Marshalls

Delivering long-term sustainable growth

Marshalls plc Half Year Report 2018

Highlights

Financial highlights

- Strong revenue growth for the half year despite severe weather impact
- Operating margins slightly ahead to 13.7% (2017: 13.6%)
- Recent trading very strong with June and July revenues up 21%
- CPM Group Limited performed well in the period and its integration is on track and well advanced
- The Group's strong cash generation has continued
- Net debt of £48.9 million (31 December 2017: £24.3 million), reflecting the purchase of CPM for £41.4 million
- Payment of £21.3 million final and supplementary dividends on 29 June 2018
- Return on capital employed for the 12 months ended 30 June 2018 continues at circa 20% (31 December 2017: 20.8%)

The 2020 Strategy continues to deliver long-term sustainable EBITDA growth, high ROCE, and a strengthened brand

- Capital expenditure of £28 million planned for 2018 to support growth and deliver cost savings of £5 million per annum by 2019
- Research and development expenditure increased to £2.2 million (2017: £1.7 million) coupled with new product development and service to drive sales growth
- Focus on increasing the profitability of the Emerging UK Businesses continues
- Digital strategy gaining momentum and delivering real benefits across the business
- Continue to target selective bolt-on acquisition opportunities
- Maintained a 2 times dividend cover policy, enhanced by supplementary dividends

Revenue £'m

£244.3m

+12%

2018	244.3
2017	219.1
2016	202.4

EBITDA £'m

£41.6m

+13%

2018	41.6
2017	36.7
2016	32.4

Operating profit £'m

£33.5m

+12%

2018	33.5
2017	29.8
2016	26.0

Profit before tax £'m

£32.5m

+12%

2018	32.5
2017	29.1
2016	25.1

Return on capital employed %

20.0%

2018	20.0
2017	20.8
2016	19.9

EPS p

13.24p

+10%

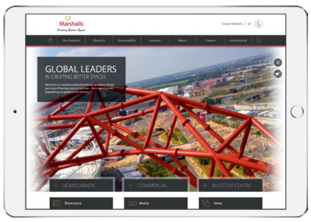
2018	13.24
2017	12.04
2016	10.36

Interim dividend per share p

4.00p

+18%

2018	4.00
2017	3.40
2016	2.90



Find out more online
www.marshalls.co.uk

Front cover: Scoutmoor Yorkstone at Aldgate Square, London

Find us on Facebook **MarshallsGroup**

Follow us on Twitter **@MarshallsGroup**

Follow us on LinkedIn **Marshalls**

Follow us on YouTube **MarshallsTV**

Focus remains on the delivery of sustainable growth, whilst maintaining strong capital discipline

"Recent trading has been strong and the Group has continued to experience a strong order intake"

- EBITDA up 13% to £41.6 million (2017: £36.7 million)
- Profit before tax up 12% to £32.5 million (2017: £29.1 million)
- EPS up 10% to 13.24 pence (2017: 12.04 pence)
- CPM integration well advanced
- Continuing investment in new product development
- Total capital expenditure of £28 million planned for 2018
- Digital strategy increasing in momentum

Group results

Marshalls' revenue for the 6 months ended 30 June 2018 grew by 12 per cent to £244.3 million (2017: £219.1 million). This result has been achieved despite the severe weather conditions in the first 4 months, which resulted in a reduction in sales of approximately £9 million. Recent trading has been strong and the Group has continued to experience strong order intake. Revenue in both June and July is up 21 per cent against the prior year period. Encouragingly, despite wider political and economic uncertainty, the underlying indicators remain positive in Marshalls' end markets. The Group's positive cash generation has continued in the period.

Sales to the Domestic end market, which represented approximately 31 per cent of Group sales, were significantly impacted by the severe weather. Despite this, results were in line with the prior year period reflecting strong growth either side of the bad weather period. The survey of domestic installers at the end of June 2018 shows continuing strong order books of 11.3 weeks (June 2017: 11.9 weeks; February 2018: 10.8 weeks).

Sales to the Public Sector and Commercial end market, which represented approximately 64 per cent of Group sales, increased by 19 per cent compared with the prior year period. CPM Group Limited ("CPM"), which was acquired in October 2017, has continued to trade strongly and its integration is in line with our expectations and well advanced.

The Group continues to target those parts of the market where higher levels of growth are anticipated including New Build Housing, Road, Rail and Water Management.

Sales in the International business increased by 1 per cent in the 6 months ended 30 June 2018 and represented 5 per cent of Group sales. Progress continues to be made to develop our International business and the Group continues to improve its global infrastructure, supply chains and routes to market.

Operating profit increased to £33.5 million (2017: £29.8 million) with operating margins slightly ahead at 13.7 per cent (2017: 13.6 per cent). EBITDA improved to £41.6 million (2017: £36.7 million).

Group return on capital employed ("ROCE") remained strong and was 20.0 per cent for the 12 months ended 30 June 2018. This compares with 20.8 per cent for the year ended 31 December 2017 and reflects the increase in the pension scheme surplus. ROCE is defined as EBITA divided by shareholders' funds plus cash / net debt.

Net financial expenses were £1.0 million (2017: £0.7 million) and interest was covered 34.0 times (2017: 42.4 times). The effective tax rate was 19.5 per cent (2017: 18.8 per cent).

Basic EPS was 13.24 pence (2017: 12.04 pence) per share, which represented an increase of 10 per cent. The Board has declared an interim dividend of 4.00 pence (2017: 3.40 pence) per share, an increase of 18 per cent, reflecting the strong cash generation and the Group's continuing progressive dividend policy.

The Group continues to deliver strong operational cash flows through the ongoing tight control of inventory and effective management of working capital. As a consequence of the acquisition of CPM in October 2017 for £41.4 million, including £3 million of CPM debt taken on, the Group reported net debt of £48.9 million at 30 June 2018 (30 June 2017: net cash of £1.2 million). The half year end net debt is after the payment of the 2017 final and supplementary dividends of £21.3 million made to shareholders on 29 June 2018.

Group strategy

The Group strategy continues to focus on the delivery of long-term sustainable growth. The strategy is to maintain a strong balance sheet, a flexible capital structure and a clear capital allocation policy that drives both long-term growth and shareholder returns. The Group is continuing to invest in the Marshalls brand and to prioritise organic capital expenditure projects. We continue to increase research and development and new product development, which are delivering an encouraging pipeline of new products. The focus remains on innovation and new product development, and the aim is to extend the product range and provide more integrated solutions to improve the customer experience and so strengthen and differentiate the Marshalls brand.

The Group's key priority is to deliver improvements in profit margins across all businesses and end markets through the continued focus on service, quality, design, innovation and a commitment to research and development and sustainability, together with sustainable cost reductions and improvements in operational efficiency.

Numerous cross-selling opportunities have been identified and CPM is generating a strong pipeline of new products. Our acquisition focus remains centred on the Minerals, Protective Street Furniture, Building Materials and Water Management markets. We have identified a good pipeline of potential acquisition targets but remain selective and will not compromise on the investment criteria and the hurdle rates we have in place.

