions	**62,332**	(5,063)
Actuarial gains arising from changes in demographic assumptions	**–**	(7,412)
Other experience (losses) / gains	**(3,889)**	2,177
Liabilities extinguished on settlements	**–**	(1,555)
Benefits paid	**(12,291)**	(9,332)
Liabilities at end of the year	**355,793**	298,812

The split of the Scheme's liabilities by category of membership is as follows:

	2016 £'000	2015 £'000
Deferred pensioners	**195,742**	154,905
Pensioners in payment	**160,051**	143,907
	355,793	298,812
Average duration of the Scheme's liabilities at the end of the year (in years)	**18**	18

18 Employee benefits *continued*

The major categories of Scheme assets are as follows:

	2016 £'000	2015 £'000
Return-seeking assets		
UK equities	**37,333**	30,928
Overseas equities	**17,348**	14,863
Other equity type investments	**39,739**	39,827
Total return-seeking assets	**94,420**	85,618
Other		
Insured pensioners	**1,251**	1,183
Cash	**7,165**	711
Liability-driven investments	**257,233**	214,727
Total matching assets	**265,649**	216,621
Total market value of assets	**360,069**	302,239

The return-seeking assets and LDI assets have quoted prices in active markets. The valuation of the insured pensions has been taken as the value of the corresponding liabilities assessed using the assumptions set out above.

The Scheme has no investments in the Company or in property occupied by the Company.

The Company expects to pay no contributions to the defined benefit section of the Scheme during the year ended 31 December 2017.

Sensitivity of the liability value to changes in the principal assumptions

If the discount rate were 0.1 per cent higher (lower), the defined benefit section Scheme liabilities would decrease by approximately £6.6 million (increase by £6.7 million) if all the other assumptions remained unchanged.

If the inflation assumption were 0.1 per cent higher (lower), the Scheme liabilities would increase by £2.2 million (decrease by £2.1 million). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is salary, the deferred pension and pension in payment increases. The other assumptions remain unchanged.

If life expectancies were to increase (decrease) by 1 year, the Scheme liabilities would increase by £15.1 million (decrease by £16.5 million) if all the other assumptions remained unchanged.

Share-based payments

Marshalls plc 2005 Long Term Incentive Plan ("LTIP")

The LTIP was replaced in 2014 by the Management Incentive Plan ("MIP") and accordingly no further share-based payment awards were made during the year ended 31 December 2016 under the LTIP. The LTIP awards made in respect of the 2014 scheme year provide for the award of Performance Shares. Performance Shares may be awarded to participants without requiring a qualifying investment, and are subject to the achievement of a 3-year performance target. The awards lapse if the performance target is not met over the 3-year vesting period. Performance Share awards are dependent on an improvement in reported earnings per share and operating cash flow, each measured using IFRSs. The Remuneration Committee may exercise its discretion with regard to the effect of one-off items. Details of the performance criteria applicable to 2014 LTIP awards are set out in the Remuneration Report on pages 46 to 65.

Notes to the Consolidated Financial Statements – *continued*

18 Employee benefits *continued*

Share-based payments *continued*

Marshalls plc 2005 Long Term Incentive Plan ("LTIP") *continued*

The Performance Shares take the form of options which are settled by physical delivery of shares. The exercise price is £nil in relation to any of these grants and there is no entitlement to dividends during the vesting period. There are no market conditions associated with these instruments.

	Number of instruments	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	222,124	1 April 2014	3 years
	115,676	2 October 2014	3 years
Equity settled awards granted to other employees	341,559	1 April 2014	3 years
	14,120	29 April 2014	3 years

	Weighted average share price at date of grant (pence per share) 2016	**Number of options 2016**	Weighted average share price at date of grant (pence per share) 2015	Number of options 2015
Outstanding at 1 January	**141**	**1,647,146**	137	3,770,513
Lapsed	**180**	**(27,108)**	137	(615,072)
Exercised	**139**	**(926,559)**	115	(1,508,295)
Outstanding at 31 December	**172**	**693,479**	141	1,647,146

None of the options were exercisable at 31 December 2016.

The fair value of services received in return for shares granted is measured by reference to the fair value of these awards at the date of grant. The estimate of the fair value of the services received is measured based on a Black-Scholes valuation model.

	2 October 2014 grant	29 April 2014 grant	1 April 2014 grant
Fair value at grant date (pence per share)	181	160	166
Share price on date of grant (pence per share)	199	176	180
Expected volatility used in the modelling under the Black-Scholes valuation model	65.0%	65.0%	65.0%
Dividend yield	3.0%	3.0%	3.0%
Risk-free interest rate (based on national Government bonds)	2.0%	2.0%	2.0%

The Company's share price at 31 December 2016 was 292.5 pence.

The expected volatility is wholly based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

The total expenses recognised for the year arising from share-based payments are as follows:

	2016 £'000	2015 £'000
Awards granted and total expense recognised as employee costs	**431**	710

Performance Incentive Plan ("PIP")

The PIP was a 3-year incentive scheme introduced in 2011 which terminated in 2014. Deferred balances in the form of shares carried over from the final year of the PIP vested as share-based payment awards in March 2015 in accordance with the rules of the PIP. There were no outstanding awards under the PIP at 31 December 2016 or 31 December 2015.

