



ANNUAL REPORT 2013



Woodhouse Lighting, London

Financial Highlights

	Year ended 31 December 2013	Year ended 31 December 2012*	
Continuing Operations:			
• Revenue	£307.4m	£300.9m	+2.1%
• EBITDA	£30.2m	£28.1m	+7.7%
• Operating profit	£16.1m	£12.9m	+25.2%
• Profit before tax	£13.0m	£9.3m	+40.5%
• Basic EPS	6.94p	5.52p	+25.7%
• Dividends declared and paid	5.25p	5.25p	
• Final dividend recommended	3.50p	3.50p	
• Net debt	£35.6m	£63.5m	
Reported results:			
• Profit/(loss) before tax	£13.0m	£(12.2)m	
• Basic EPS	7.20p	(2.91)p	

*The comparative continuing operations are before operational restructuring costs and asset impairments

Who we are

Marshalls is the UK's leading hard landscaping manufacturer and has supplied some of the most prestigious landmarks in the UK with hard landscaping solutions since the 1890s. Marshalls strives to improve environments for everyone by using its expertise to create integrated landscapes that promote well-being, from using fairly traded stone and providing products that alleviate flood risks, to creating innovative anti-terrorist street furniture. Marshalls provides the product ranges, design services, technical expertise, innovative ideas and inspiration to transform gardens, drives and public and commercial landscapes.

Marshalls operates its own quarries and manufacturing sites throughout the UK, including a national network of manufacturing and distribution sites, and has operations in Belgium and sales representation in other international markets. As a major plc, Marshalls is committed to quality in everything it does, including the achievement of high environmental and ethical standards and continual improvement in health and safety performance.



Moselden, Yorkstone, York Minster

Cautionary Statement

Please read the full cautionary statement which can be found on page 58.



Metrolinia, St Catherine's Academy, Bolton

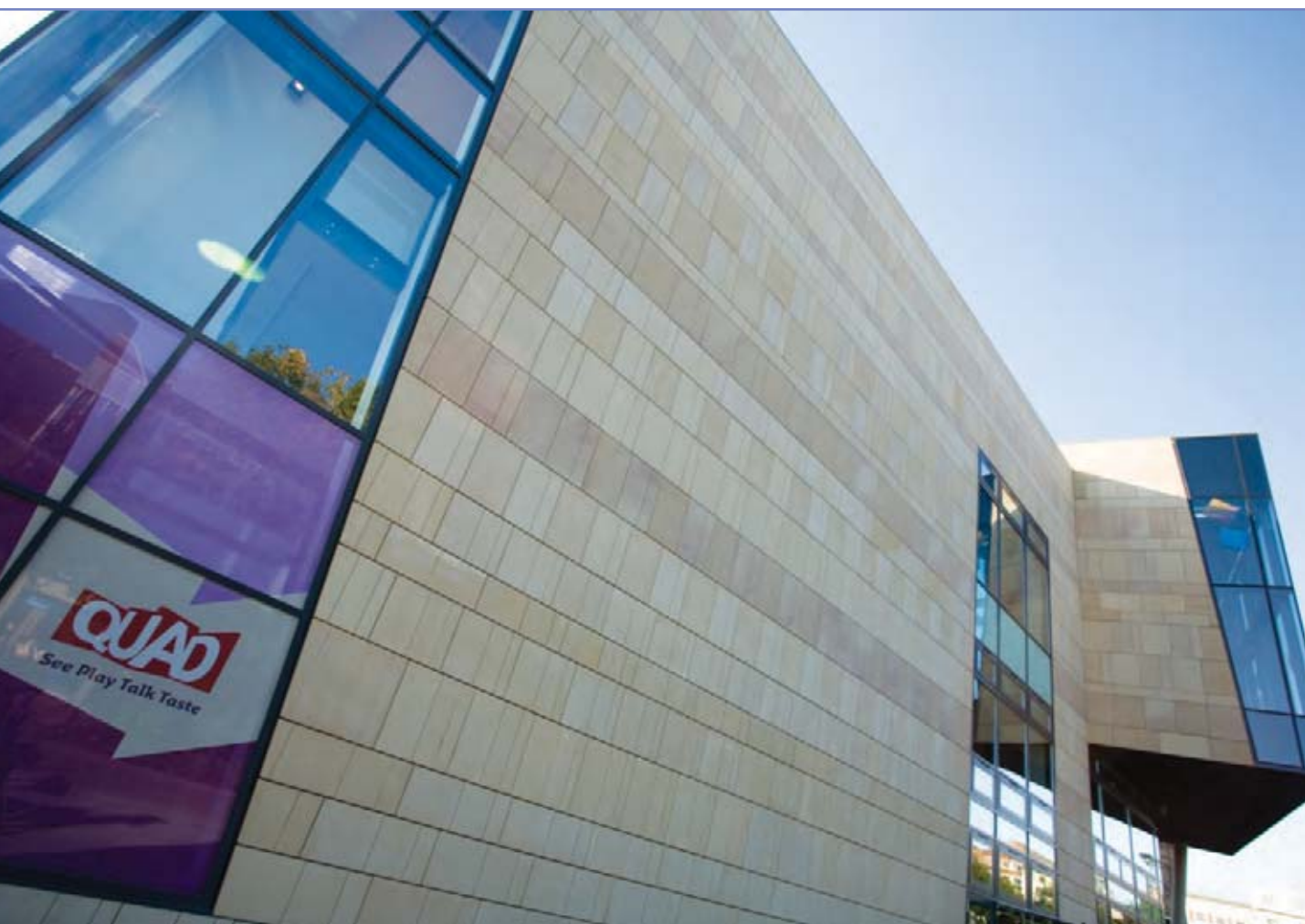
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Summary Highlights

The action Marshalls has taken over recent years to reduce the cost base and net debt, whilst maintaining operational flexibility, combined with a range of growth initiatives, means the business is well positioned to take full advantage of improving market conditions.

Marshalls is increasing output to meet growing demand and deliver benefits from operational gearing. The medium term objective is for the Group to return to the revenue and profit levels that were achieved by Marshalls before the recession.



Stanton Moor Stone, The Quad, Derby

Current Priorities

Increase output to meet growing demand and to deliver benefits from operational gearing.

Strengthen and extend the Marshalls brand focusing on innovation, service and new product development.

Develop "strategic growth initiatives" for targeted investment and focus.

Develop and grow profitably the International business and invest prudently in new overseas market opportunities.



Fairstone Driveway Setts, Autumn Bronze

KPIs

The following table summarises the Group's KPIs, together with the relevant target. The Group's aim is to maintain an appropriate balance of KPIs, mindful that relative emphasis might change depending on the position in the economic cycle.

Additional long term KPIs have also been developed to cover the key areas of Energy Management and Environmental Sustainability to support the Group's emphasis on these key areas of future development.

	2013 RESULT ³	FUTURE TARGET
Strategic		
PBT growth	+40.5%	Achievement of budget
Earnings per share growth (3 years)	RPI + 91.8%	100% over a 3 year period
Operating cash flow growth (3 years)	negative	10% over a 3 year period
Net debt: EBITDA	1.2 times	2 times over the business cycle
Dividend cover	1.3 times	2 times over the business cycle
Financial		
Group revenue growth	+2.1%	7% per annum
International revenue growth	+22.9%	20% per annum
Net debt	£35.6m	Achievement of budget
Return on capital employed (ROCE) ¹	8.1%	15%
Inventory target	£70.8m	Achievement of budget
Operational		
Customer service index ²	98%	95%
Health & Safety: Reduction in working days lost as a result of accidents	14.8% reduction	10% per annum

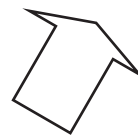
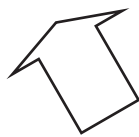
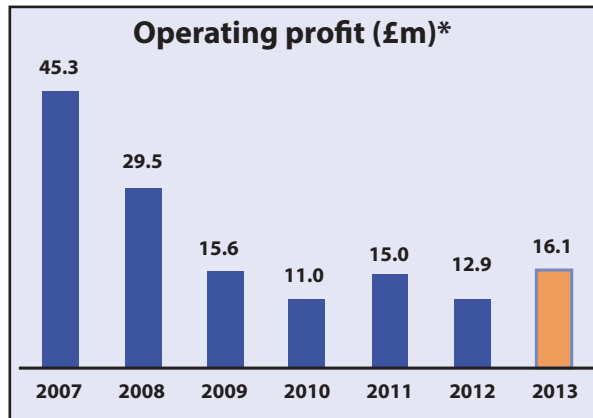
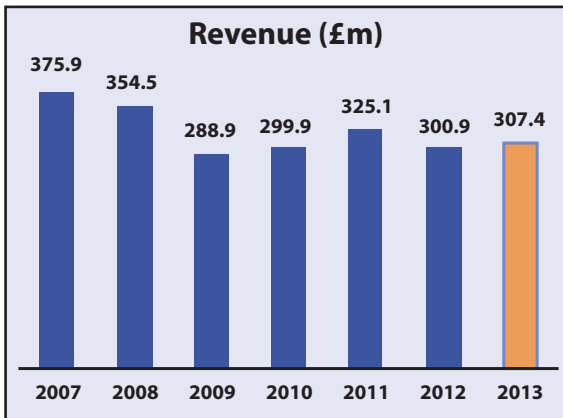
¹ ROCE is defined as EBITA / shareholders' funds plus net debt.

² This index combines measures of product availability, on-time delivery performance and administrative and delivery accuracy.

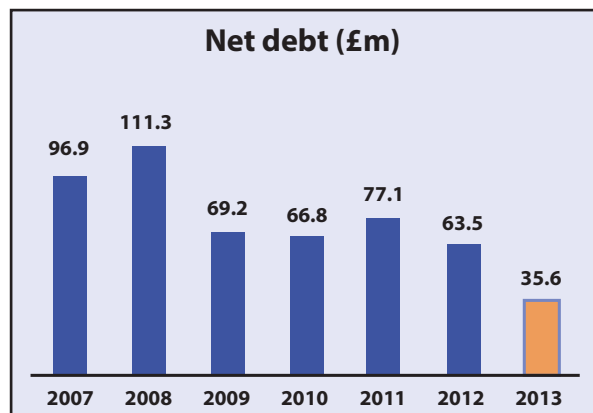
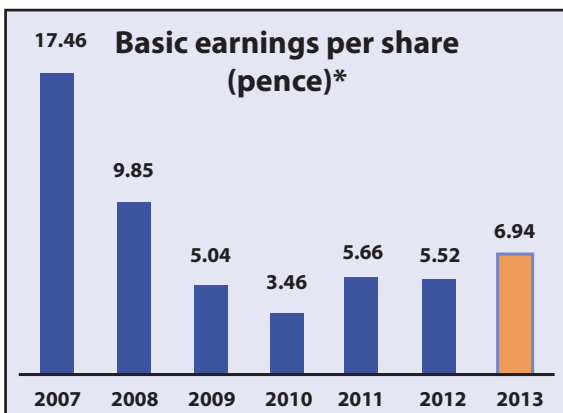
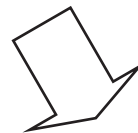
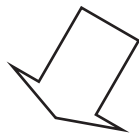
³ Based on continuing operations before operational restructuring costs and asset impairments.



Financial History – Continuing Operations



Revenue, operating profit and EPS have grown by 2.1%, 25.2% and 25.7% respectively in 2013. The objective is to grow each of these measures to the levels experienced before the recession. With net debt at £35.6 million, gearing at 20.3% and a net debt: EBITDA ratio of 1.2 times, the Group is ahead of its targets.



*The comparative continuing operations are before operational restructuring and works closure costs, goodwill and asset impairments and the redemption of the debenture stock in 2009.

Chairman's Statement

I am delighted that, after 6 difficult years, I now believe we are turning the corner. Economic conditions are improving and forward indicators continue to be more positive. Of course, this presents new challenges and requires your Board to develop new priorities but it also brings opportunity. Marshalls' strong operational and financial flexibility means the business is well placed to take full advantage of these improving market conditions.

I am pleased to report that Marshalls' revenue is up 2 per cent and operating profit and profit before tax are up 25 per cent and 40 per cent respectively. The Group's earnings per share at 6.94 pence is up 26 per cent.



Andrew Allner

We recognise the importance of dividends to shareholders. The Group continues to have a policy of 2 times dividend cover over the business cycle and as earnings increase we would plan to share the increase between strengthening cover and progressively raising the rate of dividend. The Board is recommending a final dividend of 3.50 pence (2012: 3.50 pence) per share which, together with the interim dividend of 1.75 pence (2012: 1.75 pence) per share, makes a combined dividend of 5.25 pence (2012: 5.25 pence) per share.

As your Chairman, it is my responsibility to lead and manage the Board in its key task of directing the Group's vision, values and strategy. My main priorities continue to be focused on the development of the Marshalls' strategy, promoting the highest standards of corporate governance and ensuring effective communication with shareholders. Board development is a constant priority and we continue to challenge the effectiveness of the Board against detailed and regularly updated objectives.

In my report last year I set out a number of specific Board actions for 2013 including the enhancement of the strategic planning process, succession planning, Board training on risk and increased shareholder engagement. I am pleased to report significant progress against all of these commitments. Our priorities for 2014 include revisiting diversity in the context of succession planning, enhanced Board reporting and creating opportunities to add value from the experience and expertise of Non-Executive Directors.

Our medium term objective is to return Marshalls to the level of revenue and profitability enjoyed before the recession. To deliver this, our key priorities are:

- To increase output to meet growing demand and to deliver benefits from operational gearing;
- To strengthen and extend the Marshalls brand focusing on innovation, service and new product development;
- To develop "strategic growth initiatives" for targeted investment and focus; and
- To develop and grow profitably the International business and invest prudently in new overseas market opportunities.

Martyn Coffey became Chief Executive on 10 October 2013 and has already made a significant contribution. He has an outstanding track record as a proven Chief Executive in growing businesses and brings significant international experience. On the same date Graham Holden stepped down from the Board and I am pleased that he is remaining with the business until April 2014 in order to ensure a comprehensive handover and seamless transition. Graham has worked tirelessly for Marshalls for 27 years, the last 10 of which he has been Chief Executive. On behalf of the Board and all of Marshalls' staff I would like to thank him for his leadership and stewardship at a time of significant change in our industry.

This year's Annual Report incorporates a number of new features to make the Group's strategy and performance easier to understand. I hope this will provide a clearer picture of the Group's Business Model, its objectives and key strategic themes. The 2013 Remuneration Report has been prepared in accordance with the new Regulations.