Marshalls' digital strategy is increasing in momentum across all Group operations. The strategy combines digital trading, digital marketing and digital business and is focused on the customer experience. The strategy puts the interests of stakeholders and the requirements of customers as the key priority. For example, web and mobile applications enable customers to model their requirements and allow full digital access. A new Commercial web platform was launched in this period and a new Domestic platform will follow later this year. Our strategic direction is "digital by default", which seeks to define digital as a core part of the Group's culture.

Operating performance

Operating margins increased slightly to 13.7 per cent in the 6 months ended 30 June 2018 (2017: 13.6 per cent). The increased operating margins in the core Landscape Products business, together with the positive impact from CPM, were tempered by the performances of certain of the Emerging UK Businesses and the impact of restructuring costs. CPM has delivered strong trading results since the acquisition date and its half year performance is in line with expectations. Revenue increased by £25.3 million and operating profit by £4.8 million in the Landscape Products business, which serves both the Public Sector and Commercial and Domestic end markets.

The increase in operating margins within the Landscape Products business reflects the delivery of sustainable cost reductions and operational efficiency improvements as part of our 2020 Strategy programmes. The performance of our Emerging UK Businesses has been mixed during the half year period, with significant focus on restructuring certain less profitable areas. The profit is calculated after charging restructuring costs of £0.9 million which have been incurred in the period and are designed to benefit these businesses going forward. Increasing profitability in the Emerging UK Businesses remains a key part of the Group's 2020 Strategy and Street Furniture, Mineral Products and Premier Mortars remain important growth drivers for the Group.

In the Domestic end market, the Group continues to drive more sales through the Marshalls Register of approved domestic installers. The Marshalls Register is unique and comprises approximately 1,900 installer teams. The Group is committed to delivering a consistently high standard of quality, customer service and marketing support and we remain focused on enhancing the overall customer experience by extending digitisation and our commitment to innovation.

In the Public Sector and Commercial end market, Marshalls' continuing strategy is to offer sustainable integrated solutions to customers, architects and contractors. The Group's technical and sales teams remain particularly focused on those market areas where future demand is considered to be greatest including New Build Housing, Road, Rail and Water Management. CPM is now fully part of the Landscape Products business and numerous cross-selling opportunities have been identified. CPM has a strong order book and a healthy pipeline of new products and has recently secured orders to supply a number of Smart Motorway projects.

The Group continues to focus on innovation and new product development to drive sales growth. Research and development expenditure in the 6 months ended 30 June 2018 was £2.2 million (2017: £1.7 million). This investment includes project engineering to enhance manufacturing capabilities, concrete and other materials technology innovations and extending the new product pipeline. New product solutions for the Domestic range include Urbex Riven paving for new housing, together with additional innovative stone and vitrified paving products. In Public Sector and Commercial, CPM's Perfect Manhole System and its Redi-Rock Flood Protection System are important new product solutions now available to the Group. Revenue from new products in the core Landscape Products business has continued to grow strongly and represented 11 per cent of Group sales in the 6 months ended 30 June 2018.

Capital investment in property, plant and equipment in the 6 months ended 30 June 2018 totalled £13.5 million (2017: £7.9 million) and this compares with depreciation of £7.4 million (2017: £6.4 million). The Group's self help investment programme remains an important part of our 2020 Strategy and total capital expenditure of £28 million is planned in 2018. The aim is to deliver sustainable cost savings of £5 million per annum by 2019. This detailed plan is on track and includes various projects within natural stone, block paving and automated material handling. In addition, further to our acquisition last year, a new factory is due for completion at CPM's Somerset site in November 2018, at a cost of £5 million, which is expected to increase capacity and efficiency at the plant.

Balance sheet and cash flow

Net assets at 30 June 2018 were £244.6 million (June 2017: £222.6 million).

Cash generation remains strong, although the bad weather in the first 4 months of the year has pushed out the working capital cycle in the second quarter. This knock-on impact of the bad weather is reflected in the reported net cash flows from operating activities, which were £14.0 million (2017: £19.2 million) in the 6 months ended 30 June 2018. The Group continues to focus on maintaining a strong balance sheet supported by robust capital disciplines, and strong cash management continues to be a high priority area. The Group operates tight control over business, operational and financial procedures, and continues to focus on inventory levels and the management of capital expenditure and trade receivables.

The Group's existing bank facilities provide headroom against available facilities at appropriately conservative levels. On 9 August 2018 we extended our committed facilities by 1 year to 2023 to enhance the maturity profile and also renewed short-term working capital facilities with RBS. Marshalls maintains a policy of having significant committed facilities in place with a positive spread of medium-term maturities. We have significant capacity within our banking facilities to fund organic investment and selective "bolt-on" acquisitions.

The balance sheet value of the Group's defined benefit pension scheme was a surplus of £11.5 million at 30 June 2018 (December 2017: £4.1 million surplus; June 2017: £3.6 million surplus). The surplus has been determined by the scheme actuary using assumptions that are considered to be prudent and in line with current market levels. The increased surplus is largely due to an increase, during the last 6 months, in the AA corporate bond rate from 2.50 per cent to 2.60 per cent and this is in line with market movements. The expected rate of inflation decreased to 2.10 per cent from 2.15 per cent at 31 December 2017. The balance sheet value continues to benefit from the high proportion of liability-driven investments whose performance matches the liabilities.

Dividend

The Group has a progressive dividend policy with a stated objective of achieving up to 2 times dividend cover over the business cycle. The Board has declared an interim dividend of 4.00 pence (June 2017: 3.40 pence) per share, an increase of 18 per cent, which reflects the Group's strong cash generation. This dividend will be paid on 5 December 2018 to shareholders on the register at the close of business on 19 October 2018. The ex-dividend date will be 18 October 2018.

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining 6 months of the financial year and could cause actual results to differ materially from expected and historical results. The Board does not consider that the principal risks and uncertainties have changed since the publication of the Annual Report for the year ended 31 December 2017. A detailed explanation of the risks, and how the Group seeks to mitigate these risks, can be found on pages 20 to 24 of the 2017 Annual Report, which is available at www.marshalls.co.uk/investor/annual-and-interim-reports.

Going concern

As stated in Note 1 of the 2018 Half Year Report, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Half Year Report.

Outlook

The Group continues to outperform the Construction Products Association's ("CPA") growth figures, despite ongoing macroeconomic uncertainty. The CPA's recent Summer Forecast predicts a decrease in UK market volumes of 0.6 per cent in 2018, followed by an increase of 2.3 per cent in 2019, while the underlying indicators in the New Build Housing, Road, Rail and Water Management markets remain supportive. Recent trading has been very strong with both June and July revenues up 21 per cent against the prior year period.

The self help programme to support organic growth is progressing well and the integration of CPM is on track with post acquisition trading continuing strongly. The Board believes that Marshalls' innovative product range and strong market positions mean the Group is well placed to deliver continued future growth. The Group's focus remains the delivery of long-term sustainable growth, whilst maintaining a strong balance sheet and a flexible capital structure.

The Board remains confident of achieving its expectations for 2018.