18 Employee benefits *continued*

Share-based payments *continued*

Performance Incentive Plan ("PIP") *continued*

Equity settled awards under the PIP are settled by physical delivery of shares.

	2016		2015	
	Value £'000	**Number of options**	Value £'000	Number of options
Outstanding at 1 January	**–**	**–**	2,158	922,281
Granted	**–**	**–**	–	–
Change in value of notional shares	**–**	**–**	–	–
Element released	**–**	**–**	(2,158)	(922,281)
Outstanding at 31 December	**–**	**–**	–	–

The total expenses recognised for the year arising from share-based payments were as follows:

	2016 £'000	2015 £'000
Awards granted and total expense recognised as employee costs	**–**	–

Management Incentive Plan ("MIP")

Share-based payment awards have been made during the year in accordance with the rules of the MIP. Full details of the performance criteria and the basis of operation of the MIP are set out in the Annual Remuneration Report on pages 46 to 65.

Equity settled awards are settled by physical delivery of shares. The following equity settled awards have been granted:

	Number of instruments	£'000	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	298,390	873	11 April 2014	4 years
Equity settled awards granted to other employees	348,338	1,019	11 April 2014	4 years
Equity settled awards granted to Directors of Marshalls plc	370,952	1,086	10 March 2015	3 years
Equity settled awards granted to other employees	478,419	1,399	10 March 2015	3 years
Equity settled awards granted to Directors of Marshalls plc	405,293	1,185	11 March 2016	2 years
Equity settled awards granted to other employees	537,492	1,572	11 March 2016	2 years
	2,438,884	7,134		

Analysis of closing balance (deferred into shares):

	2016		2015	
	£'000	**Shares**	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	**3,144**	**1,074,635**	2,254	693,585
Equity settled awards granted to former Directors of Marshalls plc	**–**	**–**	189	58,224
Equity settled awards granted to other employees	**3,990**	**1,364,249**	3,061	941,830
	7,134	**2,438,884**	5,504	1,693,639

	2016		2015	
	Value £'000	**Number of options**	Value £'000	Number of options
Outstanding at 1 January	**5,504**	**1,693,639**	3,344	1,429,056
Granted	**2,757**	**942,785**	2,839	873,699
Change in value of notional shares	**(106)**	**222,456**	415	(141,494)
Lapsed	**–**	**–**	(296)	(126,410)
Element released	**(1,021)**	**(419,996)**	(798)	(341,212)
Outstanding at 31 December	**7,134**	**2,438,884**	5,504	1,693,639

18 Employee benefits *continued*

Share-based payments *continued*

Management Incentive Plan ("MIP") *continued*

The total expenses recognised for the period arising from share-based payments were as follows:

	2016 £'000	2015 £'000
Awards granted and total expense recognised as employee costs	**3,428**	2,858

Further details in relation to the Directors are set out in the Annual Remuneration Report on pages 46 to 65. Included in the total expense of £3,428,000 (2015: £2,858,000) is an amount of £525,000 (2015: £1,187,000) which is expected to be settled as interim cash payments under the terms of the scheme and which has been included within wages and salaries in Note 3 and accruals in Note 15.

Employee Bonus Share Plan

A Bonus Share Plan was approved by shareholders in May 2015 under which a number of senior management employees were granted performance related bonuses with an element of this bonus being in the form of shares. The bonus performance criteria are the same as those applicable to the MIP awards and are in relation to the years ended 31 December 2016 and 31 December 2015. The bonus shares take the form of nil-cost options to acquire shares at the end of a 3-year vesting period from the date of grant, and vesting is conditional on continued employment at the end of the vesting period. Awards are made to participants following publication of the Group's year-end results. Awards outstanding at 31 December 2016 were over 55,587 shares (31 December 2015: nil). The total expenses recognised for the year arising from share-based payments were £116,000 (2015: £54,000).

All-employee Sharesave ("SAYE") scheme

On 5 October 2015 options were granted over 1,000,000 shares to employees who had subscribed to the SAYE scheme. The option price is 291 pence, a discount of 20 per cent to the market price on the date of grant. The option is exercisable by relevant employees after a period of 3 years. The total expense recognised for the year arising from share-based payments was £300,000 (2015: £55,000).

Employee profit sharing scheme

At 31 December 2016 the scheme held 42,328 (2015: 42,370) Ordinary Shares in the Company.