This year we are proposing to introduce a new Management Incentive Plan which has a focus towards long term incentive and share-based awards. Its purpose is to ensure that the Group's management incentives continue to be aligned closely with the interests of shareholders and the relevant performance criteria are directly in accordance with the Group's strategic objectives and priorities. More information can be found in the Remuneration Committee Report on pages 63 to 90.

Whilst our customers remain at the very centre of our business model, it is our employees that ensure that the Group continues to work effectively. On behalf of the Board I would like to thank all our employees for their ongoing support, commitment and dedication to Marshalls.

We are planning for good progress in 2014 against a background of improving market conditions.

Andrew Allner
Chairman



Misteri Polished Granite Internal Stone Flooring, Trinity, Leeds

Chief Executive's Report

Introduction

I am pleased to present my first report as Chief Executive of Marshalls plc. The Company has a leading, trusted brand and a strong market position and maintains clear values and excellent sustainability and environmental credentials. In my first 6 months I have spent time at most of our manufacturing operations and quarries and I have been impressed by the loyalty, professionalism and pride of the Group's workforce, which I believe to be one of the Group's main strengths.



Martyn Coffey

Graham Holden has provided valuable support in our transition period and I would like to take this opportunity to wish him well for the future and to thank him for his leadership and commitment to Marshalls, particularly during the difficult recent past.

The last 6 years has seen significant economic and commercial challenges and, in common with many businesses, Marshalls has experienced some of the most difficult trading conditions in its history. In response to a significantly declining market the Group reacted quickly to reduce its cost base through plant closures and headcount reduction. Despite this, the Group has maintained its national geographic coverage and still retains lowest cost to market and industry leading customer service. The Group has also worked hard to ensure the retention of operational and financial flexibility and this leaves Marshalls well placed to benefit from the improving market conditions. The Group's continuing investment in marketing, sales and operations has helped maintain its market leading position.

2013 Trading Summary

Marshalls' revenue, from continuing operations, for the year ended 31 December 2013 was up 2.1 per cent at £307.4 million (2012: £300.9 million) and compares with a 4 per cent reduction at the Half Year. Revenue for the 6 months to 31 December 2013 was up 9.5 per cent compared with the second half of 2012. Growth has been seen in the second half in the Public Sector and Commercial and also the Domestic end markets.

Sales to the Public Sector and Commercial end market, which represent approximately 63 per cent of Marshalls' sales, were up 0.9 per cent for the year, on a continuing basis, compared with 2012, reflecting the anticipated improved market conditions in the second half.

Sales to the Domestic end market, which represent approximately 32 per cent of Group sales, were up 1.6 per cent compared with the prior year. The survey of domestic installers at the end of February 2014 revealed order books of 9.3 weeks (2013: 7.8 weeks) notwithstanding the increased activity of the last 6 months.

Operating profit from continuing operations was £16.1 million (2012: £12.9 million, before operational restructuring costs and asset impairments). EBITDA from continuing operations was £30.2 million (2012: £28.1 million, before operational restructuring costs and asset impairments).

Basic EPS from continuing operations was 6.94 pence (2012: 5.52 pence, before operational restructuring costs and asset impairments), an increase of 26 per cent. EPS from total operations was 7.20 pence (2012: loss of 2.91 pence).

On 30 April 2013 the Group completed the sale of a number of quarries and associated aggregates businesses to Breedon Aggregates England Limited for an initial cash consideration at completion of £17.5 million. On 23 August 2013 additional consideration of £1.2 million was received following the satisfactory completion of a post completion condition. The post-tax profit from discontinued operations in the year ended 31 December 2013 was £0.5 million, which included a net profit on disposal of £0.3 million.

Cash realised from the sale of quarries and associated aggregate businesses together with the continued control of inventory and capital expenditure has resulted in a reduction in net debt to £35.6 million (2012: £63.5 million).

The quarries that were sold supplied solely aggregates, sand and gravel. The Group has retained all of its dimensional stone quarries, some of which produce aggregate as an ancillary product. The Group retains significant reserves of dimensional stone and related aggregates and these are summarised on page 16. These actions have enabled the Group to improve materially on its target net debt to EBITDA ratio of 2 times by the end of 2013. The net debt to EBITDA ratio at 31 December 2013 is 1.2 times.



Fairstone Sawn Sandstone Steps, Golden Sand Multi



St Bees Sandstone and Locharbriggs Sandstone

Current priorities

The current opportunity for Marshalls is to benefit from improving market conditions and to create increased demand in the brand to pull additional sales through our continually developing distribution channels. We are seeing growth in a number of key areas, for example, Landscape Water Management and Internal Natural Stone Flooring together with Home, Rail and Retail. The Group's current priorities are:

- To increase output to meet growing demand and to deliver benefits from operational gearing;
- To strengthen and extend the Marshalls brand focusing on innovation, service and new product development;
- To develop "strategic growth initiatives" for targeted investment and focus; and
- To develop and grow profitably the International business and invest prudently in new overseas market opportunities.

Marshalls' Business Model has its customers as the core focus and this is explained in more detail on pages 14 to 17. The Group continues to have customer service as a key KPI and maintains industry leading standards of product quality, availability and "on time" delivery. The combined customer service measure continued to be in excess of 97 per cent throughout 2013.

Customer service lies at the heart of the Marshalls brand. The Brand strategy is focused on "Creating Better Landscapes" covering all aspects of Economic, Social and Environmental impacts of hard landscaping and, where possible, even greater alignment under this brand will be introduced in future. As hard landscaping experts, the key priorities remain service, quality, design, innovation and a commitment to research and development, sustainability and an integrated product offer. As the economy continues to recover, greater emphasis will be placed on the further extension of the Marshalls' brand across all aspects of hard landscaping. The Group's key strategic themes are set out in detail in the Strategic Report on pages 14 to 47.

Marshalls continues to focus on product innovation and service delivery initiatives to drive sales growth in all its end markets in order to benefit from the operational and financial flexibility that has been built into the Group over recent years. The Group is well placed to improve trading margins and deliver growth in all its end markets and key focus areas.

Stone cladding, which is a relatively new area of focus for the Group, is a particular growth area and Marshalls is supplying stone for a new prestigious office building in the City of London.

Developing the International market is a key priority and sales currently comprise around 5 per cent of Group Revenue, having increased by 23 per cent during 2013. The Group will continue to invest in its International structures in order to grow profitably this part of the business and to develop opportunities to promote growth both organically and by acquisition. The Group has recently appointed an International Director who will add further focus to this important area.

Future outlook

The Construction Products Association's ("CPA") Winter Forecast predicts growth of 3.4 per cent in 2014 and 5.2 per cent in 2015, which compares with 2.7 per cent and 4.6 per cent respectively in their Autumn Forecast. The CPA predicts that growth in private house building, infrastructure work and commercial activity will drive recovery in the sector over the next 4 years although they do also point to considerable uncertainties regarding the long term sustainability of the recovery.

The actions Marshalls has taken over recent years to reduce the cost base and debt, whilst maintaining operational flexibility, means the business is well positioned to take full advantage of the improving market conditions. In addition, there are further opportunities to refocus the business and achieve growth, and set rigorous targets and a clear growth objective for the years ahead.

Sales in January and February 2014 are up 18 per cent against very weak weather-affected comparatives. Marshalls is increasing output to meet growing demand and deliver benefits from operational gearing. The medium term objective is for the Group to return to the revenue and profit levels that were achieved by Marshalls before the recession.

Martyn Coffey Chief Executive



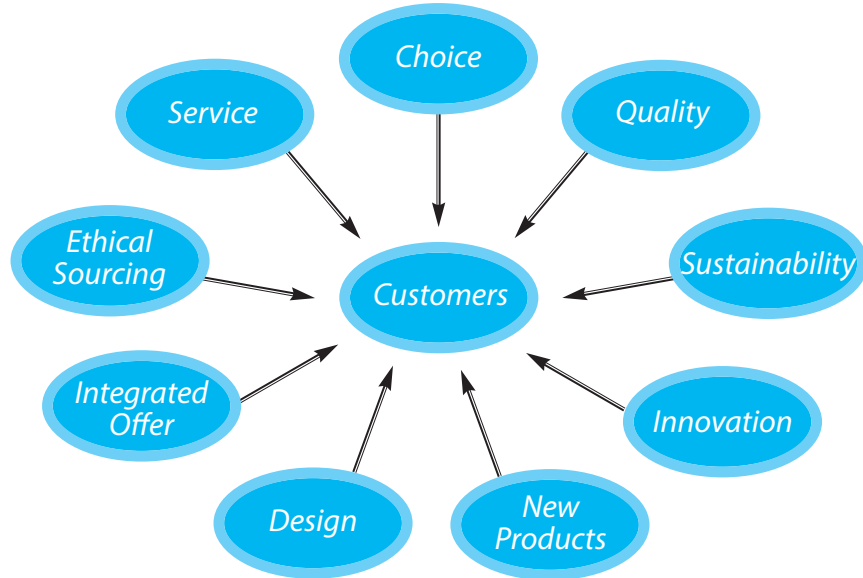
Internal Stone Flooring, One New Change Street, London

Strategic Report

Business Model

Marshalls supplies its customers with innovatively designed ranges of the highest quality landscape products and provides outstanding levels of customer service in its chosen markets.

Customers are at the Centre of our Business



End Markets and Customers

<p>Domestic Home improvement; National Builders Merchants; Independent Builders Merchants; Buying Groups; DIY Groups; Garden Centres; Garden Designers; Landscape Contractors; Installers; and Domestic Consumers (eg. e-Bay).</p>	<p>Public Sector & Commercial New build and repair, maintenance and improvement projects; Design and Build; Architects & Specifiers; Contractors; Builders Merchants; Local Authorities; and Government Bodies.</p>	<p>International Domestic: Home improvement and home building; Public Sector & Commercial: New build and repair, maintenance and improvement projects; and Customers: Agents and Distributors.</p>
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Customers

Marshalls' customers are the large builders' merchant groups, independent builders' merchants, garden centres, contractors, Local Authorities and domestic consumers.

Markets

In Public Sector and Commercial end markets, customers use Marshalls' products to transform landscapes including retail and industrial developments and new build as well as repair and maintenance projects. In Domestic end markets, home improvement and home building projects are the largest users of the Group's wide range of landscape products.

International

The International offer combines natural sandstone, granite and limestone from India, China and Vietnam with specialist manufactured products from the UK. Within Western Europe these products complement those manufactured locally in Belgium. Key strengths include marketing and sales collateral, sales processes and systems, a broad range of products and manufacturing and technical expertise.

As a result of International investment the Group has two operating sites in Belgium and subsidiary companies based in China and the USA. The Group is well placed to extend its customer base into wider European and International markets.

Operational model

The operational model is summarised below:

Operations

Sourcing:	Manufacture:	Distribution:
<p>International supply chain – natural sandstone, granite and limestone from India, China and Vietnam;</p> <p>UK sourcing of natural stone and aggregates from own quarries and third parties; and</p> <p>UK sourcing of other raw materials.</p>	<p>Centrally directed and locally managed production units;</p> <p>Operating assets produce for each “end market”;</p> <p>Landscape, driveway and garden products; and</p> <p>Horizontal and vertical and external and internal.</p>	<p>Single integrated logistics and distribution operation;</p> <p>Own fleet with over 150 specialist vehicles; and</p> <p>National geographic coverage.</p>

Operationally, the UK business consists of a single integrated logistics and distribution operation supplied by centrally managed production units. A variety of landscape, driveway and garden products are manufactured using the same production facilities for sale into each of the end markets. An analysis of sales by these end markets is provided on page 40.



Olympic Park, Barcelona

Manufacture and Supply

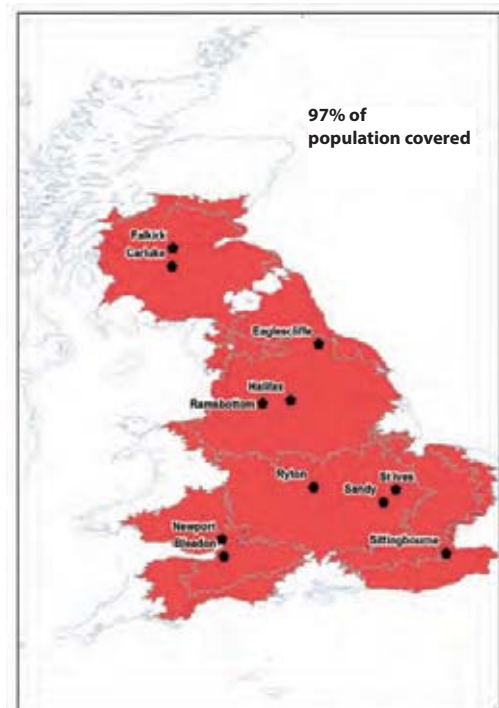
The Group manufactures and supplies landscape, driveway and garden products from a range of materials, being principally concrete and natural stone, to the Domestic and Public Sector and Commercial end markets.

The Group operates a number of quarries and centrally managed production units throughout the United Kingdom, supported by a single integrated logistics and distribution operation. The Group's operating assets produce and deliver a range of products that are sold into each end market area. The structure gives flexibility in the development of individual products under the Marshalls' brand whilst providing strategic focus through the integrated national and centrally administered functions.

The Group has a unique national network of manufacturing and distribution sites, and has a wide geographical spread.

The same capital equipment produces products for both the Public Sector and Commercial and the Domestic end markets and this flexibility remains a key operational objective. Products are distributed from this network of sites either to customers' depots or, at their request, direct to site. Ethically sourced natural stone products are imported from India, China and Vietnam to supply both UK and European markets.

Of the Group's customers, 97 per cent are within a 2 hour drive time of one of our regional centres and this continues to be a key competitive advantage, especially when fuel costs are high. The Group utilises well invested modern plants which have sufficient capacity to meet medium term demand requirements efficiently and have the operational and financial flexibility to respond to any further changes in market conditions.



Research and Development

Marshalls has a world class Manufacturing, Innovation and Development team, staffed by high calibre engineers and technicians, which delivers competitive advantage through machinery design and installation. Innovation in all areas of the business over an extended period has been a key element of the Group's success and significant resources will continue to be invested in Research and Development in the future. The Group's investment in new product development has more than doubled since 2011.