Martyn Coffey
Chief Executive

Condensed Consolidated Income Statement

for the half year ended 30 June 2018

	Notes	Half year ended June 2018 £'000	2017 £'000	Year ended December 2017 £'000
Revenue	4	**244,340**	219,131	430,194
Net operating costs	5	**(210,827)**	(189,299)	(376,755)
Operating profit	4	**33,513**	29,832	53,439
Financial expenses	6	**(986)**	(703)	(1,388)
Profit before tax	4	**32,527**	29,129	52,051
Income tax expense	7	**(6,350)**	(5,477)	(9,925)
Profit for the financial period		**26,177**	23,652	42,126
Profit for the period				
Attributable to:				
Equity shareholders of the Parent		**26,158**	23,779	42,503
Non-controlling interests		**19**	(127)	(377)
		26,177	23,652	42,126
Earnings per share				
Basic	8	**13.24p**	12.04p	21.52p
Diluted	8	**13.13p**	11.94p	21.37p
Dividend				
Pence per share	9	**6.80p**	5.80p	9.20p
Supplementary		**4.00p**	3.00p	3.00p
Dividends declared	9	**21,344**	17,387	24,105

All results relate to continuing operations.

Condensed Consolidated Statement of Comprehensive Income

for the half year ended 30 June 2018

	Half year ended June		Year ended December
	2018 £'000	2017 £'000	2017 £'000
Profit for the financial period	**26,177**	23,652	42,126
Other comprehensive income / (expense)			
Items that will not be reclassified to the Income Statement:			
Remeasurement of the net defined benefit liability	**7,699**	(517)	328
Deferred tax arising	**(1,309)**	88	(56)
Total items that will not be reclassified to the Income Statement	**6,390**	(429)	272
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	**500**	(704)	146
Fair value of cash flow hedges transferred to the Income Statement	**(262)**	(251)	(385)
Deferred tax arising	**(38)**	159	35
Exchange difference on retranslation of foreign currency net investment	**62**	135	179
Exchange movements associated with borrowings	**(84)**	(412)	(638)
Foreign currency translation differences – non-controlling interests	**(5)**	213	371
Total items that are or may be reclassified subsequently to the Income Statement	**173**	(860)	(292)
Other comprehensive income / (expense) for the period, net of income tax	**6,563**	(1,289)	(20)
Total comprehensive income for the period	**32,740**	22,363	42,106
Attributable to:			
Equity shareholders of the Parent	**32,726**	22,277	42,112
Non-controlling interests	**14**	86	(6)
	32,740	22,363	42,106

Condensed Consolidated Balance Sheet

as at 30 June 2018

	Notes	June 2018 £'000	June 2017 £'000	December 2017* £'000
Assets				
Non-current assets				
Property, plant and equipment		**173,662**	147,514	169,093
Intangible assets		**73,318**	40,386	72,060
Trade and other receivables		**–**	208	–
Employee benefits	10	**11,498**	3,622	4,127
Deferred taxation assets		**1,324**	2,390	2,775
		259,802	194,120	248,055
Current assets				
Inventories		**84,867**	70,380	77,859
Trade and other receivables		**94,644**	74,295	68,221
Cash and cash equivalents		**20,617**	26,862	19,845
Derivative financial instruments		**654**	–	447
		200,782	171,537	166,372
Total assets		**460,584**	365,657	414,427
Liabilities				
Current liabilities				
Trade and other payables		**114,394**	96,818	100,173
Corporation tax		**8,282**	7,555	9,299
Interest-bearing loans and borrowings		**34**	34	35
Derivative financial instruments		**–**	276	–
		122,710	104,683	109,507
Non-current liabilities				
Interest-bearing loans and borrowings		**69,484**	25,669	44,107
Provisions		**7,540**	–	8,200
Deferred taxation liabilities		**16,274**	12,669	14,986
		93,298	38,338	67,293
Total liabilities		**216,008**	143,021	176,800
Net assets		**244,576**	222,636	237,627
Equity				
Capital and reserves attributable to equity shareholders of the Parent				
Share capital		**49,845**	49,845	49,845
Share premium account		**22,695**	22,695	22,695
Own shares		**(919)**	(2,470)	(2,359)
Capital redemption reserve		**75,394**	75,394	75,394
Consolidation reserve		**(213,067)**	(213,067)	(213,067)
Hedging reserve		**586**	(206)	386
Retained earnings		**308,569**	288,894	303,274
Equity attributable to equity shareholders of the Parent		**243,103**	221,085	236,168
Non-controlling interests		**1,473**	1,551	1,459
Total equity		**244,576**	222,636	237,627

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 11).

Condensed Consolidated Cash Flow Statement

for the half year ended 30 June 2018

	Half year ended June		Year ended December
	2018 £'000	2017 £'000	2017 £'000
Cash flows from operating activities			
Profit for the financial period	**26,177**	23,652	42,126
Income tax expense	**6,350**	5,477	9,925
Profit before tax	**32,527**	29,129	52,051
Adjustments for:			
Depreciation	**7,427**	6,438	13,314
Amortisation	**717**	501	1,142
Gain on sale of property, plant and equipment	**(954)**	(870)	(948)
Share-based payment expense	**534**	736	2,382
Financial income and expenses (net)	**986**	703	1,388
Operating cash flow before changes in working capital	**41,237**	36,637	69,329
(Increase) / decrease in trade and other receivables	**(26,729)**	(24,569)	5,334
Increase in inventories	**(7,045)**	(1,469)	(4,252)
Increase / (decrease) in trade and other payables	**14,830**	14,842	(320)
Operational restructuring costs paid	**(917)**	–	(1,217)
Acquisition costs paid	**(594)**	–	(193)
Cash generated from operations	**20,782**	25,441	68,681
Financial expenses paid	**(707)**	(513)	(911)
Income tax paid	**(6,057)**	(5,723)	(10,465)
Net cash flow from operating activities	**14,018**	19,205	57,305
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**1,571**	4,171	3,891
Acquisition of subsidiary undertaking	**–**	–	(41,227)
Acquisition of property, plant and equipment	**(13,539)**	(7,922)	(18,895)
Acquisition of intangible assets	**(557)**	(794)	(1,750)
Net cash flow from investing activities	**(12,525)**	(4,545)	(57,981)
Cash flows from financing activities			
Payments to acquire own shares	**(1,210)**	(1,054)	(1,068)
Payments in respect of share-based awards	**(3,683)**	–	–
Net decrease in other debt and finance leases	**–**	–	(3,407)
Increase in borrowings	**25,500**	10,000	28,226
Equity dividends paid	**(21,344)**	(17,387)	(24,105)
Net cash flow from financing activities	**(737)**	(8,441)	(354)
Net increase / (decrease) in cash and cash equivalents	**756**	6,219	(1,030)
Cash and cash equivalents at the beginning of the period	**19,845**	20,681	20,681
Effect of exchange rate fluctuations	**16**	(38)	194
Cash and cash equivalents at the end of the period	**20,617**	26,862	19,845