19 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Property, plant and equipment	**–**	–	**(10,838)**	(11,334)
Intangible assets	**–**	–	**(265)**	(283)
Inventories	**–**	–	**(377)**	(427)
Employee benefits	**–**	–	**(727)**	(617)
Equity settled share-based payments	**1,821**	1,316	**–**	–
Other items	**–**	–	**(1,448)**	(964)
Tax assets / (liabilities)	**1,821**	1,316	**(13,655)**	(13,625)

The March 2016 Budget announced that the UK corporation tax rate will reduce to 17 per cent by 2020. Reductions in the rate to 19 per cent (effective April 2017) and 17 per cent (effective April 2020) were substantively enacted at the balance sheet date. This will reduce the Group's future current tax charge accordingly. The deferred taxation liability at 31 December 2016 has been calculated based on the rate at which the deferred tax is expected to unwind in the future using rates enacted at the balance sheet date.

The deferred taxation liability of £727,000 (2015: £617,000) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £4,276,000 (2015: £3,427,000 net surplus) (Note 18) calculated at 17 per cent (2015: 18 per cent).

Deferred tax assets on capital losses and overseas trading losses have not been recognised due to uncertainty around the future use of the losses.

19 Deferred taxation *continued*

Movement in temporary differences

Year ended 31 December 2016

	1 January 2016 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	**31 December 2016 £'000**
Property, plant and equipment	(11,334)	496	–	–	**(10,838)**
Intangible assets	(283)	18	–	–	**(265)**
Inventories	(427)	50	–	–	**(377)**
Employee benefits	(617)	127	(237)	–	**(727)**
Equity settled share-based payments	1,316	383	–	122	**1,821**
Other items	(964)	77	(561)	–	**(1,448)**
	(12,309)	1,151	(798)	122	**(11,834)**

Year ended 31 December 2015

	1 January 2015 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	31 December 2015 £'000
Property, plant and equipment	(12,934)	1,600	–	–	(11,334)
Intangible assets	(315)	32	–	–	(283)
Inventories	(450)	23	–	–	(427)
Employee benefits	(690)	(700)	773	–	(617)
Equity settled share-based payments	1,394	(73)	–	(5)	1,316
Impact on other comprehensive income of the change in rate of deferred tax	367	–	(375)	8	–
Other items	(944)	184	(209)	5	(964)
	(13,572)	1,066	189	8	(12,309)

Deferred taxation liabilities represent sums that might become payable as tax in future years as a result of transactions that have occurred in the current year. The explanation as to why such liabilities may arise is included in the notes to the tax reconciliation (Note 6).

The deferred tax balances on short-term timing differences are expected to reverse within 1 to 3 years.

Based on the current investment programme of the Group and assuming that current rates of capital allowances on fixed asset expenditure continue into the future, there is little prospect of any significant part of the deferred taxation liability of the Company becoming payable over the next 3 years. It is not realistic to make any projection after a 3-year period.

The deferred tax liabilities disclosed in the year ended 31 December 2016 include the deferred tax relating to the Group's pension scheme assets. Deferred tax assets on capital losses and overseas trading losses have not been recognised due to uncertainty around the future use of the losses.

Notes to the Consolidated Financial Statements – *continued*

20 Capital and reserves

Called-up share capital

	Issued and paid up	
	2016 £'000	2015 £'000
At 1 January and at 31 December	**49,845**	49,845
Number of 25 pence Ordinary Shares	**199,378,755**	199,378,755

Consolidation reserve

On 8 July 2004 Marshalls plc was introduced as the new holding company of the Group by way of a court-approved Scheme of Arrangement under Section 425 of the Companies Act 1985. The restructuring was accounted for as a capital reorganisation and accounting principles were applied as if the Company had always been the holding company of the Group. The difference between the aggregate nominal value of the new shares issued by the Company and the called-up share capital, capital redemption reserve and share premium account of Marshalls Group plc (the previous holding company) was transferred to a consolidation reserve.

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging, principally from the Group's interest rate swaps, energy price contracts and forward exchange contracts.

Dividends

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided and there were no income tax consequences.

	2016 £'000	2015 £'000
5.80 pence final dividend (2015: 4.75 pence) per Ordinary Share	**11,440**	9,470
3.00 pence supplementary dividend (2015: 2.00 pence) per Ordinary Share	**5,917**	3,988
	17,357	13,458

21 Non-controlling interests

	2016 £'000	2015 £'000
At 1 January	**1,139**	1,475
Share of profit / (loss) for the year	**157**	(258)
Foreign currency transaction differences	**169**	(78)
At 31 December	**1,465**	1,139

22 Analysis of net debt

	1 January 2016 £'000	Cash flow £'000	Other changes £'000	**31 December 2016 £'000**
Cash at bank and in hand	24,990	(4,680)	371	**20,681**
Debt due after 1 year	(36,125)	23,791	(2,641)	**(14,975)**
Finance leases	(327)	40	(6)	**(293)**
	(11,462)	19,151	(2,276)	**5,413**

22 Analysis of net debt *continued*

Reconciliation of net cash flow to movement in net debt

	2016 £'000	2015 £'000
Net (decrease) / increase in cash equivalents	**(4,680)**	4,679
Cash outflow from decrease in debt and lease financing	**23,831**	13,350
Effect of exchange rate fluctuations	**(2,276)**	989
Movement in net debt in the year	**16,875**	19,018
Net debt at 1 January	**(11,462)**	(30,480)
Net debt at 31 December	**5,413**	(11,462)