UK Natural Stone reserves

The Group maintains its reputation for technical expertise, quality and service and has extensive reserves of natural stone. This broad approach differentiates the Group from its competitors. Notwithstanding the sale of aggregates quarries on 30 April 2013, the Group has significant consented reserves of dimensional stone and aggregates. The dimensional stone reserves at 31 December 2013 were 8 million tonnes which represents 65 years at current levels of extraction (2012: 7.5 million tonnes, 52 years). The Group continues to seek opportunities to expand reserves and geographical coverage. In dimensional stone Marshalls is the market leader and the Group has paved every street on the London Monopoly Board. The Group has a comprehensive portfolio of natural stone types along with state of the art manufacturing equipment and excellent specification and technical sales resources. The Group has retained significant reserves of aggregates at its dimensional stone quarries by virtue of aggregates being available as a "by-product" operation.

The Marshalls' Brand

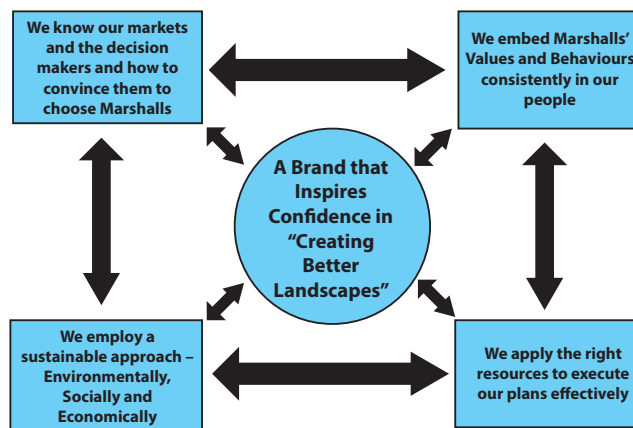
Marshalls' Business Model is based on core values and the continuing promotion of the Marshalls' Brand.

The brand strategy is focused on "Creating Better Landscapes" covering all aspects of Economic, Social and Environmental impacts of hard landscaping.



Overall Brand Strategy

- To ensure that Marshalls is synonymous with "Creating Better Landscapes", leads the sustainability debate and demonstrates its thought leadership and the positive impact of its products and services.
- To create an enduring product loyalty which seeks to protect and increase market share and profitability.



Marshalls Values

Trust

- Trust is the foundation of all relationships and the Group works hard to establish and maintain this position.
- The Group deals with all its stakeholders fairly, acting honestly with integrity and respect.
- The Group applies all relevant legislation as the minimum acceptable standard.



Leadership

- As market leaders the Group aims to set the standards others aspire to meet.
- With a clear strategy, Marshalls has a culture where everyone is encouraged to develop their full potential and is able to contribute fully to the achievement of both personal and corporate objectives.



Excellence

- As leaders in our field, Marshalls aims to ensure that its standards are not compromised and that we exceed stakeholder expectations across all parts of our business.
- The Group fosters a culture of on-going improvement and innovation in response to the needs of all our stakeholders.
- Marshalls attracts and employs the best available people to deliver success.



Sustainable

- Marshalls' sustainability values are focused on environmental and social objectives covering carbon emissions, energy reduction, water management, minimising waste and using recycled materials.
- The Group works with partner organisations including the UN Global Compact, the Carbon Trust, the Ethical Trading Initiative, Business in the Community and FTSE4Good.
- Marshalls endeavours to ensure that all of its decisions and actions are sustainable.



Objectives

The key corporate and business objectives have been summarised below. The Group's aim is to maintain an appropriate balance of all these objectives at any given time, mindful that relative emphasis might change depending on the position in the economic cycle. In recent years the emphasis has been on cost and net debt reduction and careful management of working capital and capital expenditure. As the economy enters a growth phase, investment and growth objectives will increase in their relative importance.

Financial:

- To deliver superior returns for shareholders in a sustainable way (Revenue growth, EPS growth, Operating Cash Flow ("OCF") growth):
 - To maintain sustainable profitability within all customer groups and end markets; and
 - To improve the operating profit percentage through the cyclical economic uplift.
- To ensure financial flexibility to respond to any changes in the market;
- To maintain a Net Debt to EBITDA ratio of 2 times (subject to short term investment needs); and
- To have a progressive dividend policy consistent with a strengthening dividend cover to 2 times.

Commercial and Operational:

- To ensure the timely and efficient supply of products to customers (with customer service continuing to exceed customer expectations);
- To take commercial advantage of improving cyclical market conditions to increase market share by ensuring that the Group has sufficient capacity in the correct locations to meet expected demand;
- To optimise operational flexibility in order to be able to respond to any further changes in market conditions (both up or down) including:
 - Multi-skilling of the workforce and more flexible shift patterns;
 - Improving the flexibility and effectiveness of product manufacture; and
 - Improving the operational cost and efficiency of the manufacturing and distribution network.
- To be "best in class" and to maintain a leadership position for technical and design support, product innovation (including improving product mix), product quality, ethical and sustainability policies and customer service;
- To be an employer of choice;
- To ensure continuing improvements of health and safety and sustainability performance; and
- To develop the Marshalls' brand internationally.





Heritage Octant Paving, Calder Brown

The Group seeks to exceed the expectations of customers in all end markets through quality materials produced, administered, delivered and sold by highly motivated and engaged employees. The Group sets industry leading standards of product quality, availability and “on time” delivery. The customer service index KPI measures product availability, accuracy and timeliness of deliveries and administrative accuracy. Marshalls is committed to maintaining and developing its market leading position. At the same time the Group is committed to conducting business in a manner which achieves sustainable growth whilst incorporating and demonstrating a high degree of social responsibility.

The Group continues to improve the flexibility of its manufacturing through multi-skilling of the workforce and more flexible shift patterns. These factors optimise manufacturing efficiency and enable Marshalls to maintain the lowest cost to market. The Group’s plants are modern and well invested and this continues to enable capital expenditure to be maintained at historically low levels without any noticeable impact on the effectiveness of the business. The Group is continually striving to improve the flexibility and effectiveness of product manufacture and is at the forefront of technical research and development.

Strategy

During the last few years the Group's main focus has been to respond to the impact of the recession and Marshalls continues to balance short term performance with medium term investment. The Group's strategic focus has now turned to recovery and preparation for growth.

There continues to be a potential for growth in the Group's existing end markets and three areas have been identified to generate sustainable outperformance. These are:

- Targeted marketing and product innovation in the Public Sector and Commercial end market to provide a broader range of product solutions;
- Enhanced merchandising initiatives and increasingly developed links with installers to drive market share and improved product mix in the Domestic end market; and
- International expansion, selling a range of innovative premium landscape products into new markets.

The Group's long term strategy to achieve its objectives is as follows:

1. To deliver sustainable shareholder value by improving the profitability of the Group's operations and optimising the operating performance of the business;
2. To maintain a strong market position and sustainable profitability with the national builders' merchants and the Public Sector and Commercial end market and to improve market share in other target markets;
3. To develop relationships with installers to deliver more effective penetration of the key domestic routes to market and to improve product mix; and
4. To invest in selective synergistic acquisitions and organic expansion in existing and related markets and product categories to expand our core business.

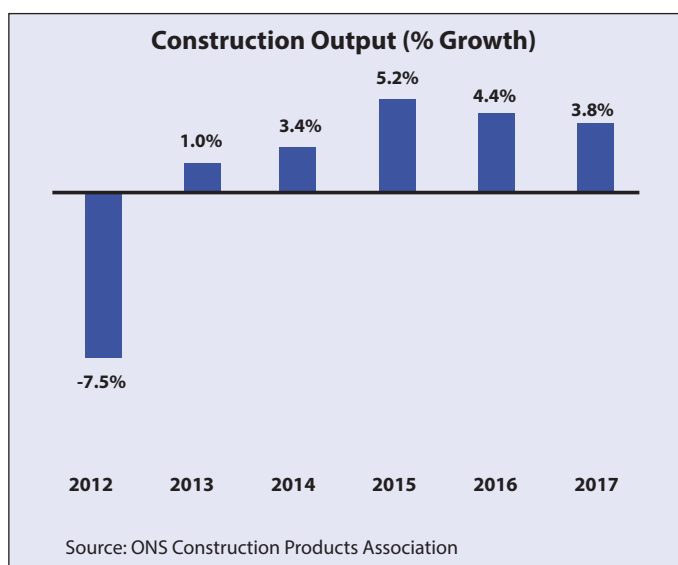


New Housing in Oxford, Ironstone

Market Overview

The Construction Products Association (“CPA”) reported a 7.5 per cent decrease in construction output in 2012 but, from the second quarter of 2013, trading conditions have significantly improved. Background economic conditions in the UK also improved and GDP growth was 1.9 per cent in 2013 which was ahead of forecasts made earlier in the year. GDP growth of 2.4 per cent is forecast for 2014. The prospects for the Eurozone continue to remain more subdued. Consumer price inflation is likely to remain above target at around 2.4 per cent in 2014, which would represent a fall from 2.6 per cent in 2013.

The CPA has continued to strengthen its recent forecasts and the latest winter announcement reported an increase of 1.0 per cent in 2013. This compares with a 10 per cent reduction in the first quarter of 2013. The chart below illustrates the CPA’s current forecast of 3.4 per cent growth in 2014 and growth of 5.2 per cent, 4.4 per cent and 3.8 per cent in the following 3 years.



A significant part of this recovery is being driven by private housing which is being partly boosted by Government schemes such as “Help to Buy” and the “Funding for Lending Scheme”. Private housing starts are estimated to have grown by 24 per cent in 2013 and further growth of 16 per cent is forecast for 2014. The CPA’s overall view is that in the short term, private housing and infrastructure are expected to drive the industry recovery. Sustained, longer term growth will also need to see a recovery in private commercial and an end to capital expenditure cuts in the Public Sector. Rail infrastructure spend is being particularly boosted by Network Rail’s nationwide work programme supported by a few major projects, including Crossrail. As a consequence output from rail infrastructure spending is forecast to grow by 10 per cent in both 2014 and 2015.

Within the Public Sector and Commercial end market, the CPA reports that Other New Work, a proxy for demand, was down 0.6 per cent in 2013 but will return to growth of 3.3 per cent in 2014. Growth of 6.0 per cent is currently forecast for both 2015 and 2016.

In the Domestic end market, the CPA reports that Private Housing Repair, Maintenance and Improvement expenditure, a proxy for Domestic end market demand, increased by 2.0 per cent in 2013. Growth of 3.5 per cent is expected in 2014 with increases of 4.0 per cent forecast in both 2015 and 2016. Although it fell slightly in the final quarter of 2013, the GfK’s Consumer Confidence index has improved significantly at the start of 2014. The index is now higher than at any time since September 2007 and the improvement since April 2013 has been a very significant 20 points.

Public Sector and Commercial end market

In the Public Sector and Commercial end market Marshalls' strategy is to build on its position as a market leading landscape products specialist. The Group has experienced technical and sales teams who continue to focus on markets where future demand is greatest across a full range of integrated products and sustainable solutions to customers, architects and contractors. In particular, the Group has targeted those parts of the market where it anticipates growth such as Rail Infrastructure and Home Improvement. The rail sector includes Crossrail, which is the largest construction project in Europe.



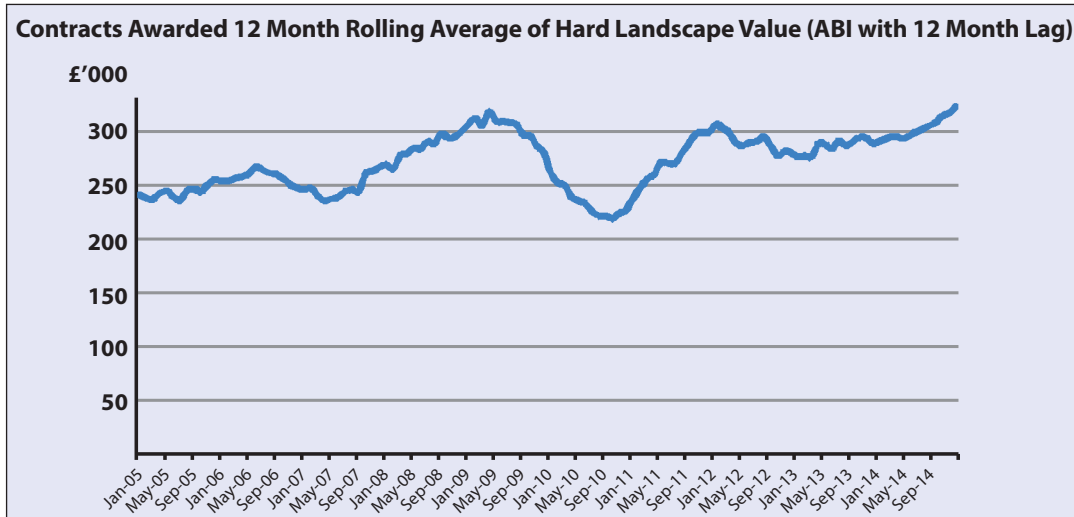
The Group has received technical approval for a wider portfolio of products for both this project and the sector generally. In the Home Improvement sector, Marshalls has secured framework agreements with eleven of the top 25 house builders.

The Group is making further investment in water management and sustainable urban drainage products, street furniture and traffic management to enhance its offer. Sales resource has also been allocated to the natural stone internal paving market, stone cladding for the Commercial market and the International Public Sector and Commercial end market. The Group's sales teams provide a full range of integrated projects and sustainable solutions to support the specialist product directories and marketing collateral. The process of identifying projects and following them through to completion is analytical and data driven and utilises specialist software unique to Marshalls. The combination of marketing, systems, processes and highly experienced sales teams continues to provide the Group with a sustainable competitive advantage.

Marshalls continues to be the only landscape products company able to provide a fully integrated product offer to the Public Sector and Commercial end market. This integrated offer was created in response to the specific demand of suppliers, distributors, and architects but its value is now also appreciated in a wider environmental context and increasingly by local authorities and other Public Sector bodies. Approximately 50 per cent of all sales enquiries cover more than one product category with around 20 per cent covering three or more.

The Group has experienced technical and sales teams focused on the key growth areas and by working with clients, architects and contractors they are able to provide a unique overview of the project and offer a complete solution comprising a full suite of products.

Many projects have a lead time of 2 to 3 years. The Group has deliberately retained its experienced technical and sales teams whilst some competitors have cut back. Relationships with clients, architects and contractors and the development of systems to identify projects are a key priority. The visibility of projects through externally measured sources such as Barbour ABI gives a measure of control over securing future volume. This approach continues to deliver good growth in bespoke street furniture, natural stone paving and sustainable urban drainage products.



Historically, the Barbour ABI chart has provided a reliable picture of future demand. It consolidates planning information for all the sub sectors requiring hard landscaping. On average, there is a 12 month lag between contracts being awarded and the landscape products being required, so it provides 12 month advance information on likely future demand.