Condensed Consolidated Statement of Changes in Equity

for the half year ended 30 June 2018

	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 half year										
At 1 January 2018	**49,845**	**22,695**	**(2,359)**	**75,394**	**(213,067)**	**386**	**303,274**	**236,168**	**1,459**	**237,627**
Total comprehensive income / (expense) for the period										
Profit for the financial period attributable to equity shareholders of the Parent	**–**	**–**	**–**	**–**	**–**	**–**	**26,158**	**26,158**	**19**	**26,177**
Other comprehensive income / (expense)										
Foreign currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**(22)**	**(22)**	**(5)**	**(27)**
Effective portion of changes in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**–**	**500**	**–**	**500**	**–**	**500**
Net change in fair value of cash flow hedges transferred to the Income Statement	**–**	**–**	**–**	**–**	**–**	**(262)**	**–**	**(262)**	**–**	**(262)**
Deferred tax arising	**–**	**–**	**–**	**–**	**–**	**(38)**	**–**	**(38)**	**–**	**(38)**
Defined benefit plan actuarial gain	**–**	**–**	**–**	**–**	**–**	**–**	**7,699**	**7,699**	**–**	**7,699**
Deferred tax arising	**–**	**–**	**–**	**–**	**–**	**–**	**(1,309)**	**(1,309)**	**–**	**(1,309)**
Total other comprehensive income	**–**	**–**	**–**	**–**	**–**	**200**	**6,368**	**6,568**	**(5)**	**6,563**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**200**	**32,526**	**32,726**	**14**	**32,740**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**(3,149)**	**(3,149)**	**–**	**(3,149)**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**(352)**	**(352)**	**–**	**(352)**
Corporation tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**264**	**264**	**–**	**264**
Dividends to equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(21,344)**	**(21,344)**	**–**	**(21,344)**
Purchase of own shares	**–**	**–**	**(1,210)**	**–**	**–**	**–**	**–**	**(1,210)**	**–**	**(1,210)**
Disposal of own shares	**–**	**–**	**2,650**	**–**	**–**	**–**	**(2,650)**	**–**	**–**	**–**
Total contributions by and distributions to owners	**–**	**–**	**1,440**	**–**	**–**	**–**	**(27,231)**	**(25,791)**	**–**	**(25,791)**
Total transactions with owners of the Company	**–**	**–**	**1,440**	**–**	**–**	**200**	**5,295**	**6,935**	**14**	**6,949**
At 30 June 2018	**49,845**	**22,695**	**(919)**	**75,394**	**(213,067)**	**586**	**308,569**	**243,103**	**1,473**	**244,576**

Condensed Consolidated Statement of Changes in Equity *continued*

for the half year ended 30 June 2018

	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 half year										
At 1 January 2017	49,845	22,695	(3,622)	75,394	(213,067)	590	283,821	215,656	1,465	217,121
Total comprehensive income / (expense) for the period										
Profit for the financial period attributable to equity shareholders of the Parent	–	–	–	–	–	–	23,779	23,779	(127)	23,652
Other comprehensive income / (expense)										
Foreign currency translation differences	–	–	–	–	–	–	(277)	(277)	213	(64)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	(704)	–	(704)	–	(704)
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	(251)	–	(251)	–	(251)
Deferred tax arising	–	–	–	–	–	159	–	159	–	159
Defined benefit plan actuarial loss	–	–	–	–	–	–	(517)	(517)	–	(517)
Deferred tax arising	–	–	–	–	–	–	88	88	–	88
Total other comprehensive income / (expense)	–	–	–	–	–	(796)	(706)	(1,502)	213	(1,289)
Total comprehensive income / (expense) for the period	–	–	–	–	–	(796)	23,073	22,277	86	22,363
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	–	–	–	–	–	–	736	736	–	736
Deferred tax on share-based payments	–	–	–	–	–	–	702	702	–	702
Corporation tax on share-based payments	–	–	–	–	–	–	155	155	–	155
Dividends to equity shareholders	–	–	–	–	–	–	(17,387)	(17,387)	–	(17,387)
Purchase of own shares	–	–	(1,054)	–	–	–	–	(1,054)	–	(1,054)
Disposal of own shares	–	–	2,206	–	–	–	(2,206)	–	–	–
Total contributions by and distributions to owners	–	–	1,152	–	–	–	(18,000)	(16,848)	–	(16,848)
Total transactions with owners of the Company	–	–	1,152	–	–	(796)	5,073	5,429	86	5,515
At 30 June 2017	49,845	22,695	(2,470)	75,394	(213,067)	(206)	288,894	221,085	1,551	222,636

Condensed Consolidated Statement of Changes in Equity *continued*

for the half year ended 30 June 2018

	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 2017	49,845	22,695	(3,622)	75,394	(213,067)	590	283,821	215,656	1,465	217,121
Total comprehensive income / (expense) for the year										
Profit for the financial period attributable to equity shareholders of the Parent	–	–	–	–	–	–	42,503	42,503	(377)	42,126
Other comprehensive income / (expense)										
Foreign currency translation differences	–	–	–	–	–	–	(459)	(459)	371	(88)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	146	–	146	–	146
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	(385)	–	(385)	–	(385)
Deferred tax arising	–	–	–	–	–	35	–	35	–	35
Defined benefit plan actuarial gain	–	–	–	–	–	–	328	328	–	328
Deferred tax arising	–	–	–	–	–	–	(56)	(56)	–	(56)
Total other comprehensive income / (expense)	–	–	–	–	–	(204)	(187)	(391)	371	(20)
Total comprehensive income / (expense) for the year	–	–	–	–	–	(204)	42,316	42,112	(6)	42,106
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	–	–	–	–	–	–	2,382	2,382	–	2,382
Deferred tax on share-based payments	–	–	–	–	–	–	885	885	–	885
Corporation tax on share-based payments	–	–	–	–	–	–	306	306	–	306
Dividends to equity shareholders	–	–	–	–	–	–	(24,105)	(24,105)	–	(24,105)
Purchase of own shares	–	–	(1,068)	–	–	–	–	(1,068)	–	(1,068)
Disposal of own shares	–	–	2,331	–	–	–	(2,331)	–	–	–
Total contributions by and distributions to owners	–	–	1,263	–	–	–	(22,863)	(21,600)	–	(21,600)
Total transactions with owners of the Company	–	–	1,263	–	–	(204)	19,453	20,512	(6)	20,506
At 31 December 2017	49,845	22,695	(2,359)	75,394	(213,067)	386	303,274	236,168	1,459	237,627

1. Basis of preparation

Marshalls plc (the "Company") is a company domiciled in the United Kingdom. The Condensed Consolidated Financial Statements of the Company for the half year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The Condensed Consolidated Financial Statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority and the requirements of IAS 34 *"Interim Financial Reporting"* as adopted by the European Union ("EU").

The Condensed Consolidated Financial Statements do not constitute statutory financial statements and do not include all the information and disclosures required for full annual financial statements. The Condensed Consolidated Half Year Financial Statements were approved by the Board on 16 August 2018. The Condensed Consolidated Half Year Financial Statements are not statutory accounts as defined by Section 434 of the Companies Act 2006.

The Condensed Consolidated Financial Statements for the half year ended 30 June 2018 and the comparative period have not been audited. The Auditor has carried out a review of the Half Year Financial Information and its report is set out on page 25.

The financial information for the year ended 31 December 2017 has been extracted from the annual Financial Statements, included in the Annual Report 2017, which has been filed with the Registrar of Companies. The report of the Auditor was: (i) unqualified; (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying its report; and (iii) did not contain a statement under Section 498 (2) and (3) of the Companies Act 2006.