23 Operating leases

The Group had non-cancellable minimum lease payments to be paid in respect of operating leases on property, plant, machinery and vehicles as follows:

31 December 2016	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
Expiring:						
Within 1 year	**1,185**	**1,021**	**164**	**–**	**–**	**–**
Between 1 and 5 years	**33,973**	**5,577**	**5,549**	**9,704**	**13,140**	**3**
In more than 5 years	**35,838**	**1,203**	**1,197**	**2,471**	**8,759**	**22,208**
	70,996	**7,801**	**6,910**	**12,175**	**21,899**	**22,211**

31 December 2015	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
Expiring:						
Within 1 year	336	277	59	–	–	–
Between 1 and 5 years	21,833	3,768	3,748	6,855	7,462	–
In more than 5 years	51,857	2,767	2,751	5,526	16,740	24,073
	74,026	6,812	6,558	12,381	24,202	24,073

The minimum lease payments under non-cancellable operating leases (above) comprise property of £27,606,000 (2015: £28,482,000) and plant, machinery and vehicles of £43,390,000 (2015: £45,544,000).

Certain leased properties have been sublet by the Group. Sublease payments of £200,020 (2015: £89,663) are expected to be received during the following financial year. An amount of £246,186 (2015: £160,110) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

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24 Contingencies

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self insurance for employer's liability and vehicle insurance:

Beneficiary	Amount	Period	Purpose
Mitsui Sumitomo Insurance (London Management) Limited	£700,000	23 Dec 2011 to 30 Oct 2017	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 29 Oct 2017	Vehicle insurance
M S Amlin Limited	£350,000	30 Oct 2016 to 30 Oct 2018	Vehicle insurance

25 Related parties

Identity of related parties

The Group has a related party relationship with its Directors.

Transactions with key management personnel

Other than the Directors, there are no senior managers in the Group who are relevant for establishing that Marshalls has the appropriate expertise and experience for the management of its business.

Directors of the Company and their immediate relatives control 0.0881 per cent (2015: 0.0135 per cent) of the voting shares of the Company.

In addition to their salaries and pension allowances, the Group also provides non-cash benefits to Directors. Further details in relation to Directors are disclosed in the Annual Remuneration Report on pages 46 to 65.

26 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out in Note 1 on pages 84 to 92. As stated in the accounting policies revenue is disclosed net of rebates. Whilst the Directors do not regard the determination of accruals for rebates as a key area of estimation uncertainty, the estimation of appropriate accruals for rebates requires commercial assessment. Note 12 contains details of the Group's inventory. Whilst not considered by the Directors to be a key source of estimation uncertainty, the carrying value of the Group's finished goods inventory has been reviewed using commercial judgement with regard to the assessment of the appropriate level of provisioning against inventory obsolescence and for net realisable value.

Other significant accounting judgements applied in the preparation of the Financial Statements are:

(a) Note 2 contains information about the assumptions and judgements made relating to the identification of operating segments for the Group as defined in IFRS 8 *"Operating Segments"*.

(b) Note 18 contains information about the principal actuarial assumptions used in the determination of defined benefit pension obligations. These key assumptions include discount rates, the expected return on net assets, inflation rates and mortality rates and have been determined following advice received from an independent qualified actuary. Sensitivity analysis is disclosed in Note 18 on page 111.

Parent Company Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Current year							
At 1 January 2016	**49,845**	**22,695**	**(5,529)**	**75,394**	**4,122**	**144,836**	**291,363**
Total comprehensive expense for the year							
Loss for the financial year	**–**	**–**	**–**	**–**	**–**	**(6,030)**	**(6,030)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(6,030)**	**(6,030)**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	**–**	**–**	**–**	**–**	**1,195**	**1,389**	**2,584**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**60**	**–**	**60**
Dividends to equity shareholders	**–**	**–**	**–**	**–**	**–**	**(19,034)**	**(19,034)**
Purchase of own shares	**–**	**–**	**(1,175)**	**–**	**–**	**–**	**(1,175)**
Disposal of own shares	**–**	**–**	**3,082**	**–**	**–**	**(3,082)**	**–**
Total contributions by and distributions to owners	**–**	**–**	**1,907**	**–**	**1,255**	**(20,727)**	**(17,565)**
Total transactions with owners of the Company	**–**	**–**	**1,907**	**–**	**1,255**	**(26,757)**	**(23,595)**
At 31 December 2016	**49,845**	**22,695**	**(3,622)**	**75,394**	**5,377**	**118,079**	**267,768**

There were no items of other comprehensive income / (expense) in the year other than the loss for the financial year recorded above.