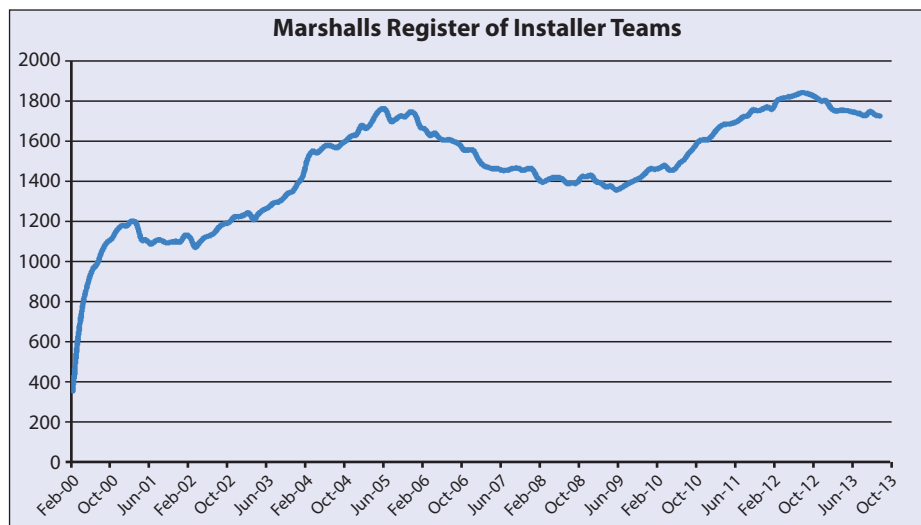
Exhibition Road, London

Domestic end market

The target customer groups for installed patios and driveways occupy 8.9 million homes, a far bigger potential market than new build. These customers are generally older, have equity in their property, earn more and often have savings. An ageing population is combining with a lifestyle trend towards more outdoor living and the “outdoor room”. Through marketing and product development the Group continues to promote solutions to meet the aspirations of these customer groups.

The recent move towards building more new houses rather than flats is also a welcome trend. Quality installers are increasingly busy and the trend is towards older customers, with a higher proportion of cash transactions with long term home owners rather than new home purchasers. The installed housing base is 25 million, far higher than the new build market of between 100,000 and 200,000 houses per year.

The Group’s Domestic strategy is to drive more sales through quality installers. The objective is to improve the product mix, continually develop the Marshalls brand and deliver a market leading level of service. The Marshalls Register of approved domestic installers is unique and, having grown to a total of 1,800 teams, the focus is now to ensure a consistently high standard of quality and good geographical coverage.



The Group remains committed to increasing the marketing support to the installer base and the Marshalls Register through increased training, marketing materials and sales support. The Group has also continued to focus on innovation in order to develop areas with particular sales opportunity and to strengthen further the Marshalls’ branded offer. Marshalls also provides direct delivery to installers of value added products not easily sourced through stockists.

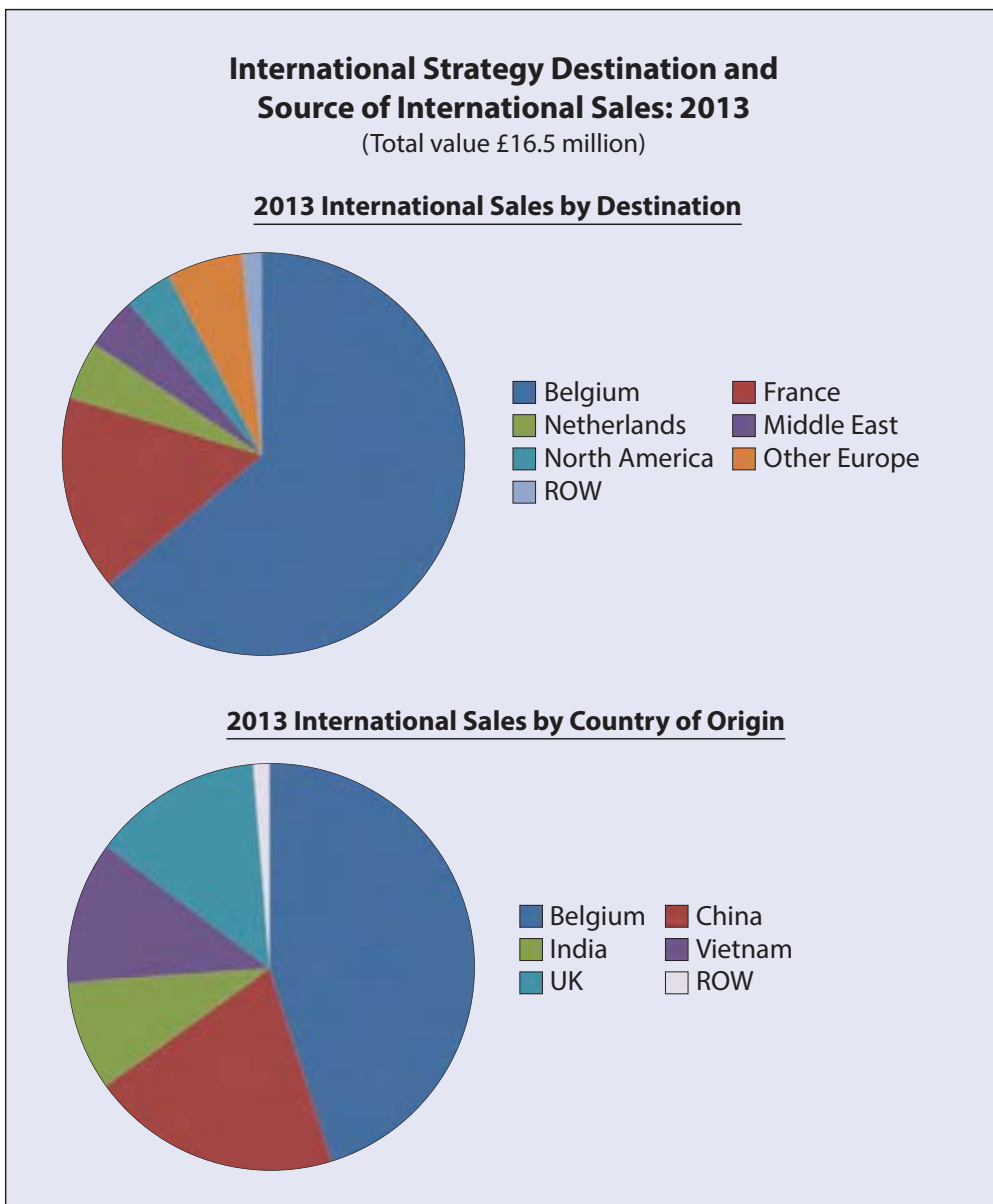


International end market

In Western Europe, the Group's strategy in the Domestic end market is to be a niche, premium product supplier. The Group has 2 operational sites in Belgium manufacturing landscape products and providing a physical stock location in mainland Europe from which to supply the wider Group's specialist product portfolio. The aim is to provide products that are not readily available in mainland Europe. There are over 40 million people living within a 2 hour drive from the 2 sites, an area that covers Belgium, Holland, Northern France and parts of Germany.

The Group has invested £0.5 million per annum in a specification sales team to address the Public Sector and Commercial end market where the lead times are longer. The focus is on unique products that offer the market something new and different. This includes security products, ethically sourced natural stone directly from India, China and Vietnam and other specialist manufactured products.

Technology developed by the Belgium subsidiary has led to the launch in the UK of the Group's new cobble effect driveway product. This product represents the first really innovative new driveway product for over a decade.





Fairstone Sawn Walling, Caramel Cream

Operational priorities

The Group's current strategic emphasis and areas of particular strategic focus are derived from market analysis and the specific objectives that have been identified. The purpose of the strategy is to deliver the objectives. The Group's KPIs monitor progress towards the achievement of the objectives and on pages 28 to 31 an assessment is made of the risk factors that might prevent the Group from achieving its principal objectives. The Group's operational priorities are summarised below:

Corporate

- To strengthen and extend the Marshalls' brand focusing on innovation, service and new product development;
- To develop "strategic growth initiatives" for targeted investment and focus; and
- To continue the tight control of inventory, monetary working capital and capital expenditure.

Operational

- To ensure resources are in place to meet the expected cyclical increase in demand without significant additional investment; and
- To increase output to meet growing demand and to deliver benefits from operational gearing.

Public Sector and Commercial

- To target marketing, cross selling opportunities and product innovation;
- To continue to focus on "Scapes" and the introduction of new scapes with market growth potential;
- To focus on targeted growth areas such as: water management, sustainable urban drainage, traffic management, internal stone paving, stone cladding, education, home improvement, rail and sustainability; and
- To continue to enhance the Group's portfolio of natural stone types.

Domestic

- To create more “pull through” demand from consumers and installers through the installers and merchant supply chain;
- To develop further the relationship with installers to improve lead generation;
- To develop further merchandising initiatives with merchants;
- To promote new products to improve the added value from product mix; and
- To continue to focus on training, marketing and sales support.

International

- To develop and grow profitably the International market and invest prudently in new overseas market opportunities; and
- To continue to develop and improve the cost efficiency of supply chains from India, China and Vietnam.



GEO Signage, Blackpool

Risk Management and Principal Risks

Framework for managing risk

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

Process

There is a formal ongoing process to identify, assess and analyse risks and those of a more material nature are included in the Group Risk Register. 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 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 Risk Committee.

Nature of risk	Potential impact	Mitigating factors
<p>Macro-economic and political</p> <p>The Group is dependent on the level of activity in its end markets. Accordingly, it is susceptible to economic downturn and Government policy that impacts the level of Public Sector investment.</p>	<p>The lower activity levels could reduce sales and production volumes which may have an adverse effect on the Group's financial results.</p>	<ul style="list-style-type: none"> • 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 undertakes ongoing reviews of trading policies and relationships and maintains constant communication with customers.
<p>Weather</p> <p>The Group is exposed to the impact of prolonged periods of bad weather.</p>	<p>The lower activity levels could reduce sales and production volumes could have an adverse effect on the Group's financial results.</p>	<ul style="list-style-type: none"> • The Group has a continuing focus on new product development including landscape water management. • The Group is developing its internal flooring offer and widening its International offer in order to diversify its activities and therefore reduce its reliance on potentially weather-affected product areas.

Nature of risk	Potential impact	Mitigating factors
<p>Competitor Activity</p> <p>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 particularly for imported natural stone products.</p>	<p>The increased competition could reduce volumes and margins on manufactured and traded products.</p>	<ul style="list-style-type: none"> • 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.
<p>Costs</p> <p>The Group is susceptible to significant increases in the price of raw materials, utilities, fuel oil, haulage costs and vehicle availability.</p>	<p>The increased costs could reduce margins and may be further impacted in the event of imbalances in the mix of regional activity.</p>	<ul style="list-style-type: none"> • 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 owns its fleet and uses specialist delivery vehicles.
<p>Business Integration</p> <p>The Group continues to target strategic business acquisitions and the integration of any acquisition could act as a diversion of management's attention.</p>	<p>Such acquisitions might have an impact on the risk profile of the Group and could have an impact on the retention of key personnel within the acquired business.</p>	<ul style="list-style-type: none"> • The Group uses specialist advisers and undertakes extensive due diligence. • Each acquisition is supported by a detailed integration plan covering all key areas of activity and involving employees from the wider Group with the appropriate skills required.
<p>Pension</p> <p>The Defined Benefit Pension Scheme may be impacted by volatility in financial markets and the longevity of members</p>	<p>These risks could increase pension scheme liabilities or reduce assets, putting pressure on accounting notional interest and therefore downward pressure on PBT and EPS. This could also result in the need for additional cash injections.</p>	<ul style="list-style-type: none"> • The Group Pension Scheme is closed to new members and future service accrual. • The Group uses liability driven investments to hedge interest rate and inflation risks. • De-risking strategies continue to be pursued and risk management is a key control used by the Trustee. • Professional advisers are consulted to minimise risk.

Nature of risk	Potential impact	Mitigating factors
<p>International</p> <p>Continued lack of market activity and market growth in Western Europe.</p>	<p>The lower activity levels could lead to lower sales and production volumes and therefore the need for increased funding support.</p>	<ul style="list-style-type: none"> • The Group closely monitors trends and lead indicators. • 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 undertakes ongoing reviews of trading policies and relationships and maintains constant communication with customers.
<p>Environmental</p> <p>The risk in an environmental contamination event is that it may lead to a prosecution and to reputational loss.</p>	<p>An incident could lead to disruption to production and to financial penalties as well as a potential negative impact on the Group's reputation.</p>	<ul style="list-style-type: none"> • 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.
<p>Corporate, Legal and Regulatory</p> <p>The Group may be adversely affected by an unexpected reputational event, for example, if its ethical supply chain.</p>	<p>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.</p>	<ul style="list-style-type: none"> • The Group employs compliance procedures and policies which seek to ensure that local, national and international regulatory and compliance procedures are fully complied with. • The Group's emphasis is on high environmental, ethical and health & safety standards and it undertakes independent audit processes for its overseas supply chain, particularly India and China.
<p>Access to Funding</p> <p>The Group continues to require debt funding in order to meet its trading obligations and to grow the business.</p>	<p>Insufficient access to funding could limit the Group's ability to achieve the desired levels of growth.</p>	<ul style="list-style-type: none"> • The Group has significant committed facilities in place with a good spread of medium term maturities and significant headroom. • The Group's policy continues to be to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities. • Relationships are maintained with several potential banking partners.

Nature of risk	Potential impact	Mitigating factors
<p>Financial Instruments</p> <p>The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk, pricing risk and foreign currency risk.</p>	<p>Ineffective procedures could lead to an adverse effect on the Group's financial results.</p>	<ul style="list-style-type: none"> • The Board reviews and agrees policies for managing each of these risks. • The Group undertakes no speculative trading in financial instruments. • The Group manages its insurance risk by continuous review and maintaining a balance between capped self-insurance and third party cover against major catastrophes.
<p>IT Infrastructure</p> <p>Disruption to the IT environment could affect the Group's ability to conduct its ongoing operations.</p>	<p>Ineffective procedures could lead to an adverse effect on the Group's financial results.</p>	<ul style="list-style-type: none"> • All IT system development projects are actively and carefully planned with defined governance and control procedures. • To support and enable future growth the Group has upgraded its IT systems to ensure a common platform across all business units. • Regular independent risk and project management audits are undertaken. • The Group ensures that industry standards are adopted and disaster recovery plans and procedures exist and are regularly tested.
<p>Recruitment and Retention of Key Personnel</p> <p>The Group needs to ensure that it continues to be able to attract, develop, motivate and retain good quality employees and leaders.</p>	<p>Ineffective procedures could lead to poor decision making, an inability to meet business objectives and a lack of innovation and enterprise within the Group.</p>	<ul style="list-style-type: none"> • The Board reviews and agrees HR policies covering all relevant areas. • Formal recruitment processes are maintained. • The Group has a formal appraisal process and ensures there is scope for progression in the Group. • The Group aims to have competitive remuneration packages and bonus schemes. • The Remuneration Committee reviews all key issues relating to Executive Remuneration.