The annual Financial Statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU. As required by the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority and, other than in respect of IFRS 9 and IFRS 15 which apply from 1 January 2018, the condensed set of Financial Statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published Consolidated Financial Statements for the year ended 31 December 2017.

The Condensed Consolidated Half Year 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 preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. 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. In preparing these Condensed Consolidated Half Year Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements of the Group for the year ended 31 December 2017.

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.

Details of the Group's funding position are set out in Note 13 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 9 August 2018. Management believes that 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 that is not dependent on facility renewals. After considering relevant uncertainties, 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 Condensed Consolidated Half Year Financial Statements.

2. Accounting policies

IFRS 9, *"Financial Instruments"* and IFRS 15 *"Revenue from Contracts with Customers"*, have been applied from 1 January 2018. The application of both Standards has not had a material impact on the Group's financial reporting. The Group expects to adopt IFRS 16 *"Leases"*, with effect from 1 January 2019. The Group is currently assessing the impact of IFRS 16, which is expected to have a significant impact on the consolidated results of the Group. It is not practicable to provide a reasonable estimate of the financial effect until the Directors complete the review.

Except as stated on page 13, the accounting policies have been applied consistently throughout the Group for the purposes of these Condensed Consolidated Half Year Financial Statements and are also set out on the Company's website (www.marshalls.co.uk). The Condensed Consolidated Half Year Financial Statements are presented in Sterling, rounded to the nearest thousand.

The following new accounting policies have been applied from 1 January 2018.

2. Accounting policies *continued*

IFRS 9, *"Financial Instruments"*

IFRS 9 replaces the provisions of IAS 39 that relate to recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9, "*Financial Instruments*" from 1 January 2018 resulted in changes in accounting policies, however, no adjustments were required to the amounts recognised in the Financial Statements in previous periods. The new accounting policies are set out below.

(a) Classification and measurement

On 1 January 2018, the Group has classified its financial instruments in the appropriate IFRS 9 categories.

The derivative financial instruments designated as cash flow hedges and fair value hedges under IAS 39 at 31 December 2017 continue to qualify for hedge accounting under IFRS 9 at 1 January 2018 and are, therefore, treated as continuing hedges.

(b) Impairment of financial assets

The Group has one type of financial asset that is subject to IFRS 9's new expected credit loss model:

- trade and other receivables.

Trade and other receivables do not contain a significant financing element and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

There was no IFRS 9 impact on retained earnings at 1 January 2018.

IFRS 15, "*Revenue from Contracts with Customers*"

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the revenue recognition guidance within IAS 18 *"Revenue"* and the related interpretations. The Group adopted IFRS 15 on 1 January 2018. Comparative information has not been restated as the impact on prior periods is not material.

IFRS 15 provides a single, principles-based, five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers, and it replaces the separate model for goods and services of IAS 18 "*Revenue*".

Revenue represents income derived from contracts for the provision of goods and services by the Company and its subsidiary undertakings to customers in exchange for consideration in the ordinary course of the Group's activities.

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service, or a series of distinct goods or services, that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

The Group's revenues are primarily earned from the sale of goods and revenue is recognised when the performance obligation in the contracts with customers is satisfied, typically on delivery of goods to customers.

At the start of the contract the total transaction price is estimated as the amount of consideration to which the Group expect to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Any variable consideration is included based on the expected value, or most likely amount, only to the extent that it is highly probable that there will not be a reversal in the amount of revenue recognised. Total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative standalone selling prices.

3. Alternative performance measures

The Group used alternative performance measures ("APMs") which are not defined or specified under IFRS. The Group believes that their APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide more meaningful comparative information.

EBITA and EBITDA

EBITA represents earnings before interest, tax and the amortisation of intangibles. This is a component of the ROCE calculation. EBITDA is calculated by adding back depreciation to EBITA.

	June 2018 £'000	June 2017 £'000	December 2017 £'000	Increase %
EBITDA	**41,657**	36,771	67,895	13
Depreciation	**(7,427)**	(6,438)	(13,314)	
EBITA	**34,230**	30,333	54,581	
Amortisation of intangible assets	**(717)**	(501)	(1,142)	
Operating profit	**33,513**	29,832	53,439	12

ROCE

Reported ROCE is defined as EBITA divided by shareholders funds plus net debt / (cash).

	June 2018 £'000	June 2017 £'000	December 2017 £'000
EBITA – half year ended 30 June	**34,230**	30,333	30,333
EBITA – half year ended 31 December	**24,248**	22,183	24,248
EBITA – year ended 30 June	**58,478**	52,516	54,581
Shareholders funds	**244,576**	222,636	237,627
Net debt / (cash)	**48,901**	(1,159)	24,297
	293,477	221,477	261,924
Reported ROCE	**20.0%**	23.7%	20.8%

4. Segmental analysis

IFRS 8, *"Operating Segments"* requires operating segments to be identified on the basis of discrete financial information about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker ("CODM") to allocate resources to the segments and to assess their performance. As far as Marshalls plc is concerned, the CODM is regarded as being the Executive Directors. The Directors have concluded that the detailed requirements of IFRS 8 support the reporting of the Group's Landscape Products business as a reportable segment, which includes the UK operations of the Marshalls Landscape Products hard landscaping business, servicing both the UK Domestic and the UK Public Sector and Commercial end markets. Financial information for Landscape Products is reported to the Group's CODM for the assessment of segmental performance and to facilitate resource allocation.

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 UK 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 one integrated production, logistics and distribution network supporting both end markets. Following its acquisition, the CPM business has been included within the Landscape Products operating segment.

Included in "Other" are the Group's Street Furniture, Mineral Products, Premier Mortars and International operations, which do not currently meet the IFRS 8 reporting requirements. The accounting policies of the Landscape Products operating segment are the same as the Group's accounting policies. Segment profit represents the profit earned without allocation of certain central administration costs that are not capable of allocation. Centrally administered overhead costs that relate directly to the reportable segment are included within the segment's results.

4. Segmental analysis *continued*

Segment revenues and results

	Half year ended June 2018			Half year ended June 2017			Year ended December 2017		
	Landscape Products £'000	**Other £'000**	**Total £'000**	Landscape Products £'000	Other £'000	Total £'000	Landscape Products £'000	Other £'000	Total £'000
External revenue	**197,545**	**48,745**	**246,290**	172,140*	49,408*	221,548	339,655	94,622	434,277
Inter-segment revenue	**(105)**	**(1,845)**	**(1,950)**	(130)*	(2,287)*	(2,417)	(226)	(3,857)	(4,083)
Total revenue	**197,440**	**46,900**	**244,340**	172,010	47,121	219,131	339,429	90,765	430,194
Segment operating profit	**35,489**	**1,010**	**36,499**	31,676*	2,099*	33,775	56,104	1,873	57,977
Unallocated administration costs			**(2,986)**			(3,943)			(4,538)
Operating profit			**33,513**			29,832			53,439
Finance charges (net)			**(986)**			(703)			(1,388)
Profit before tax			**32,527**			29,129			52,051
Taxation			**(6,350)**			(5,477)			(9,925)
Profit after tax			**26,177**			23,652			42,126

* Following a change to the way in which information is reported internally, the June 2017 comparative figures have been restated to ensure consistent classification with the analysis reported for the half year ended 30 June 2018.