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Prior year							
At 1 January 2015	49,845	22,695	(6,689)	75,394	2,765	166,436	310,446
Total comprehensive expense for the year							
Loss for the financial year	–	–	–	–	–	(4,410)	(4,410)
Total comprehensive expense for the year	–	–	–	–	–	(4,410)	(4,410)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	–	–	–	–	1,359	843	2,202
Deferred tax on share-based payments	–	–	–	–	(2)	–	(2)
Dividends to equity shareholders	–	–	–	–	–	(12,291)	(12,291)
Purchase of own shares	–	–	(4,582)	–	–	–	(4,582)
Disposal of own shares	–	–	5,742	–	–	(5,742)	–
Total contributions by and distributions to owners	–	–	1,160	–	1,357	(17,190)	(14,673)
Total transactions with owners of the Company	–	–	1,160	–	1,357	(21,600)	(19,083)
At 31 December 2015	49,845	22,695	(5,529)	75,394	4,122	144,836	291,363

There were no items of other comprehensive income / (expense) in the year other than the loss for the financial year recorded above.

Company Balance Sheet

at 31 December 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Investments	30	**343,507**	342,312
Deferred taxation assets	31	**1,010**	698
		344,517	343,010
Current assets			
Debtors	32	**1,257**	1,182
Current liabilities			
Creditors	33	**(78,006)**	(52,829)
Net current liabilities		**(76,749)**	(51,647)
Net assets		**267,768**	291,363
Capital and reserves			
Called-up share capital	34	**49,845**	49,845
Share premium account		**22,695**	22,695
Own shares		**(3,622)**	(5,529)
Capital redemption reserve		**75,394**	75,394
Equity reserve		**5,377**	4,122
Profit and loss account		**118,079**	144,836
Equity shareholders' funds		**267,768**	291,363

Approved at a Directors' meeting on 15 March 2017.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 121 to 126 form part of these Company Financial Statements.

27 Accounting policies

The following paragraphs summarise the main accounting policies of the Company, which have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements. The Company is exempt from the requirement to give its own disclosures as the entity forms part of the Consolidated Financial Statements of Marshalls plc, which has included disclosures under IFRS 7 *"Financial Instruments: Disclosures"*.

(a) Authorisation of Financial Statements and Statement of Compliance with FRS 101

The Parent Company Financial Statements of Marshalls plc for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 15 March 2017. Marshalls plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's Ordinary Shares are publicly traded on the London Stock Exchange and the Company is not under the control of any single shareholder.

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 *"Reduced Disclosure Framework"* ("FRS 101").

No profit or loss is presented by the Company as permitted by Section 408 of the Companies Act 2006.

(b) Basis of preparation

The Company has adopted FRS 101 from the UK Generally Accepted Accounting Practice for all periods presented.

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31 December 2016.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraphs 45(b) and 46 – 52 of IFRS 2 *"Share-based Payments"*;
- the requirement of IFRS 7 *"Financial Instruments: Disclosures"*;
- the requirement of paragraphs 91 – 99 of IFRS 13 *"Fair Value Measurement"*;
- the requirement in paragraph 38 of IAS 1 *"Presentation of Financial Statements"* to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 39(c), 40A, 40B, 40C, 40D, 111 and 134 – 136 of IAS 1 *"Presentation of Financial Statements"*;
- the requirements of IAS 7 *"Statement of Cash Flows"*;
- the requirements of paragraphs 30 and 31 of IAS 8 *"Accounting Policies, Changes in Accounting Estimates and Errors"*;
- the requirements of paragraph 17 of IAS 24 *"Related Party Disclosures"*;
- the requirements in IAS 24 *"Related Party Disclosures"* to disclose related party transactions entered into between 2 or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d) – 134(f) and 135(c) – 135(e) of IAS 36 *"Impairment of Assets"*.

The Company also intends to take advantage of these exemptions in the financial statements to be issued in the following year. Objections may be served in the Company by shareholders holding in aggregate 5 per cent or more of the total allocated shares in the Company. Where required, additional disclosures are given in the Consolidated Financial Statements.

(c) Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment. The Directors consider annually whether a provision against the value of investments on an individual basis is required.

(d) Share capital

(i) Share capital

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

27 Accounting policies *continued*

(e) Pension schemes

(i) Defined benefit scheme

The Company participates in a Group-wide pension scheme providing benefits based on final pensionable pay. The defined benefit section of the scheme was closed to future service accrual in July 2006.

The assets of the scheme are held separately from those of the Company. The defined benefit cost and contributions payable are borne by Marshalls Group Limited and, therefore, the defined benefit surplus or deficit is recorded in Marshalls Group Limited. Full details are provided in Note 18 on pages 107 to 111.

(ii) Defined contribution scheme

Obligations for contributions to defined contribution schemes are recognised as an expense as incurred.

(f) Share-based payment transactions

The Company enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's Management Incentive Plan ("MIP") and, in previous years, the Performance Incentive Plan ("PIP") and the 2005 Long Term Incentive Plan ("LTIP").

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

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

(g) Own shares held by the Employee Benefit Trust

Transactions of the Company-sponsored Employee Benefit Trust are included in the Group Financial Statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

(h) Trade and other payables

Trade and other payables are stated at nominal amount (discounted if material).