Corporate Responsibility

Corporate responsibility, awareness and mitigation of adverse impact on our 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 driven by the Board, and David Sarti is the Director with primary responsibility for managing the key elements of the Group's policies relating to environmental and social matters, and reporting to the Board on progress against the Group's Corporate Responsibility KPIs.

The key aspects of Marshalls' approach to the risks and opportunities arising from environmental, social and governance matters are highlighted in this section of the Strategic Report, which explains how we have addressed these during 2013, and includes regulatory information relating to carbon emissions, employee diversity and our policies in relation to the recruitment of and engagement with employees. Marshalls' Corporate Responsibility Policy and the latest published Corporate Responsibility Report can be found on our website at www.marshalls.co.uk/sustainability. The Corporate Responsibility Report, which contains data independently audited by BSI, covers our activities in the UK and overseas and progress against our Corporate Responsibility KPIs.

People and Environment

The Group remained a constituent member of the FTSE4Good UK Index throughout 2013. The Group also continued to be a member of Business in the Community ("BITC"), a signatory of the United Nations Global Compact ("UNGC") and a member of the Ethical Trade Initiative ("ETI").

As a signatory of the UNGC, Marshalls commits to aligning its operations and strategies with the ten universally accepted principles in the UNGC. We are proud that Marshalls' Group Marketing Director, Chris Harrop has, since 2012, been the Chairman of the UNGC UK Network. Marshalls believes that the benefits from engagement include:

- being part of an established and globally recognised policy framework for the development, implementation, and disclosure of environmental, social, and governance policies and practices;
- sharing best and emerging practices to advance practical solutions and strategies to common challenges;
- advancing sustainability solutions in partnership with a range of stakeholders, including UN agencies, governments, civil society, labour, and other non-business interests;
- linking business units and subsidiaries across the value chain with the UNGC's Local Networks around the world;
- accessing the United Nations' extensive knowledge of and experience with sustainability and development issues; and
- utilising UNGC management tools and resources, and the opportunity to engage in specialised workstreams in the environmental, social and governance realms.



- Manage Risk
- Local Compliance
- Social licence to operate
- Do the right thing
- Gain Competitive Advantage
- Find and develop new market opportunities
- Grow long term
- Attract and Retain staff

- The world's largest voluntary corporate citizenship initiative.
- A commitment to an underlying universal set of principles to guide responsible business practice and connect with a global community.
- Launched in 2000, the UN Global Compact represents a Compact between business and United Nations agencies, labour, civil society and governments.
- **Its aim is to help drive competitive advantage through responsible business practice.**
- Currently over 10,000 signatories in over 145 countries.

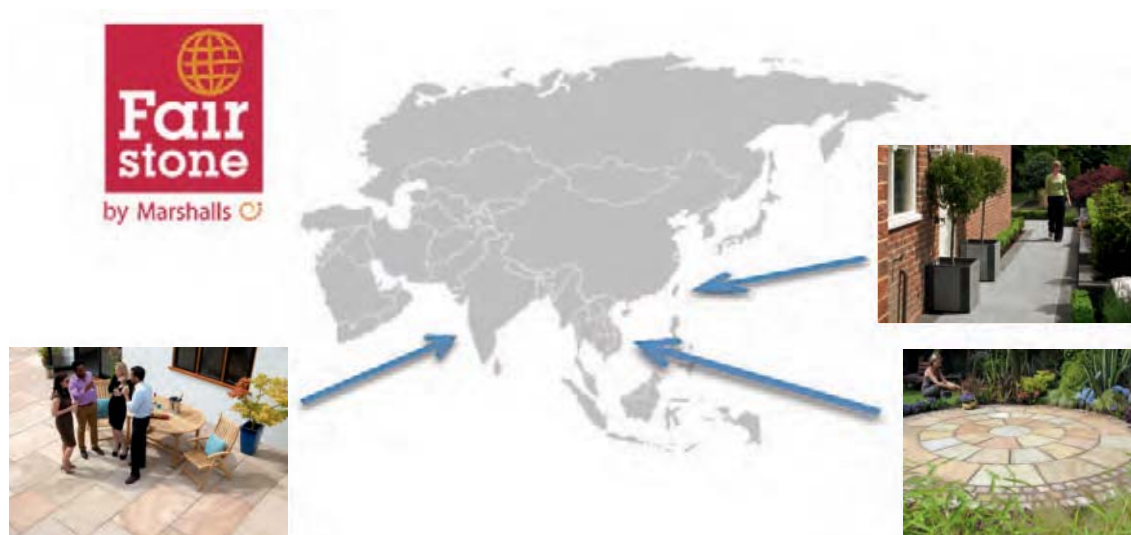


The UNGC incorporates a transparency and accountability policy known as the Communication on Progress ("COP"). The annual posting of a COP is an important demonstration of a participant's commitment to the UNGC and its principles. Participating companies are required to follow this policy, as a commitment to transparency and disclosure is critical to the success of the initiative. Marshalls' annual COP can be found on the UNGC website via our link www.marshalls.co.uk/cop2012.

During 2013, Marshalls adopted the Children's Rights and Business Principles developed by UNICEF, the UN Global Compact and Save the Children. The Children's Rights and Business Principles are the first comprehensive set of principles to guide companies on the full range of actions they can take in the workplace, marketplace and community to respect and support children's rights.

Ethical Trade Initiative

The Group has pioneered the ethical sourcing of natural stone paving from India, China and latterly Vietnam. With a local partner the Group has established schools, health facilities and health insurance programmes in India. Marshalls "Fairstone" products combine the attributes of fair trade and ethical sourcing. As part of its ongoing commitment to the ETI Base Code, the Group has been driving forward ethical best practice within its Indian and Chinese natural stone suppliers. Marshalls' ethical sourcing programme incorporates regular independent supply chain audits.



Community

Marshalls is an active member of and participant in Business in the Community ("BITC"). By participating, we give substance to our commitment to responsible business practice and engagement with employees, customers and the communities in which we operate. Marshalls has a consistent track record of active community initiatives. During 2013, we developed a programme under which our operating sites entered into partnerships with local schools as part of the BITC-sponsored "Business Class in Action" programme aimed at helping young people, some of whom have no family experience of work, to prepare for the working environment and support them in making career and training choices. Events have already taken place at 8 operating sites across the UK, with 3 further sites planning to launch in the near future.

The BITC CR Index helps companies systematically measure, manage and integrate responsible business practice, under which companies are assessed. Marshalls is pleased to have retained its "Gold" status in the 2013 results ranked against this assessment. The list of accredited companies can be found via the BITC website: <http://www.bitc.org.uk/our-services/benchmarking-recognition/cr-index>.

Carbon Emissions – GHG 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 absolute CO_{2e} emissions in line with UK Government targets (34 per cent by 2020 and 80 per cent by 2050 from a 1990 baseline). Our progress indicates that reductions are in line with the 2020 and 2050 targets.



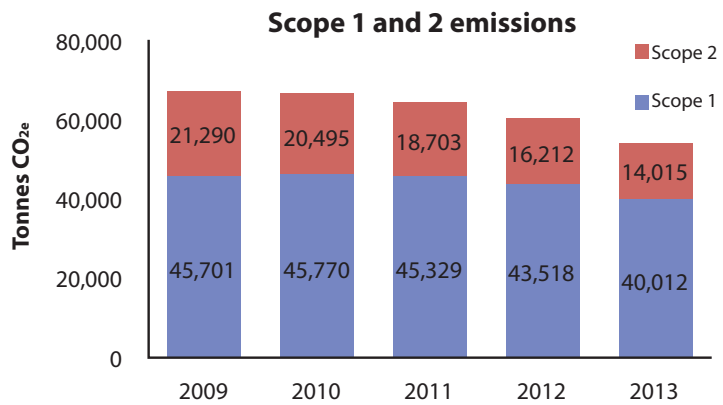
The Group complied with its legal obligation in the Government's Carbon Reduction Commitment Energy Efficiency Scheme ("CRC") by submitting its Annual Report and surrender of Carbon allowances for the period April 2012 to March 2013 within the time limit imposed by the legislation. The Group successfully recertified to the Carbon Trust Standard in the year. The Group continues to report voluntarily to the "Carbon Disclosure Project", which includes a 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. Marshalls uses the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the latest DEFRA published CO_{2e} conversion factors to measure its GHG emissions. The Group reports its scope 1 and 2 GHG emissions for its UK operations. It can only report CO₂ emissions for Marshalls NV, its Belgian business, as CO_{2e} conversion factors are not available. The Group audited its UK fugitive emissions during 2013 and found these to be less than 0.5 per cent of the Group total emissions: accordingly these are excluded from the report.

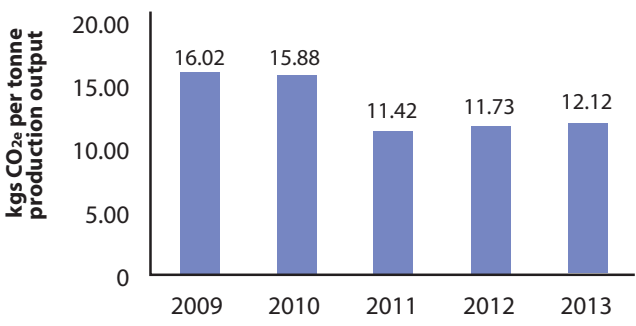


Bespoke Granite Benches, Olympic Village

This chart illustrates the Group's UK absolute CO_{2e} emissions in tonnes, including transport activities, between 2009 and 2013



Relative CO_{2e} per tonne production scopes 1 and 2 (kgs CO_{2e} per tonne)



This chart illustrates the Group's CO_{2e} intensity emissions as a proportion of production output, including transport activities, between 2009 and 2013.

The disposal of our aggregates business in April 2013, which has a lower intensity of CO₂ emissions per tonne of production, was the main reason for the change between 2012 and 2013. The Group reports that it is responsible for the GHG emissions of Marshalls NV. The CO₂ emissions from Marshalls NV activities in 2013 were (absolute) 1,117 tonnes and (intensity) 11.84 kg per tonne of production.

Marshalls publishes its environmental key performance indicator ("KPI") performance for the financial year in a separate document, the Marshalls' Environmental KPI 2014 Report. This covers our energy performance in more detail, together with reporting of our Environmental Governance, Policies, Management and key environmental impact areas such as waste, water and packaging. The Environmental KPI 2014 Report also includes details of our work with internationally recognised expert bodies such as the Carbon Trust, the Wildlife Trust and the Woodland Trust (see www.marshalls.co.uk/EnvKPI2014).

This section of the Annual Report has been audited by a qualified verifier on behalf of BSI. On the basis of the work undertaken, the GHG emissions statement above is considered to be a fair reflection of the Group's performance during 2013 and contains no misleading information.



Employees

Our success depends on our people. Our Statement of Values and Principles, which sets the standard for all employees, gives guidance on business practice, employee relations and equality of opportunity and emphasises the importance of trust, honesty and integrity, leadership, ownership and excellence in everything we do.

Equality and Diversity

In our recruitment and selection processes we recognise the benefit of diversity within our workforce. We are committed to promoting and maintaining a working environment based on mutual respect, where individual talent is recognised and valued, and to providing training designed to raise levels of awareness and sensitivity to matters of equality and dignity at work. We have fair and merit-based employment policies and we adhere to relevant legislation including measures for the effective prevention of discrimination against individuals with protected characteristics under the 2010 Equality Act. We welcome and give full and fair consideration to applications from individuals with recognised disabilities and will ensure they are provided with equal opportunity for employment and career development. Wherever reasonably practicable, training is offered and adjustments are made to ensure that employees with disabilities or those who become disabled, are not disadvantaged in the workplace.

Our total workforce was 2,079 as at 31 December 2013, and the gender balance breaks down broadly as follows:

	Male	Female
Total Workforce	85%	15%
Senior Managers	86%	14%
Directors	100%	0%

We believe that the high proportion of male employees is due to the Sector in which we operate, the manufacture of construction materials, where there have traditionally been fewer female applicants for jobs. In striving for a better workplace for all, we expect to make a positive impact towards improving gender balance. Our approach to diversity at Board level is explained in the Corporate Governance Report.

Employee Engagement

There is a dedicated resource within the Marshalls HR team focusing specifically on co-ordinating and framing our engagement activities through interaction with local management teams and employee focus groups. We communicate the Group's financial results, performance and overall direction by means of our internal intranet, monthly newsletter, site notice boards and regular face to face briefings between senior management and various employee groups. Through our employee "Options" platform we offer a wide range of employee-focused benefits, including Childcare Vouchers, and we also offer access to other benefits such as "Cycle to Work" schemes from time to time.

In 2013, the Group participated for the third successive year in the Best Companies Workplace Engagement Survey. Almost 70 per cent of all employees participated, a notable increase on 2012 and 2011. The results showed continued progress against previous workplace engagement targets, and provide valuable data and employee commentary on all areas of the business where focused action plans can then be developed to drive improvements in the coming year.

We operate a structured consultative and collaborative interaction with recognised trades unions and with our broader employee base. In 2013 a 3 year agreement covering pay and employment terms throughout the period 2013 – 2015, was successfully negotiated with elected representatives and full time officers, thereby establishing a significant degree of certainty in terms of employment costs during 2014 - 2015.

New, more flexible employment practices and deployment of human resources have been agreed across selected sites with trades unions and employees. This is designed to respond to increased levels of demand for product across our manufacturing sites and to provide greater alignment of our working practices with customer requirements. The Group's "Dignity at Work" programme, designed to raise awareness of the dangers of bullying and harassment in the workplace, is proactively communicated and universally well-received across Group sites.

This joint collaboration with recognised trades unions and ACAS will continue into 2014. The Group's "Serious Concerns Policy", which is displayed on the intranet and at all sites, provides a framework for employees to raise any matters of concern confidentially and securely and ensures that any matters raised are properly investigated.