Segment assets

	June 2018 £'000	June 2017 £'000	December 2017** £'000
Fixed assets and inventory:			
Landscape Products	**200,973**	162,369*	182,391
Other	**57,556**	55,525*	64,561
Total segment fixed assets and inventory	**258,529**	217,894	246,952
Unallocated assets	**202,055**	147,763	167,475
Consolidated total assets	**460,584**	365,657	414,427

* Following a change to the way in which information is reported internally, the June 2017 comparative figures have been restated to ensure consistent classification with the analysis reported for the half year ended 30 June 2018.

** The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 11).

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

Other segment information

	Depreciation and amortisation			Fixed asset additions		
	Half year ended June		Year ended December	Half year ended June		Year ended December
	2018 £'000	2017 £'000	2017 £'000	**2018 £'000**	2017 £'000	2017 £'000
Landscape Products	**5,816**	5,111*	10,878	**11,376**	6,749*	17,041
Other	**2,328**	1,828*	3,578	**713**	2,078*	5,445
	8,144	6,939	14,456	**12,089**	8,827	22,486

* Following a change to the way in which information is reported internally, the June 2017 comparative figures have been restated to ensure consistent classification with the analysis reported for the half year ended 30 June 2018.

4. Segmental analysis *continued*

Geographical destination of revenue

	Half year ended June		Year ended December
	2018 £'000	2017 £'000	2017 £'000
United Kingdom	**230,784**	205,670	407,215
Rest of the World	**13,556**	13,461	22,979
	244,340	219,131	430,194

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.

5. Net operating costs

	Half year ended June		Year ended December
	2018 £'000	2017 £'000	2017 £'000
Raw materials and consumables	**81,871**	79,779	151,343
Changes in inventories of finished goods and work in progress	**6,241**	2,019	7,231
Personnel costs	**57,633**	51,086	100,811
Depreciation	**7,427**	6,438	13,314
Amortisation of intangible assets	**717**	501	1,142
Own work capitalised	**(1,494)**	(666)	(1,919)
Other operating costs	**59,483**	51,785	106,569
Restructuring costs	**917**	1,003	1,217
Acquisition costs	**–**	–	837
Operating costs	**212,795**	191,945	380,545
Other operating income	**(1,014)**	(1,776)	(2,842)
Net gain on asset and property disposals	**(954)***	(870)	(948)
Net operating costs	**210,827**	189,299	376,755

* This reflects the proceeds of the sale of a domain name and is net of the associated digital strategy costs.

6. Financial expenses and income

	Half year ended June		Year ended December
	2018 £'000	2017 £'000	2017 £'000
(a) Financial expenses			
Net interest expense on defined benefit pension scheme	**278**	187	377
Interest expense on bank loans, overdrafts and loan notes	**705**	513	1,005
Finance lease interest expense	**3**	3	6
	986	703	1,388

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

7. Income tax expense

	Half year ended June 2018 £'000	Half year ended June 2017 £'000	Year ended December 2017 £'000
Current tax expense			
Current year	**5,624**	6,363	11,554
Adjustments for prior years	**(320)**	(289)	(732)
	5,304	6,074	10,822
Deferred taxation expense			
Origination and reversal of temporary differences:			
Current year	**998**	(478)	(797)
Adjustments for prior years	**48**	(119)	(100)
Total tax expense	**6,350**	5,477	9,925

	Half year ended June				Year ended December 2017	
	2018		2017			
	%	**£'000**	%	£'000	%	£'000
Reconciliation of effective tax rate						
Profit before tax	**100.0**	**32,527**	100.0	29,129	100.0	52,051
Tax using domestic corporation tax rate	**19.0**	**6,180**	19.3	5,608	19.3	10,020
Impact of capital allowances in excess of depreciation	**0.1**	**27**	0.4	136	0.3	184
Short-term timing differences	**1.0**	**328**	1.1	310	1.2	630
Adjustment to tax charge in prior period	**(1.0)**	**(320)**	(1.1)	(289)	(1.4)	(732)
Expenses not deductible for tax purposes	**(2.8)**	**(911)**	1.1	309	1.4	720
Corporation tax charge for the year	**16.3**	**5,304**	20.8	6,074	20.8	10,822
Impact of capital allowances in excess of depreciation	**0.3**	**82**	(1.9)	(545)	(1.2)	(618)
Short-term timing differences	**2.6**	**860**	0.1	30	(0.2)	(103)
Pension scheme movements	**–**	**–**	0.1	23	(0.1)	(77)
Other items	**–**	**(3)**	1.8	509	1.0	532
Adjustment to tax charge in prior period	**0.1**	**48**	(0.4)	(119)	(0.2)	(100)
Impact of the change in the rate of corporation tax on deferred taxation	**0.2**	**59**	(1.7)	(495)	(1.0)	(531)
Total tax charge for the year	**19.5**	**6,350**	18.8	5,477	19.1	9,925

The net amount of deferred taxation credited to the Consolidated Statement of Comprehensive Income in the period was £1,347,000 debit (30 June 2017: £247,000 credit; 31 December 2017: £21,000 debit). The effective tax rate used is management's best estimate of the average annual effective tax rate expected for the full year, applied to pre-tax income for the 6-month period.

8. Earnings per share

Basic earnings per share of 13.24 pence (30 June 2017: 12.04 pence; 31 December 2017: 21.52 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial period after adjusting for non-controlling interests of £26,158,000 (30 June 2017: £23,779,000; 31 December 2017: £42,503,000) by the weighted average number of shares in issue during the period of 197,619,775 (30 June 2017: 197,440,624; 31 December 2017: 197,518,109).

Profit attributable to Ordinary Shareholders

	Half year ended June 2018 £'000	Half year ended June 2017 £'000	Year ended December 2017 £'000
Profit for the financial period	**26,177**	23,652	42,126
Result attributable to non-controlling interests	**(19)**	127	377
Profit attributable to Ordinary Shareholders	**26,158**	23,779	42,503

Weighted average number of Ordinary Shares

	Half year ended June 2018 Number	Half year ended June 2017 Number	Year ended December 2017 Number
Number of issued Ordinary Shares	**199,378,755**	199,378,755	199,378,755
Effect of shares transferred into employee benefit trust	**(1,758,980)**	(1,938,131)	(1,860,646)
Weighted average number of Ordinary Shares	**197,619,775**	197,440,624	197,518,109

Diluted earnings per share of 13.13 pence (30 June 2017: 11.94 pence; 31 December 2017: 21.37 pence) per share is calculated by dividing the profit for the financial period, after adjusting for non-controlling interests of £26,158,000 (30 June 2017: £23,779,000; 31 December 2017: £42,503,000), by the weighted average number of shares in issue during the period of 197,619,775 (30 June 2017: 197,440,624; 31 December 2017: 197,518,109), plus potentially dilutive shares of 1,609,647 (30 June 2017: 1,722,526; 31 December 2017: 1,384,707), which totals 199,229,422 (30 June 2017: 199,163,150; 31 December 2017: 198,902,816).