(i) Income tax

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

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

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

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

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

28 Operating costs

The audit fee for the Company was £20,000 (2015: £20,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditor for services other than the statutory audit of the Company are not disclosed in the Notes to the Company Financial Statements since the consolidated accounts of the Group are required to disclose non-audit fees on a consolidated basis.

Details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed on pages 46 to 65 of the Annual Remuneration Report.

29 Ordinary dividends: equity shares

	2016		2015	
	Pence per share	**£'000**	Pence per share	£'000
2015 final: paid 8 July 2016	**4.75**	**9,369**	4.00	7,866
2015 supplementary: paid 8 July 2016	**2.00**	**3,945**	–	–
2016 interim: paid 6 December 2016	**2.90**	**5,720**	2.25	4,425
	9.65	**19,034**	6.25	12,291

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided and there were no income tax consequences.

	2016 £'000	2015 £'000
2016 final: 5.80 pence (2015: 4.75 pence) per Ordinary Share	**11,440**	9,470
2016 supplementary: 3.00 pence (2015: 2.00 pence) per Ordinary Share	**5,917**	3,988
	17,357	13,458

30 Investments

	£'000
At 1 January 2016	342,312
Additions	1,195
At 31 December 2016	**343,507**

Investments comprise shares in the subsidiary undertaking, Marshalls Group Limited. The Directors have considered the carrying value of the Company's investments and are satisfied that no provision is required.

The increase in the year of £1,195 represents adjustments to the number of shares expected to vest in respect of share-based payment awards granted to employees of Marshalls Group Limited.

Pursuant to Sections 409 and 410(2) of the Companies Act 2006, the principal subsidiary undertakings of Marshalls plc at 31 December 2016 are set out below. With the exception of Marshalls NV, Xiamen Marshalls Import Export Company Limited, Marshalls Landscape Products (North America) Inc. and Marshalls Landscape Products FZE, all the companies operate within the United Kingdom and are registered in England and Wales. Marshalls NV is registered in Belgium. Xiamen Marshalls Import Export Company Limited is registered in China, Marshalls Landscape Products (North America) Inc. is registered in the USA and Marshalls Landscape Products FZE is registered in Dubai.

Subsidiaries	Principal activities	Class of share	% ownership
Alton Glasshouses Limited	Non-trading	Ordinary	100
Bollards Direct Limited	Non-trading	Ordinary	100
Capability Brown Garden Centres Limited	Non-trading	Ordinary	100
Capability Brown Landscaping Limited	Non-trading	Ordinary	100
Classical Flagstones Limited	Non-trading	Ordinary	100
Dalestone Concrete Products Limited	Non-trading	Ordinary	100
Locharbriggs Sandstone Limited	Non-trading	Ordinary	100
Lloyds Quarries Limited	Non-trading	Ordinary	100
Marshalls Building Materials Limited	Non-trading	Ordinary	100
Marshalls Building Products Limited	Property management	Ordinary	100
Marshalls Concrete Products Limited	Non-trading	Ordinary	100

Notes to the Company Financial Statements – *continued*

30 Investments *continued*

Subsidiaries	Principal activities	Class of share	% ownership
Marshalls Directors Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 30 Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 31 Limited	Non-trading	Ordinary	100
Marshalls EBT Limited*	Non-trading	Ordinary	100
Marshalls Estates Limited	Non-trading	Ordinary	100
Marshalls Group Limited*	Intermediate holding company	Ordinary	100
Marshalls Landscape Products Limited	Non-trading	Ordinary	100
Marshalls Landscape Products FZE	Landscape products supplier	Ordinary	100
Marshalls Landscape Products (North America) Inc.	Landscape products supplier	Ordinary	100
Marshalls Mono Limited	Landscape products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products	Ordinary	100
Marshalls Natural Stone Limited	Non-trading	Ordinary	100
Marshalls NV	Landscape products manufacturer and supplier	Ordinary	66.7
Marshalls Profit Sharing Scheme Limited	Non-trading	Ordinary	100
Marshalls Properties Limited	Property management	Ordinary	100
Marshalls Register Limited	Non-trading	Ordinary	100
Marshalls Stone Products Limited	Non-trading	Ordinary	100
Marshalls Street Furniture Limited	Non-trading	Ordinary	100
Ollerton Limited	Non-trading	Ordinary	100
Panablok (UK) Limited	Non-trading	Ordinary	100
Paver Systems (Carluke) Limited	Non-trading	Ordinary	100
Paver Systems Limited	Non-trading	Ordinary	100
Premier Mortars Limited	Non-trading	Ordinary	100
Quarryfill Limited	Non-trading	Ordinary	100
Rhino Protec Limited	Non-trading	Ordinary	100
Robinson Associates Stone Consultants Limited	Non-trading	Ordinary	100
Robinsons Greenhouses Limited	Non-trading	Ordinary	100
Rockrite Limited	Non-trading	Ordinary	100
S Marshall & Sons Limited	Non-trading	Ordinary	100
Scenic Blue Limited	Non-trading	Ordinary	100
Scenic Blue Landscape Franchise Limited	Non-trading	Ordinary	100
Scenic Blue (UK) Limited	Non-trading	Ordinary	100
Stancliffe Stone Company Limited	Non-trading	Ordinary	100
Stoke Hall Quarry Limited*	Non-trading	Ordinary	100
Stone Shippers Limited	Non-trading	Ordinary	100
Stonemarket (Concrete) Limited	Non-trading	Ordinary	100
Stonemarket Limited	Non-trading	Ordinary	100
The Great British Bollard Company Limited	Non-trading	Ordinary	100
The Stancliffe Group Limited	Non-trading	Ordinary	100
The Yorkshire Brick Co. Limited	Non-trading	Ordinary	100
Town & Country Paving Limited	Non-trading	Ordinary	100
Urban Engineering Limited	Non-trading	Ordinary	100
Woodhouse Group Limited	Non-trading	Ordinary	100
Woodhouse UK Limited	Non-trading	Ordinary	100
Xiamen Marshalls Import Export Company Limited	Sourcing and distribution of natural stone products	Ordinary	100