Training and Development

Marshalls re-launched its Development Review process during 2012 and this has been extended throughout 2013. The process provides an opportunity for all employees to have a one-to-one discussion with their manager, covering work objectives, performance, personal development and career aspirations. This is supported by an on-line programme of training and awareness-building, designed to focus on the importance and quality of these conversations and open dialogues between employees. Training modules are delivered online and by means of site-based toolbox talks. There is a continuous programme across Group sites to support the development of Marshalls' employees through NVQ accreditation and the Group's commitment to "Investors in People" continued to progress in 2013 with the successful accreditation of our Street Furniture business.



Demelza House Children's Hospice, Sittingbourne

Health and Safety

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

The Group continues to strive to improve the quality and safety of the working environment for employees. 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 Committee Report.

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 OHSAS ("Occupational Health and Safety Accreditation Standard") 18001:2007. At the end of 2013 all but 3 operational sites within the Group held a BS OHSAS (18001:2007) registration, with 2 further sites scheduled for registration in 2014. Training throughout the year focused on the development of managers and supervisors to proactively manage health and safety in the workplace through visible felt leadership.

The Group has a published Health and Safety Policy which sets out the principles regarding the health and safety of employees, and their application throughout the business. Health and Safety performance is monitored by the Board on a monthly basis, with David Sarti being the nominated Director with Board responsibility for Health and Safety.

The headline target for 2013 was a 10 per cent reduction in days lost resulting from workplace incidents against 2012. The actual reductions achieved were:

- **14.8 per cent** reduction in days lost resulting from workplace incidents (Table 1 and Figure 4).
- **5.6 per cent** reduction in all incident frequency rate.
- **12.9 per cent** reduction in lost time incidents ("LTI's") recorded (Table 1 and Figures 1 and 2 respectively).
- **41.0 per cent** reduction in incidents reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR") (Table 1 and Figure 3).

The primary target for 2014 will again be a 10 per cent reduction year on year in days lost resulting from workplace accidents. Table 1 below shows the KPIs used by the Group to monitor performance, and progress against those KPIs over the last 5 years.

Table 1

Incident Frequency and Severity Rates (per 100,000 hrs worked)	2009	2010	2011	2012	2013
All Incidents	10.43	9.49	8.32	6.95	6.56
All Lost Time Incidents	2.16	1.60	1.55	1.40	1.22
All RIDDORs	1.11	0.94	0.81	0.61	0.36
All Days Lost	25.18	14.76	20.44	13.45	11.46
Average headcount	2,464	2,391	2,456	2,252	2,055

Figure 1

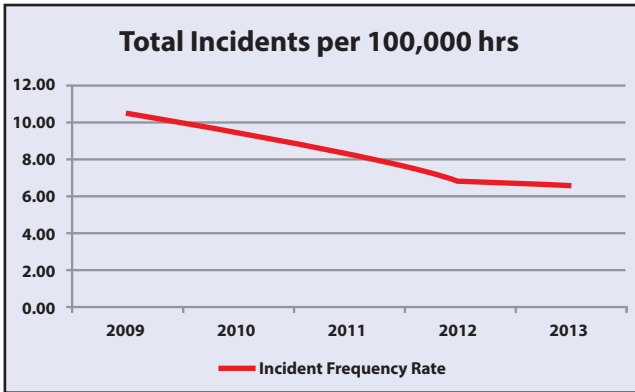
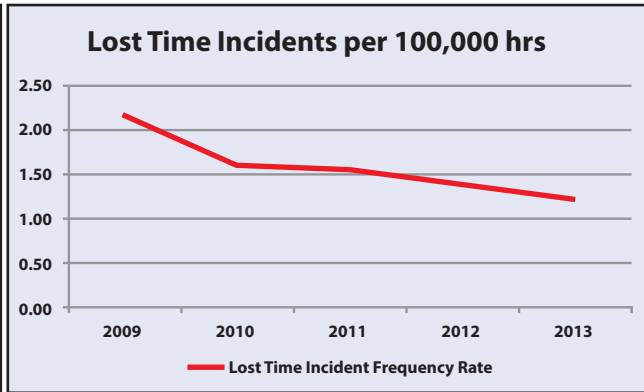


Figure 2



- **14.8 per cent** reduction in days lost resulting from workplace incidents
- **5.6 per cent** reduction in all incident frequency rate
- **12.9 per cent** reduction in lost time incidents (LTI's) recorded
- **41.0 per cent** reduction in incidents reportable to the HSE

Figure 3

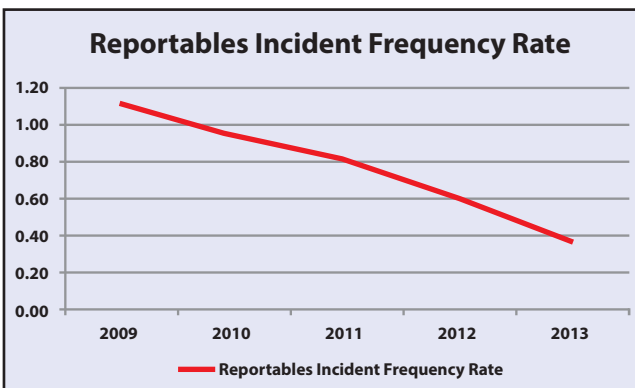
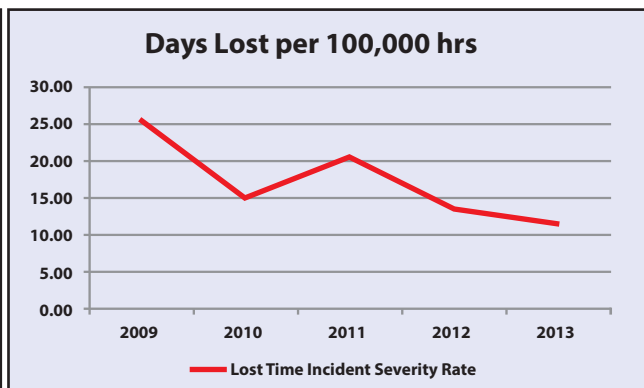


Figure 4



Review of the Year

Trading Summary

Revenue

Continuing revenue for the year ended 31 December 2013 was £307.4 million (2012: £300.9 million) which represented an increase of 2.1 per cent.

Revenue	£'m	change (%)
2012	300.9	
Price increases to recover costs	6.3	2.1
Volume and mix - UK	(2.9)	(1.0)
Organic expansion of International	3.1	1.0
2013	307.4	2.1

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

Analysis of sales by end market	2013 £'m	2012 £'m	change %
Public Sector and Commercial	191.7	189.9	0.9
UK Domestic	99.2	97.6	1.6
International	16.5	13.4	22.9
	307.4	300.9	2.1
	%	%	
Public Sector and Commercial	62.5	63.1	
UK Domestic	32.1	32.4	
International	5.4	4.5	

Public Sector and Commercial

In the Public Sector and Commercial end market, revenue increased by 0.9 per cent on a continuing basis compared with 2012 reflecting the anticipated improved market conditions in the second half. Working conditions in the first quarter of 2013 were extremely difficult due to a prolonged spell of very cold weather. Sales to the Public Sector and Commercial end market now represent approximately 63 per cent of Group sales.

Commercial order intake has been encouraging with the Group securing its largest ever natural stone paving order in Manchester and 2 significant export orders for street furniture in Saudi Arabia and Qatar. Stone cladding, which is a relatively new area of focus for the Group, is a particular growth area and Marshalls is supplying stone for a new prestigious office building in the City of London. Commercial work from rail and new house building is also increasing, albeit from historically low levels. Water management remains a major focus area and in September 2013 the Group launched a re-designed, comprehensive range of linear drainage products which should appeal to Local Authorities and property developers.

Domestic

In the Domestic end market, revenue increased by 1.6 per cent. Sales to the UK Domestic end market now represent approximately 32 per cent of Group sales.

Installer order books at the end of February 2014 were 9.3 weeks (February 2013: 7.8 weeks), compared with 11.0 weeks at the end of October 2013. Although the figure has fallen slightly over the last few months, this represents the highest sustained level for many years and the Group continues to receive good feedback from its customers and installers for the consistency and quality of service. Although the GfK's Consumer Confidence index remains negative, it is significantly improved from this time last year.

During 2013 the Group has continued to focus on innovation in order to develop areas of particular sales opportunity and to strengthen further the Marshalls' brand. In 2012, the Group launched its new cobble effect driveway product. This has utilised patented technology developed by the Group's Belgian business and is the market's first genuinely new driveway product for a decade. Sales in 2013 were £1.2 million, a significant increase from £0.2 million in the whole of the prior year. Utilising this technology Marshalls has further new products to launch over the next few years and the product's technical strength means that it is potentially suitable for both Commercial and Domestic applications.

International

Sales to International markets increased by £3 million, or 22.9 per cent, to £16.5 million. Despite very poor weather conditions in Belgium in the first quarter of 2013 and difficult trading conditions in Western Europe, continued progress has been made in developing the International business which now represents 5 per cent of Group sales. Despite the Group's increased revenue the International business is not yet profitable as contribution from this revenue growth has been offset by revenue investment in the operational infrastructure which will be necessary to support further expansion for the long term.

The Belgian business provides a physical stock location in mainland Europe from which to supply the Group's specialist product portfolio. Marshalls continues to expand its geographical reach and to extend its International supply chains and routes to market.



Cobble Effect Driveway System, Basalt

Operating profit

	2013	2012*	Change
	£'m	£'m	%
Continuing Operations			
EBITDA*	30.2	28.1	7.7
Depreciation / amortisation	(14.1)	(15.2)	
Operating profit*	<u>16.1</u>	<u>12.9</u>	25.2
*before operational restructuring costs and asset impairments			

Operating profit from continuing operations was £16.1 million (2012: £12.9 million, before operational restructuring costs and asset impairments). EBITDA from continuing operations was £30.2 million (2012: £28.1 million, before operational restructuring costs and asset impairments).

Sale of quarries and associated aggregates businesses

On 30 April 2013 the Group completed the sale of quarries and associated aggregates businesses to Breedon Aggregates England Limited for an initial cash consideration at completion of £17.5 million. On 23 August 2013 additional consideration of £1.2 million was received following the satisfactory fulfilment of a post completion condition relating to the commissioning of a sand extraction plant.

The revenue generated from these operations in the period to disposal on 30 April 2013 was £3.0 million. For the year ended 31 December 2012 the operating profit generated from the operations at these quarries was £1.1 million, based on annual turnover of £10.0 million, of which £8.8 million came from sales outside the Group. The operations have been treated as discontinued in these results. The post-tax profit from discontinued operations in the year ended 31 December 2013 was £0.5 million, which included a net profit on disposal of £0.3 million. The disposal has enabled the Group to improve materially on its target net debt to EBITDA ratio of two times by the end of 2013. The net debt to EBITDA ratio at 31 December 2013 is 1.2 times.

First half / second half phasing

The following table summarises the relative performance of the second half of 2013 compared with that for the six months ended 30 June 2013. The table illustrates the improvement in the second half of 2013 with revenue increasing by 9 per cent and operating profit increasing by 54 per cent compared with the comparable six month period in 2012.

	2013	2012*	Change	2013	2012
	£'m	£'m	%	%	%
First half / Second half phasing					
Revenue					
First half	156.5	163.1	(4.0)	51	54
Second half	150.9	137.8	9.5	49	46
Total	<u>307.4</u>	<u>300.9</u>	2.1		
Operating profit					
First half	9.8	8.8	11.4	61	68
Second half	6.3	4.1	53.7	39	32
Total	<u>16.1</u>	<u>12.9</u>	25.2		
*before operational restructuring costs and asset impairments					

Profit Margins

The Group has continued to strengthen its market position and trading margins are improving. During 2012, the Group undertook a major operational restructuring exercise in order to improve financial and operating flexibility. This programme of cost reduction and cash realisation measures is now complete and continues to deliver positive results. The strategy combined established and new initiatives to deliver growth and these have been delivering market outperformance. Manufacturing output could be increased by 25 per cent without the need for any significant capital investment and, as demand is improving, output is being increased. Operating profit was £16.1 million with a resulting operating margin of 5.2 per cent (2012: 4.3 per cent).

Margin Analysis	Movement in		Margin impact %
	Revenue £'m	Operating profit £'m	
2012*	300.9	12.9	4.3
Net gain on property disposals	0.0	(1.8)	(0.6)
Sub-total	300.9	11.1	3.7
Price increases to recover costs	6.3	2.4	0.7
Volume and mix – UK	(2.9)	(0.9)	(0.3)
Impact of cost reduction initiatives	0.0	4.9	1.6
Organic expansion of International	3.1	(1.4)	(0.5)
2013	307.4	16.1	5.2

*before operational restructuring costs and asset impairments

Sales price increases realised £6.3 million in additional revenue, which exceeded the impact of cost inflation in the year by £2.4 million. Operating margin improved by 0.7 per cent.

In Public Sector and Commercial sales prices were up 3 per cent and volume and mix were down approximately 2 per cent. Within Domestic, the Group increased the majority of its sales prices by around 3 per cent. At the same time the Group lowered the price of a very small number of key products, resulting in a net sales price increase of 1 per cent. Sales volume in Domestic was marginally up, compared with 2012, by around 1 per cent.

Volume variances were negligible and sales mix was generally adverse in the year. Firstly, more new housing sites opened up increasing the need for more standard flag and kerb products. Secondly, Public Sector capital projects contain a higher proportion of value added products and the present lack of Government spend has adversely affected mix. The cost reduction initiatives arising from the reorganisation of operations in 2012 improved profit in 2013 by £4.9 million and this improved margin by 1.6 per cent. This was mainly headcount reduction and depreciation. When markets improve, there continues to be a real opportunity to benefit from improved operational gearing in sales and production levels and from the lower cost base.

Operational developments

The Group has excellent relationships with its customers. This is delivering additional sales and good progress is being made with the many growth initiatives.

The Group's industry leading standards remained high in 2013 giving a combined customer service measure of 98 per cent (2012: 97 per cent). Marshalls continues to receive good feedback from its customers and installers for the consistency and quality of its products and service.



Jura Grey Limestone, Classical Flagstones

Capital investment in property, plant and equipment in 2013 totalled £5.5 million (2012: £8.3 million). This compares with depreciation of £13.5 million (2012: £14.8 million). The Group will continue to invest selectively in innovation to deliver new products and improvement projects that reinforce its market leading position. These strengths support the Group's medium term growth ambitions and, in addition to the existing routes to market, a number of other markets have been identified that are opening up new opportunities for both existing and new products. Research and development expenditure in the year ended 31 December 2013 amounted to £2.8 million (2012: £2.4 million).