Weighted average number of Ordinary Shares (diluted)

	Half year ended June 2018 Number	Half year ended June 2017 Number	Year ended December 2017 Number
Weighted average number of Ordinary Shares	**197,619,775**	197,440,624	197,518,109
Dilutive shares	**1,609,647**	1,722,526	1,384,707
Weighted average number of Ordinary Shares (diluted)	**199,229,422**	199,163,150	198,902,816

9. 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.

	Pence per qualifying share	Half year ended June 2018 £'000	Half year ended June 2017 £'000	Year ended December 2017 £'000
2018 interim	4.00	**7,905**	–	–
2017 supplementary	4.00	**–**	–	7,904
2017 final	6.80	**–**	–	13,436
2017 interim	3.40	**–**	6,718	6,718
		7,905	6,718	28,058

9. Dividends *continued*

The following dividends were approved by the shareholders in the period:

		Half year ended June		Year ended December
	Pence per qualifying share	**2018 £'000**	2017 £'000	2017 £'000
2017 supplementary	4.00	**7,905**	–	–
2017 final	6.80	**13,439**	–	–
2017 interim	3.40	**–**	–	6,718
2016 supplementary	3.00	**–**	5,927	5,927
2016 final	5.80	**–**	11,460	11,460
		21,344	17,387	24,105

The 2017 final dividend of 6.80 pence per qualifying Ordinary Share alongside a supplementary dividend of 4.00 pence per qualifying Ordinary Share (total value £21,344,000) was paid on 29 June 2018 to shareholders registered at the close of business on 8 June 2018.

The Board has declared an interim dividend of 4.00 pence (June 2017: 3.40 pence) per share. This dividend will be paid on 5 December 2018 to shareholders on the register at the close of business on 19 October 2018. The ex-dividend date will be 18 October 2018.

10. Employee benefits

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

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

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

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

The defined benefit section of the Scheme is subject to regular actuarial valuations, which are usually carried out every 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 30 June 2018 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method.

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

	June		December
	2018 £'000	2017 £'000	2017 £'000
Present value of Scheme liabilities	**(342,992)**	(353,971)	(350,554)
Fair value of Scheme assets	**354,490**	357,593	354,681
Net amount recognised (before any adjustment for deferred tax)	**11,498**	3,622	4,127

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

10. Employee benefits *continued*

	Half year ended June 2018 £'000	Half year ended June 2017 £'000	Year ended December 2017 £'000
Service cost:			
Net interest expense recognised in the Consolidated Income Statement	**328**	137	477
Remeasurements of the net liability:			
Return on scheme assets (excluding amount included in interest expense)	**(762)**	(507)	(2,819)
(Gain) / loss arising from changes in financial assumptions	**(6,937)**	5,565	10,158
Gain arising from changes in demographic assumptions	**–**	(3,628)	(7,667)
Experience gain	**–**	(913)	–
(Credit) / charge recorded in other comprehensive income	**(7,699)**	517	(328)
Total defined benefit (credit) / charge	**(7,371)**	654	149

The principal actuarial assumptions used were:

	June 2018	June 2017	December 2017
Liability discount rate	**2.60%**	2.55%	2.50%
Inflation assumption – RPI	**3.10%**	3.15%	3.15%
Inflation assumption – CPI	**2.10%**	2.15%	2.15%
Rate of increase in salaries	**n/a**	n/a	n/a
Revaluation of deferred pensions	**2.10%**	2.15%	2.15%
Increases for pensions in payment:			
CPI pension increases (maximum 5% per annum)	**2.10%**	2.15%	2.15%
CPI pension increases (maximum 5% per annum, minimum 3% per annum)	**3.20%**	3.10%	3.20%
CPI pension increases (maximum 3% per annum)	**1.90%**	2.05%	1.95%
Proportion of employees opting for early retirement	**0%**	0%	0%
Proportion of employees commuting pension for cash	**50.0%**	50%	50.0%
Mortality assumption – before retirement	**Same as post retirement**	Same as post retirement	Same as post retirement
Mortality assumption – after retirement (males)	**S2PMA tables**	S2PMA tables	S2PMA tables
Loading	**105%**	105%	105%
Projection basis	**Year of birth**	Year of birth	Year of birth
	CMI_2016 1.0%	CMI_2016 1.0%	CMI_2016 1.0%
Mortality assumption – after retirement (females)	**S2PFA tables**	S2PFA tables	S2PFA tables
Loading	**105%**	105%	105%
Projection basis	**Year of birth**	Year of birth	Year of birth
	CMI_2016 1.0%	CMI_2016 1.0%	CMI_2016 1.0%
Future expected lifetime of current pensioner at age 65:			
Male aged 65 at year end	**86.2**	86.5	86.2
Female aged 65 at year end	**88.0**	88.4	88.0
Future expected lifetime of future pensioner at age 65:			
Male aged 45 at year end	**87.2**	87.6	87.2
Female aged 45 at year end	**89.2**	89.6	89.2

11. Acquisition of subsidiary

On 19 October 2017, Marshalls Mono Limited acquired 100 per cent of the issued share capital of CPM Group Limited, a precast concrete manufacturer which specialises in underground water management solutions.

Initial cash consideration paid to the vendors was £26,272,000 and, in addition, a further £12,000,000 was paid into an escrow account in relation to certain ongoing legal and regulatory matters identified during the course of due diligence carried out prior to concluding the acquisition. Provisions of £11,840,000 were recorded at the date of acquisition, for the estimated liabilities arising from concluding these ongoing matters. The Group has a right of reimbursement of amounts held in an escrow account to the extent that any liability crystallises in respect of these ongoing legal and regulatory matters to enable the Group to settle these liabilities, up to the full value of the £12,000,000 held in escrow and consequently a reimbursement asset of £12,000,000 was recognised within other debtors. To the extent that any liabilities arising from these ongoing legal and regulatory matters are resolved at a lower amount than the escrow balances, the excess balance remaining in escrow is payable to the vendors as additional consideration.

As required under the terms of the sale and purchase agreement, a net working capital review was undertaken in the period. Adjustments were agreed with the vendor which resulted in a reimbursement of £2,163,000 to Marshalls Mono Limited during the period to 30 June 2018. This amount covered both the required working capital adjustment and monies that were required to settle certain of the legal and regulatory matters which crystallised during the period.

In addition, and as part of the same review required under the terms of the sale and purchase agreement, an amount of £1,419,000 was paid to the vendors from the escrow account during the period.

As part of the ongoing review of the fair value of assets and liabilities acquired, adjustments were made to certain accruals and provisions during the period. These had the effect of increasing the fair value of the net assets acquired under the acquisition by £1,019,000, which has given rise to a reduction in goodwill of a similar amount. Goodwill, trade and other payables and provisions have been restated accordingly in the reported 31 December 2017 balance sheet.