* Held by Marshalls plc. All others held by subsidiary undertakings.

Marshalls NV is largely dependent on the continued support of Marshalls Mono Limited, which has indicated that it intends to continue providing this support for the foreseeable future.

31 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Equity settled share-based payments	**1,010**	698	**–**	–

Movement in temporary differences

	1 January 2016 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	**31 December 2016 £'000**
Equity settled share-based payments	698	252	60	**1,010**

32 Debtors

	2016 £'000	2015 £'000
Corporation tax	**1,257**	1,182

No debtors were due after more than 1 year.

33 Creditors

	2016 £'000	2015 £'000
Amounts owed to subsidiary undertakings	**78,006**	52,829

34 Capital and reserves

Called-up share capital

As at 31 December 2016, the issued and fully paid up share capital was as follows:

	Issued and paid up			
	2016 Number	**2016 nominal value £'000**	2015 Number	2015 nominal value £'000
At 31 December	**199,378,755**	**49,845**	199,378,755	49,845

Equity reserve

The equity reserve represents the number of shares expected to vest in respect of share-based payment awards granted to employees of the Company.

35 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2016 or 31 December 2015.

36 Bank facilities

The Group's banking arrangements are in respect of Marshalls plc, Marshalls Group Limited and Marshalls Mono Limited with each company being nominated borrowers. The operational banking activities of the Group are undertaken by Marshalls Group Limited and the Group's bank debt is largely included in Marshalls Group Limited's balance sheet.

Notes to the Company Financial Statements – *continued*

37 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self insurance for employer's liability and vehicle insurance.

Beneficiary	Amount	Period	Purpose
Mitsui Sumitomo Insurance (London Management) Limited	£700,000	23 Dec 2011 to 30 Oct 2017	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 29 Oct 2029	Vehicle insurance
M S Amlin Limited	£350,000	30 Oct 2016 to 30 Oct 2018	Vehicle insurance

38 Pension scheme

The Company is the sponsoring employer of the Marshalls plc pension scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances.

Full details of the Scheme are provided in Note 18. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis.

The latest funding valuation of the defined benefit section of the Scheme was carried out as at 5 April 2015 and was updated for the purposes of the 31 December 2016 Financial Statements by a qualified independent actuary. Active employees are members of the defined contribution section of the Scheme, which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly.

39 Accounting estimates and judgements

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions. Although these judgements and estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are disclosed below.

Note 18 contains information about the principal actuarial assumptions used in the determination of defined benefit pension obligations. These key assumptions include discount rates, the expected return on net assets, inflation rates and mortality rates and have been determined following advice received from an independent qualified actuary. Sensitivity analysis is disclosed in Note 18 on page 111.

Note 31 contains details of the Company's deferred taxation. Liabilities recognised are determined by reference to the likelihood of settlement and the likelihood that assets are received is based on assumptions of future actions.

40 Related parties

Related party relationships exist with other members of the Group. All operating costs are borne by Marshalls Group Limited and are recharged to Marshalls plc in respect of specifically attributable costs. All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Financial History – Consolidated Group