Earnings per share

Basic EPS from continuing operations was 6.94 pence (2012: 5.52 pence, before operational restructuring costs and asset impairments) per share, an increase of 25.7 per cent. EPS from total operations was 7.20 pence (2012: loss of 2.91 pence).

Net financial expenses

Net finance costs were £3.1 million (2012: £3.6 million) and interest was covered 5.3 times (2012: 3.6 times before operational restructuring costs and asset impairments). External charges, totalling £3.7 million, have been partially offset by an IAS 19 notional interest credit of £0.6 million (2012: £0.7 million) in relation to the Group's Pension Scheme. The IAS 19 notional interest comprised interest on obligations under the defined benefit section of the Pension Scheme being more than offset by the expected return on Scheme assets.

Taxation

The effective tax rate, from continuing operations, was 0.5 per cent (2012: credit of 16.3 per cent, before operational restructuring costs and asset impairments) and continued to benefit from the reduction in the rate of corporation tax and a credit arising on the finalisation of prior year tax computations. An additional deferred tax credit of £2.6 million has arisen as reductions in the rate of corporation tax to 21 per cent by April 2014 and 20 per cent by April 2015 were substantively enacted, following the granting of Royal Assent in July 2013. These factors have given rise to only a nominal tax charge in the year. The Group has paid £0.8 million of corporation tax during the year. Deferred tax of £3.7 million in relation to the actuarial loss arising on the Defined Benefit section of the Pension Scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

Balance Sheet

Group Balance Sheet	2013	2012
	£'m	£'m
Fixed assets	198.1	217.7
Current assets	120.8	116.7
Current liabilities	(74.2)	(64.4)
Non-current liabilities	(65.0)	(94.6)
Sub-total	179.7	175.4
Employee benefits	(4.3)	8.2
Net assets	175.4	183.6
Net debt	(35.6)	(63.5)
Net debt : EBITDA	1.2	2.3

Net assets at 31 December 2013 were £175.4 million (2012: £183.6 million).

The Group continues to keep a tight control of receivables and 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 UK inventory reduction programme has led to a reduction of nearly £2.8 million despite increased levels of activity.

Risk management has been a key focus for the Group's Pension Scheme over recent years and the actions the Group has taken have reduced actuarial volatility and risk. In accordance with the Scheme specific funding and recovery plan, the Group made cash contributions of £5.6 million into the Scheme in the year ended 31 December 2013. The fair value of the Pension Scheme assets at 31 December 2013 was £258.6 million (2012: £254.8 million) and the present value of the Scheme liabilities is £262.9 million (2012: £246.6 million) and this has given rise to an accounting deficit of £4.3 million (2012: £8.2 million surplus) at the balance sheet date. These changes have resulted in an actuarial loss, net of deferred taxation, of £15.0 million (2012: £7.0 million) and this has been recorded in the Consolidated Statement of Comprehensive Income. In the year ended 31 December 2013 the AA corporate bond rate reduced from 4.7 per cent to 4.6 per cent and the values have been determined by the Scheme Actuary using assumptions in line with current market levels.

Analysis of net debt

Analysis of net debt	2013	2012
	£'m	£'m
Cash and cash equivalents	17.7	11.1
Bank loans < 12 months	(3.4)	-
Bank loans > 12 months	(49.7)	(74.3)
Finance leases	(0.2)	(0.3)
	(35.6)	(63.5)

At 31 December 2013 net debt was £35.6 million (2012: £63.5 million) resulting in gearing of 20.3 per cent (2012: 34.6 per cent). This reduction is due to the cash proceeds from the sale of quarries and the associated aggregates business and to the close control of inventory and the effective management of working capital. Working capital has successfully released cash in the year of £5.1 million. Cash management continues to be a high priority and the Group remains committed to realising value from surplus properties.

Borrowing facilities

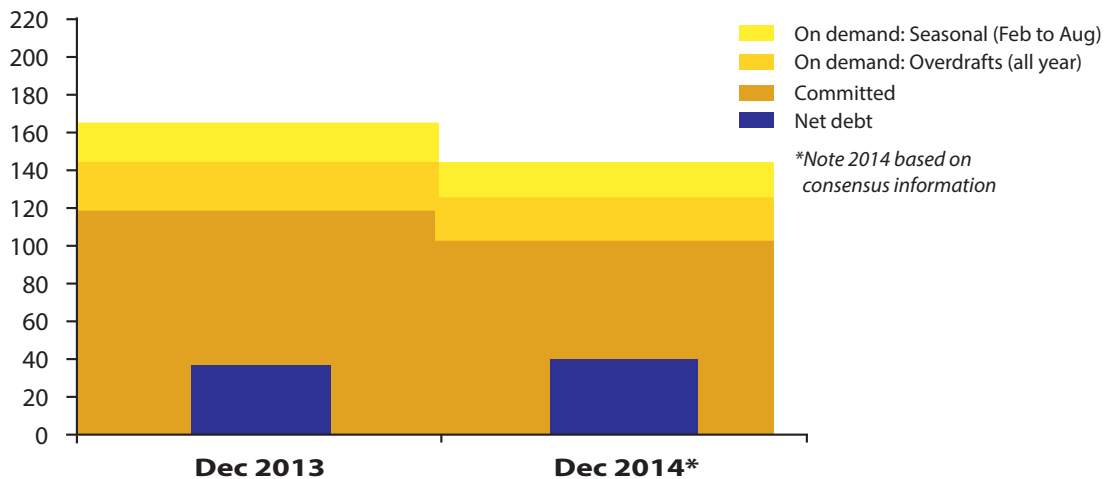
The Group continues its policy of having significant committed bank facilities in place with a positive spread of medium term maturities.

In July 2013, following the steady reduction in net debt, and especially following the disposal of the aggregates businesses, the Group cancelled a £25 million loan facility in order to re-align the unused headroom against available facilities. The Group continues its policy of having significant committed facilities in place with a positive spread of medium term maturities. In August 2013, the Group renewed its short term working capital facilities with RBS.

The strategy is to retain significant committed facilities and the Group has no immediate need to renew its committed facilities. The total bank borrowing facilities at 31 December 2013 amounted to £145.0 million (2012: £170.0 million) of which £92.0 million (2012: £95.7 million) remained unutilised. In addition, the Group has a seasonal working capital facility of £20.0 million which is available between 1 February and 31 August each year. The Group has significant headroom in its facilities with year end debt at 31 December 2013 representing approximately 25 per cent of the available facilities.

Interest cover and net debt to EBITDA covenants in the facilities were very 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.

The Group has a robust balance sheet with a good range of medium term bank facilities available to fund investment initiatives to generate growth as market conditions improve.



Cash generation

	2013	2012
	£'m	£'m
Group Cash Flow		
Net cash from operating activities (before pension contributions)	32.7	28.3
Pension contributions	(5.6)	(3.6)
Net cash from operating activities	27.1	24.7
Net cash from investing activities	11.1	(0.7)
Net cash from financing activities	(10.3)	(10.4)
Movement in net debt in the period	27.9	13.6
Net debt at beginning of period	(63.5)	(77.1)
Net debt at end of period	(35.6)	(63.5)

The Group continues to be cash generative. In the year ended 31 December 2013 net cash flow from operating activities was £27.1 million (2012: £24.7 million) after deducting £0.9 million (2012: £7.4 million) of one-off cash expenditure in relation to operational restructuring and works closure costs paid and pension contributions of £5.6 million (2012: £3.6 million). There has been a net cash inflow of £2.2 million from monetary working capital.

	2013	2012
	£'m	£'m
Analysis of cash utilisation		
Free cash flow	27.1	24.7
Capital expenditure	(6.1)	(9.5)
Proceeds from sale of property assets	0.2	8.6
Net proceeds from disposal of discontinued operations	17.0	0.2
Finance leases and other	-	(0.1)
Cash returned to shareholders	(10.3)	(10.3)
Movement in net debt	27.9	13.6

Total investment on capital expenditure in the year was £6.1 million (2012: £9.5 million). The majority of this expenditure was invested in the replacement of existing assets, in business improvements and new process technology. Proceeds from the sale of targeted property assets contributed £0.2 million (2012: £8.6 million). Dividend payments in the year were £10.3 million (2012: £10.3 million).



Celestia, Kingswood College, Hull

Martyn Coffey
Chief Executive

Directors' Details



Andrew Allner - Chairman (2,3)

Term of Office: Appointed to the Board in July 2003 and appointed as Chairman of the Board on 12 May 2010. Last re-elected in May 2013. Also chairs the Nomination Committee.

Independent: Yes (on appointment as Chairman)

Skills and experience: Andrew Allner is Chairman of The Go-Ahead Group plc. He is also a Non-Executive Director, Senior Independent Director and Chairman of the Audit Committee at AZ Electronic Materials SA, Non-Executive Director and Chairman of the Audit Committee at Northgate plc, and Non-Executive Chairman of Fox Marble Holdings plc and was a Non-Executive Director of CSR plc until 31 December 2013. He was previously Group Finance Director of RHM plc, taking a lead role in its flotation in July 2005 on the London Stock Exchange. Prior to joining RHM plc, Andrew Allner was CEO of Enodis plc, and he has also served in senior executive positions with Dalgety plc, Amersham International plc and Guinness plc. He is a former partner of Price Waterhouse and is a Chartered Accountant. He is a graduate of Oxford University.



Ian Burrell - Finance Director

Term of Office: Appointed to the Board in June 2001. Last re-elected in May 2013.

Independent: No

Skills and experience: Ian Burrell joined the Group in 2001. He is a Chartered Accountant and has held a number of senior financial positions in industry, including that of Group Finance Director at Cornwell Parker plc. He is also Chairman of the Trustees of the Company's Pension Scheme. He was appointed as Chair of the Board of Leeds Trinity University in 2013, having served as a Director and Chair of the Audit Committee since 2010.



Martyn Coffey - Chief Executive

Term of Office: Joined the Company and appointed to the Board on 10 September 2013.

Independent: No

Skills and experience: Martyn Coffey was 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. At BDR Thermea he was a member of the Management Board with responsibility for 65 per cent of the Group, including the UK, France, Germany, Iberia and Italy. Prior to the merger, he was Chief Executive of Baxi Group, the third largest supplier of space and water heating products in Europe, having joined from Pirelli where he spent 14 years in the UK, Australia and North America, most recently as Managing Director and a member of the UK Board. He became a director of the Mineral Products Association on 1 November 2013. Martyn has a BSc in Mathematics.



Alan Coppin - Senior Independent Non-Executive Director, Chairman of the Remuneration Committee (1,2,3)

Term of Office: Appointed to the Board in May 2010, and last re-elected in May 2013.

Independent: Yes

Skills and experience: Alan Coppin has extensive cross-sector governance and management experience. He is Trustee and Chairman of the Campaign Board for the RAF Museums, and Crown Representative in the Cabinet Office (Efficiency and Reform Group). He is also a Patron of the Windsor Leadership Trust and a Director of The Coffee Mob, associated with the charity Centrepoint. His previous roles include chairmanship of the Prince's Foundation for the Built Environment and Non-Executive directorships at Berkeley Homes plc, Capital and Regional plc and Carillion plc.



Mark Edwards - Non-Executive Director, Chairman of the Audit Committee
(1,2,3)

Term of Office: Appointed to the Board in May 2010, and last re-elected in May 2013.

Independent: Yes

Skills and experience: Mark Edwards is a Chartered Accountant with a strong financial background and wide UK and international experience, especially in the manufacturing sector. He is Chief Executive of the AIM Aviation group of companies, and was formerly Chief Executive of the Baxi Group. He has also served as Vice President of the Construction Products Association.



Tim Pile - Non-Executive Director (1,2,3)

Term of Office: Appointed to the Board in October 2010 and last re-elected in May 2013.

Independent: Yes

Skills and experience: Tim Pile is the Executive Chairman of Cogent Elliott, the leading independent marketing agency, and was formerly Chief Executive Officer of Sainsbury's Bank. He has held a number of senior roles in the financial services and marketing industries and has wide business experience. Tim is a Non-Executive Director of The Royal Orthopaedic Hospital, and President of the Greater Birmingham Chambers of

Commerce. He is also a Director of the Library of Birmingham and a Governor of Bromsgrove School. Previous Non-Executive Director roles include Cancer Research UK.



David Sarti - Chief Operating Officer

Term of Office: Appointed to the Board in November 2004. Last re-elected in May 2013.

Independent: No

Skills and experience: Joined the Group in March 2001 as Group Operations Director having previously been a business strategy consultant with Accenture. He is a Chartered Director. He is also a Non-Executive Director of a private group of companies in the distribution and retail sector, and serves on the Board of the British Pre-Cast Concrete Federation Limited.

Graham Holden – Chief Executive (until 10 October 2013)

Term of Office: Appointed to the Board in 1992. Last re-elected in May 2013. Served as Chief Executive until 10 October 2013, when he retired from the Board.

Independent: No

Skills and experience: Graham Holden joined the Group in 1986. He is a Chartered Accountant and graduate of the Harvard Advanced Management Programme. Having served as a Non-Executive Director of KCOM Group Plc since 2007, he will become its Chairman in April 2014. He served as the Prince's Ambassador to the Yorkshire and Humber region between 2009 and 2012, and only recently stepped down from the Chairmanship of the Yorkshire and Humber Regional Advisory Board of Business in the Community. He is a Visiting Fellow in the School of Management at Cranfield University.



Cathy Baxandall - Group Company Secretary

Skills and experience: Joined Marshalls as Group Company Secretary and Group Counsel in 2008. A graduate of Oxford University, she completed her legal training in the City and was a partner in a national law firm before moving in-house. Previous roles include Company Secretary and Head of Legal at Silentnight Group, Group Counsel, Company Secretary and Head of HR at Thistle Hotels plc and Group Company Secretary at Jacuzzi (UK). She is a charity Trustee and Board member of Ilkley Literature Festival, the Open College of the Arts and Yorkshire Youth & Music.

Key: (1) – Member of the Audit Committee (2) – Member of the Remuneration Committee (3) – Member of the Nomination Committee

Corporate Governance Statement

Chairman's introduction

Marshalls is committed to business integrity, high ethical values and professionalism in all its activities. The Board is accountable to shareholders for good corporate governance, and seeks to promote consistently high standards of governance throughout the Group which are recognised and understood by all.

Good governance involves good and effective leadership, robust systems and processes that are regularly tested, and a good understanding of risk and risk appetite. The Board seeks to add value through constructive dialogue and challenge, engagement with shareholders and other stakeholders, and with a strong focus on the strategic agenda.