12. Analysis of net debt

	1 January 2018 £'000	Cash flow £'000	Other changes £'000	**30 June 2018 £'000**
Cash at bank and in hand	19,845	756	16	**20,617**
Debt due after 1 year	(43,883)	(25,443)	70	**(69,256)**
Finance leases	(259)	–	(3)	**(262)**
	(24,297)	(24,687)	83	**(48,901)**

Reconciliation of net cash flow to movement in net debt

	Half year ended June		Year ended December
	2018 £'000	2017 £'000	2017 £'000
Net increase in cash and cash equivalents	**756**	6,219	1,925
Cash inflow from increase in debt and lease financing	**(25,443)**	(10,000)	(24,819)
On acquisition of subsidiary undertaking	**–**	–	(6,362)
Effect of exchange rate fluctuations	**83**	(473)	(454)
Movement in net debt in the period	**(24,604)**	(4,254)	(29,710)
Net (debt) / cash at the beginning of the period	**(24,297)**	5,413	5,413
Net (debt) / cash at the end of the period	**(48,901)**	1,159	(24,297)

13. Borrowing facilities

The total bank borrowing facilities at 30 June 2018 amounted to £125.0 million (30 June 2017: £105.0 million; 31 December 2017: £115.0 million), of which £55.7 million (30 June 2017: £79.6 million; 31 December 2017: £71.1 million) remained unutilised.

These figures include an additional seasonal working capital facility of £10.0 million available between 1 February and 31 August each year.

The undrawn facilities available at 30 June 2018, in respect of which all conditions precedent had been met, were as follows:

	June		December
	2018 £'000	2017 £'000	2017 £'000
Committed:			
– Expiring in more than 2 years but not more than 5 years	**30,379**	54,593	50,617
– Expiring in 1 year or less	**365**	–	5,500
Uncommitted:			
– Expiring in 1 year or less	**25,000**	25,000	15,000
	55,744	79,593	71,117

The total borrowing facilities at 16 August 2018 amounted to £125.0 million. On 9 August 2018, the Group renewed its short-term working capital facilities of £25.0 million and took out an additional committed facility of £20.0 million with a 2023 maturity date. 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. Following the recent refinancing of bank facilities, the current facilities are set out as follows:

	Facility £'000	Cumulative facility £'000
Committed facilities:		
Q3: 2023	20,000	20,000
Q3: 2022	20,000	40,000
Q3: 2021	20,000	60,000
Q3: 2020	20,000	80,000
Q3: 2019	20,000	100,000
On-demand facilities:		
Available all year	15,000	115,000
Seasonal (February to August inclusive)	10,000	125,000

14. 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 30 June 2018 is shown below:

	June 2018		June 2017		December 2017*	
	Book amount £'000	**Fair value £'000**	Book amount £'000	Fair value £'000	Book amount £'000	Fair value £'000
Trade and other receivables	**84,713**	**84,713**	70,217	70,217	62,787	62,787
Cash and cash equivalents	**20,617**	**20,617**	26,862	26,862	19,845	19,845
Bank loans	**(69,256)**	**(70,639)**	(25,407)	(24,322)	(43,883)	(42,836)
Finance lease liabilities	**(262)**	**(280)**	(296)	(317)	(259)	(280)
Trade and other payables	**(100,260)**	**(100,260)**	(81,638)	(81,638)	(94,758)	(95,777)
Interest rate swaps, forward contracts and fuel hedges	**654**	**654**	(276)	(276)	447	447
Financial instrument assets and liabilities – net	**(63,794)**		(10,538)		(55,821)	
Non-financial instrument assets and liabilities – net	**308,370**		233,174		293,448	
	244,576		222,636		237,627	

* The comparatives have been restated as a result of the reassessment of the fair value of assets and liabilities acquired (Note 11).

14. Fair values of financial assets and financial liabilities *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
30 June 2018				
Derivative financial assets	**–**	**654**	**–**	**654**
30 June 2017				
Derivative financial liabilities	–	(276)	–	(276)
31 December 2017				
Derivative financial assets	–	447	–	447

15. Principal risks and uncertainties

The principal risks and uncertainties that could impact the Group for the remainder of the current financial year are those detailed on pages 20 to 24 of the 2017 Annual Report. These cover the strategic, financial and operational risks and have not changed during the period.

Strategic risks include those relating to general economic conditions, Government policy, the actions of customers, suppliers and competitors, and also weather conditions. Cyber risks within the wider market is also an increasing risk for the Group and an area of major focus. The Group also continues to be subject to various financial risks in relation to access to funding and to the pension scheme, principally the volatility of the discount (AA corporate bond) rate, any downturn in the performance of equities and increases in the longevity of members. The other main financial risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk.

External operational risks include the weather, political and economic conditions, the potential impact of Brexit, the effect of legislation or other regulatory actions, the actions of competitors, raw material prices and threats from cyber security, new business strategies, acquisitions and the integration of CPM.

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

Responsibility Statement

The Directors who held office at the date of approval of these Financial Statements confirm that to the best of their knowledge:

- the Condensed Consolidated Half Year Financial Statements have been prepared in accordance with IAS 34 "*Interim Financial Reporting*" as adopted by the European Union; and
- the Half Year Management Report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the half year ended 30 June 2018 and their impact on the Condensed Consolidated Half Year Financial Statements, and a description of the principal risks and uncertainties for the remaining second half of the year; and

  (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the half year ended 30 June 2018 and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last Annual Report that could do so.

The Board

The Directors serving during the half year ended 30 June 2018 were as follows:

Vanda Murray	Chair of the Board (appointed 9 May 2018)
Andrew Allner	Chair of the Board (retired 9 May 2018)
Janet Ashdown	Senior Non-Executive Director
Jack Clarke	Group Finance Director
Martyn Coffey	Chief Executive
Tim Pile	Non-Executive Director
Graham Prothero	Non-Executive Director

The responsibilities of the Directors during their period of service were as set out on pages 44 and 45 of the 2017 Annual Report.

By order of the Board

Cathy Baxandall
Group Company Secretary
16 August 2018

Cautionary statement

This Half Year Report contains certain forward-looking statements with respect to the financial condition, results, operations and business of Marshalls plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Half Year Report should be construed as a profit forecast.

Directors' liability

Neither the Company nor the Directors accept any liability to any person in relation to this Half Year Report except to the extent that such liability could arise 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.

Independent Review Report to Marshalls plc

Introduction

We have been engaged by the Company to review the condensed set of Financial Statements in the Half Year Financial Report for the 6 months ended 30 June 2018, which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement, the Condensed Consolidated Statement of Changes in Equity and related Notes 1 to 14. We have read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of Financial Statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Half Year Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half Year Financial Report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1, the annual Financial Statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of Financial Statements included in this Half Year Financial Report has been prepared in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of Financial Statements in the Half Year Financial Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of Half Year Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of Financial Statements in the Half Year Financial Report for the 6 months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
16 August 2018

Shareholder Information

Financial calendar

Half year results for the year ending December 2018	Announced	16 August 2018
Half year dividend for the year ending December 2018	Payable	5 December 2018
Results for the year ending December 2018	Announcement	March 2019
Report and accounts for the year ending December 2018		April 2019
Annual General Meeting		May 2019
Final dividend for the year ending December 2018	Payable	June 2019

Registrars

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ (telephone: 0870 707 1134) and should clearly state the registered shareholder's name and address.

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society should contact the Registrar for a dividend mandate form. Dividends paid in this way will be paid through the Bankers' Automated Clearing System ("BACS").

Website

The Group has a website that gives information on the Group and its products and provides details of significant Group announcements. The address is www.marshalls.co.uk.

Produced by

designportfolio