	Year to 31 December 2012** £'000	Year to 31 December 2013* £'000	Year to 31 December 2014 £'000	Year to 31 December 2015 £'000	**Year to 31 December 2016 £'000**
Consolidated Income Statement					
Revenue	300,938	307,390	358,516	386,204	**396,922**
Net operating costs	(288,087)	(291,300)	(333,211)	(348,752)	**(349,283)**
Operating profit (before operational restructuring and works closure costs, goodwill and intangible asset impairments)	12,851	16,090	25,305	37,452	**47,639**
Operational restructuring and works closure costs, goodwill and intangible asset impairments	(21,521)	–	–	–	**–**
Operating (loss) / profit	(8,670)	16,090	25,305	37,452	**47,639**
Financial income and expenses (net)	(3,578)	(3,064)	(2,884)	(2,174)	**(1,593)**
Profit before tax (before operational restructuring and works closure costs, goodwill and intangible asset impairments)	9,273	13,026	22,421	35,278	**46,046**
(Loss) / profit before tax	(12,248)	13,026	22,421	35,278	**46,046**
Income tax credit / (expense)	5,874	(67)	(4,198)	(7,387)	**(8,539)**
(Loss) / profit for the financial year before post-tax (loss) / profit of discontinued operations	(6,374)	12,959	18,223	27,891	**37,507**
Post-tax profit of discontinued operations	676	503	–	–	**–**
(Loss) / profit for the financial year	(5,698)	13,462	18,223	27,891	**37,507**
(Loss) / profit for the year attributable to:					
Equity shareholders of the Parent	(5,684)	14,096	19,857	28,149	**37,350**
Non-controlling interests	(14)	(634)	(1,634)	(258)	**157**
	(5,698)	13,462	18,223	27,891	**37,507**
EBITA***	(7,423)	17,028	26,536	38,774	**48,648**
EBITDA***	6,538	30,227	38,518	51,828	**60,794**
EBITA before operational restructuring and works closure costs, goodwill and intangible asset impairments	14,098**	17,028	26,536	38,774	**48,648**
EBITDA before operational restructuring and works closure costs, goodwill and intangible asset impairments	28,059**	30,227	38,518	51,828	**60,794**
Earnings per share (pence):					
Basic (continuing operations)	(3.26)	6.94	10.13	14.32	**18.95**
Basic (total operations)	(2.91)	7.20	10.13	14.32	**18.95**
Basic continuing operations (before operational restructuring and works closure costs, goodwill and intangible asset impairments)	5.52**	6.94	10.13	14.32	**18.95**
Dividends per share (pence) – IFRS	5.25	5.25	5.50	6.25	**9.65**
Dividend cover (times) – IFRS (continuing)	1.1**	1.3	1.8	2.3	**2.0**
Dividends per share (pence) – traditional	5.25	5.25	6.00	7.00	**8.70**
Dividends per share (pence) – supplementary	–	–	–	2.00	**3.00**
Dividend cover (times) – traditional (continuing)	1.1**	1.3	1.7	2.0	**2.2**
Year-end share price (pence)	97.5	176.25	234.0	325.0	**292.5**
Tax rate (%)	(16.3)**	0.5	18.7	20.9	**18.5**

* The comparatives have been restated in respect of discontinued operations.

** Before operational restructuring and works closure costs, goodwill and intangible asset impairments.

*** EBITA is defined as earnings before interest, tax and amortisation of intangibles. EBITDA is defined as earnings before interest, tax and amortisation of intangibles and depreciation.

Financial History – Consolidated Group – *continued*

	2012 £'000	2013 £'000	2014 £'000	2015 £'000	**2016 £'000**
Consolidated Balance Sheet					
Non-current assets	225,882	198,082	195,951	192,815	**193,393**
Current assets	116,735	120,832	132,593	137,017	**139,685**
Total assets	342,617	318,914	328,544	329,832	**333,078**
Current liabilities	(64,440)	(74,137)	(80,969)	(87,071)	**(87,068)**
Non-current liabilities	(94,603)	(69,345)	(65,681)	(50,043)	**(28,889)**
Net assets	183,574	175,432	181,894	192,718	**217,121**
Net borrowings	(63,543)	(35,569)	(30,480)	(11,462)	**5,413**
Gearing ratio	34.6%	20.3%	16.8%	6.0%	**(2.5%)**

Shareholder Information

Shareholder analysis at 31 December 2016

Size of shareholding	Number of shareholders	%	Number of Ordinary Shares	%
1 to 500	1,900	43.96	275,462	0.14
501 to 1,000	525	12.15	397,754	0.20
1,001 to 2,500	674	15.59	1,142,983	0.57
2,501 to 5,000	451	10.43	1,603,301	0.80
5,001 to 10,000	281	6.51	1,991,013	1.00
10,001 to 25,000	164	3.79	2,539,137	1.27
25,001 to 100,000	147	3.41	7,695,588	3.86
100,001 to 250,000	65	1.50	9,676,240	4.86
250,001 to 500,000	34	0.79	12,158,458	6.10
500,001 and above	81	1.87	161,898,819	81.20
	4,322	100.00	199,378,755	100.00

Financial calendar

Preliminary announcement of results for the year ended 31 December 2016	Announced	15 March 2017
Annual General Meeting		10 May 2017
Final dividend for the year ended 31 December 2016	Payable	30 June 2017
Half-yearly results for the year ending 31 December 2017	Announcement	17 August 2017
Half-yearly dividend for the year ending 31 December 2017	Payable	6 December 2017
Results for the year ending 31 December 2017	Announcement	Early March 2018

Advisers

Stockbrokers
Peel Hunt
Numis Securities Limited

Auditor
Deloitte LLP

Legal advisers
Herbert Smith Freehills LLP
Eversheds LLP
Pinsent Masons LLP

Financial advisers
N M Rothschild & Sons Limited

Bankers
Royal Bank of Scotland plc
Lloyds TSB Bank plc
HSBC Bank plc

Registrars

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