This 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 2012 (the "Code") which the Board fully supports. This statement explains how the Board has applied the principles of the Code, and supplements the information in the Strategic Report on pages 14 to 47.

Andrew Allner
Chairman

Compliance with the Code

Throughout the year ended 31 December 2013 the Company has complied with the relevant provisions of the Code in all material respects.

The paragraphs below, together with the Reports of the Audit and Remuneration Committees on pages 63 to 94, describe how the provisions of the Code are applied within the Company.

Board Leadership and Effectiveness

Code Provision A.1: The Role of the Board

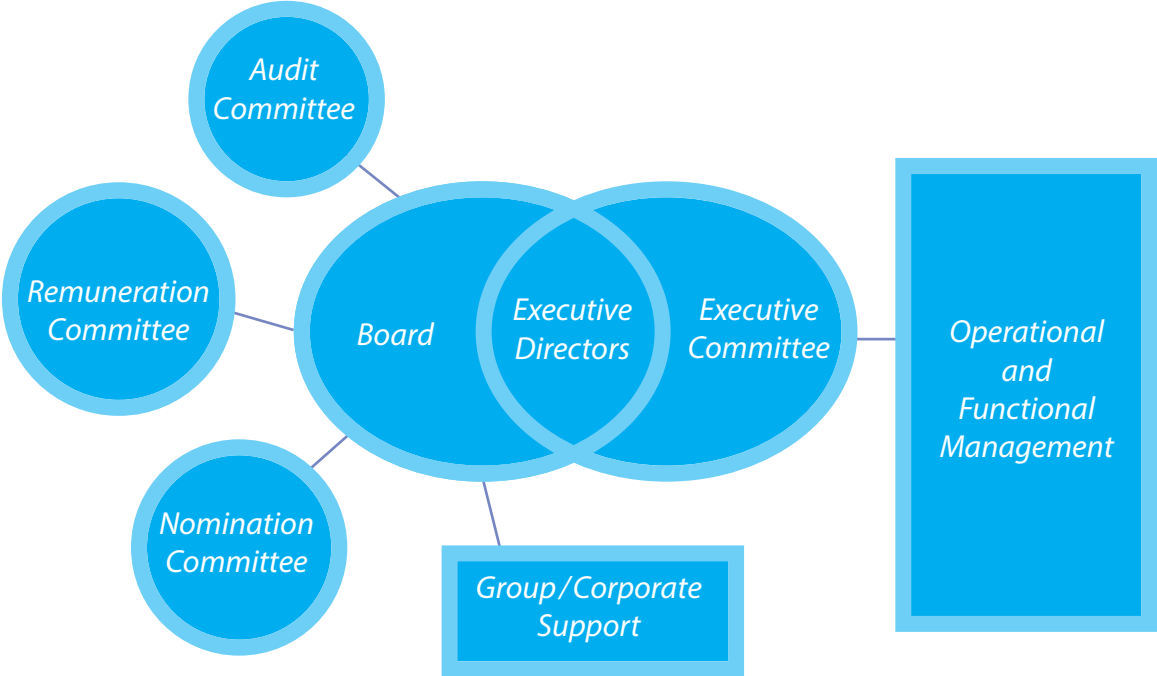
The Board comprises an independent Non-Executive Chairman, 3 Executive Directors and 3 Non-Executive Directors who are equally responsible for the proper stewardship and leadership of the Company. Their biographical details are on pages 48 to 49.

There is a written Schedule of Matters Reserved for the Board, which is reviewed annually. The Board has delegated specific responsibilities to the Audit, Remuneration and Nomination Committees. Other Board Committees are established periodically for particular purposes. For example, during the year, Board Committees were established to approve dividend payments and Preliminary and Half-yearly announcements, and in connection with the appointment of the new Chief Executive.

The Board reviews at each regular Board Meeting the monthly financial results of the Group with reference to 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 on contingency plans. The Board regularly reviews and discusses medium and long-term strategy. Meetings with members of senior management are included within the Board programme to update the Board on business and strategic issues.

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. The Directors and senior management are tasked with the delivery of targets approved by the Board and for the implementation of Group strategy and policy across the Group. Management teams report to members of the Executive Committee. This committee currently consists of

7 senior managers, including the 3 Executive Directors, and the Board receives regular updates from this 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 those relating to strategy and risk management. The interaction between these bodies is illustrated below.



The regular Board and Committee meetings held during 2013 are shown below, with attendance. Additional meetings were held during the year for specific purposes, including strategy planning, succession planning, regulatory matters and training. Non-Executive Directors also made site visits.

	Board (7 meetings)	Audit Committee (4 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (1 meeting)
Andrew Allner (Non-executive)	7	4	4	1
Ian Burrell	7	N/A	N/A	N/A
Martyn Coffey	2	N/A	N/A	N/A
Alan Coppin (Non-executive)	7	4	4	1
Mark Edwards (Non-executive)	7	4	4	1
Graham Holden	6	N/A	N/A	N/A
Tim Pile (Non-executive)	7	4	4	1
David Sarti	7	N/A	N/A	N/A

Graham Holden attended all scheduled meetings up to the date of his retirement from the Board, and Martyn Coffey attended the 2 scheduled meetings following his appointment in September 2013. The Chief Executive and Finance Director are also 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 as appropriate. The Company Secretary is also Secretary to the Board Committees and attends meetings for this purpose.

In 2014 there are 7 Board, 4 Audit Committee, 4 Remuneration Committee and 1 Nomination Committee meetings scheduled, and Board members are expected to participate in additional strategy meetings and site visits.

The Company maintains Directors' and Officers' Liability insurance cover to cover legal proceedings against its Directors and Officers acting in that capacity.

Conflicts of Interest

The Board has powers to authorise and 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 on the part of any Director. These are recorded in a Conflicts Register. Currently, the only situations authorised are the holding by Directors of directorships or similar offices with companies or organisations not connected with the Company, and the Board has not, in relation to any of those situations, identified any actual conflict of interest. The Nomination Committee reviews the Conflicts Register at least annually and has delegated authority to make recommendations to the Board on any situation notified to it in future.

Code provision A.2: Division of Responsibilities

Code provisions A.3, A.4: Chairman and Non-Executive Directors

The positions of Chairman and Chief Executive are held by separate individuals with a clear division of responsibilities: each role has written Terms of Reference. The Chairman leads the Board and sets its agenda, ensuring that all Directors, particularly the Non-Executive Directors, are able to make an effective contribution. He ensures that there is 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.

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 set out in Code Provision B.1.1. At least once a year the Chairman holds a meeting with the Non-Executive Directors without the Executive Directors being present.

Alan Coppin is the Senior Independent Non-Executive Director. He is available to shareholders if they have concerns which are not resolved through the normal channels of contact. He is also available as a sounding board for the Chairman and an intermediary for other Non-Executive Directors. The Non-Executive Directors 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 is 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.

Code Provisions B.1, B.2: Board Composition and Appointments to the Board

The Board considers it is of sufficient size and has an appropriate balance of skills and experience to meet the needs of the business, and the Non-Executive Directors are all independent in character and judgement.

The Board appreciates that Board diversity is likely to enhance its performance and this is a key factor when seeking candidates for future Board appointments.

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 Directors to stand for re-election at each Annual General Meeting. Martyn Coffey joined the Board when he joined the Company in September 2013 as Chief Executive-designate, and Graham Holden retired from the Board in October 2013.

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. Its Terms of Reference are available on the Company's website at www.marshalls.co.uk, and further details of the proceedings of the Nomination Committee are set out on pages 56 and 57 of this report.

Code Provision B.3: Commitment

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 identified on pages 48 and 49. The process for recording and managing conflicts of interest is explained under "Conflicts of Interest" above.

Code Provisions B.4, B.5: Board Development, and Information and Support

The Chairman, supported by the Chief Executive and the Company Secretary, ensures that new Directors receive full, formal, and tailored induction on joining the Board. The induction process for Martyn Coffey included a detailed handover programme with Graham Holden, one-on-one sessions with Non-Executive Directors and key management, briefings with external advisers and shareholders, and a programme of site visits. All Directors receive training as part of the annual Board programme of work, and are also expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies. During 2013 the Board received training relating to Health and Safety, and the Disclosure and Transparency Rules, and were given presentations in relation to particular areas of the business. Training needs are identified through the Board evaluation process or through individual reviews between the Directors and the Chairman. Non-Executive Directors would be available to meet major shareholders if a meeting were requested.

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. 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 a matter 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.

Code Provision B.6: Evaluation

The Company carries out a full evaluation of Board performance and that of its 3 principal Committees annually. The Board considered whether to use an external facilitator for the 2013 evaluation, but concluded that the evaluation process using internal resource, led by the Company Secretary, continues to be a very effective and robust process in which all Directors participate with a genuine desire to enhance overall Board

performance. This has demonstrably helped to improve Board effectiveness since its inception. The 2013 evaluation was conducted using a detailed questionnaire and one-to-one confidential discussions between each of the Directors and the Company Secretary, referencing current external guidance on Board effectiveness published by the FRC and the ABI. This 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 reviewed by the Chairman and the Company Secretary, and discussed by the Board. The key themes emerging from this evaluation have been applied in developing specific Board objectives for 2014, including updating the format of Board reporting, measures to develop diversity and succession planning and increasing opportunities for Non-Executives to contribute expertise to specific business initiatives. The evaluation also validated the results of the action plan for 2013 developed after the 2012 evaluation, which were believed to have improved the effectiveness of the Board. The Board believes this internally-managed process contains sufficient objectivity to deliver real value, but will consider whether an externally assessed evaluation would be appropriate at the next review.

Code Principle B.7: Re-election of Directors

All Directors submit themselves annually for election at the Annual General Meeting. Martyn Coffey, having been appointed as a Director since the 2013 Annual General Meeting, will stand for election at the 2014 Annual General Meeting, and the remaining Board members, having last been elected at the 2013 Annual General Meeting, will retire and stand for re-election at the 2014 Annual General Meeting, with the exception of Graham Holden who retired from the Board in October 2013. The process for appointment and evaluation of the Directors are described under the Nomination Committee Report on pages 56 and 57. The current terms of appointment of Directors are set out on pages 74 and 75, and their biographical details are shown on pages 48 and 49.

Accountability and Audit

Code Provision C.1: Financial and Business Reporting

In the opinion of the Directors the Annual and Half-yearly 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 performance, business model and strategy. The respective responsibilities of the Directors' and the Auditors in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report on pages 57 and 58, and 95 to 97 respectively.

Code Provision C.2: 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. Such a system is 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 misstatement or loss.

Code Provision C.3: Audit Committee and Auditors

The Audit Committee Report, which forms part of the Directors' Report, provides details of how the Board applies the Code in relation to membership, Audit Committee Terms of Reference, Audit Committee proceedings, financial reporting, risk management and internal controls. The Report is on pages 91 to 94.

Directors' Remuneration

Code Provisions D.1, D.2: Level and make-up of Remuneration, and procedure for developing policy and fixing executive remuneration packages.

The Board has delegated to its Remuneration Committee responsibility for ensuring compliance with the Code's requirements on remuneration. The Remuneration Policy and details of Executive Directors' remuneration are set out in the Remuneration Committee Report on pages 63 to 90. The Terms of Reference of the Remuneration Committee were reviewed during the year and are available on the Company's website at www.marshalls.co.uk.

Relations with shareholders

Code Provision E.1: Dialogue with Shareholders

The Board places great emphasis on maintaining good communications with shareholders. The Chief Executive and Finance Director meet regularly with major shareholders to discuss the Group's performance, strategic issues and shareholder investment objectives, and also periodically arranges site visits for investors. During 2013, 83 such meetings were held, at which at least 47 institutional shareholders were represented. Reports of these meetings and any shareholder communications during the year are provided to the Board. 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, and held a number of such meetings during 2013. 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. There is a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors.

The Annual and Half-yearly Reports, together with the Marshalls website, are substantial means of communication with all shareholders during the year.

Code Provision E.2: Constructive Use of the 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. As in previous years, the Company intends to put all resolutions to an electronic poll at its 2014 Annual General Meeting. All Directors normally attend the meeting, including the Chairmen 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 will 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.

Nomination Committee

The Board has an established Nomination Committee whose members are the Non-Executive Directors. The Chairman of the Board normally chairs this Committee except where it is dealing with his own re-appointment or replacement.

The role of the Nomination Committee includes:

- Board succession planning, including reviewing the size, composition, balance of skills and experience, and 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 relating to 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 Nomination Committee's Terms of Reference are available on the Company's website (www.marshalls.co.uk). These were reviewed by the Board in December 2013, and the performance of the Committee was evaluated as part of the Board evaluation process in 2013.

The main activity of the Nomination Committee during 2013 was in connection with the recruitment of a Chief Executive to succeed Graham Holden following his decision to retire in 2014 after 27 years with the Group and a decade as Chief Executive. The Committee appointed an external search consultant, Lygon, to seek suitable candidates and develop a shortlist, and the Committee then went through a detailed and intensive assessment, resulting in the appointment of Martyn Coffey, who joined the Group in September 2013. Martyn Coffey's experience, qualifications and background are described on page 48. The Committee was pleased that the timing of the appointment and Graham Holden's retirement has allowed a smooth and well-managed handover programme.

The Board is supportive of the principles in the Davies Report, and has committed to the objective of greater Board diversity. Although a process was commenced in 2012 to recruit a female Non-Executive Director, the cost reduction initiatives and operational changes within the business during 2012 and 2013, driven by the wider economic climate, persuaded the Committee that it would not be the right time to make such an appointment. The Committee expects to return to the objective in 2014 and will work with external consultants to actively seek female candidates in the context of future Board succession plans.

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 current terms of appointment of the Directors are shown on pages 74 and 75. All Directors will stand for re-election at the Company's Annual General Meeting in May 2014. Each Non-Executive Director has been provided with a detailed description of his role and responsibilities, and received a detailed business induction. The other appointments held by the Non-Executive Directors have been declared to the Company in accordance with the rules on conflicts adopted by the Board, and none is regarded as likely to give rise to any conflict with the Board.

The Nomination Committee evaluates the performance of any Director who is retiring by rotation and seeking re-election. In order for a re-election proposal to proceed, the Committee should be able to conclude that the Director continues to be effective and demonstrates commitment to the role, following which the Nomination

Committee makes its recommendation to the Board. In the circular to shareholders accompanying the resolution to re-elect, there is an explanation from the Chairman as to why the Director should be re-elected and confirming that a formal performance evaluation has taken place. The Committee also carries out a performance evaluation in the event of a proposal to re-appoint a Director on expiry of their current appointment.

It is the Company's policy that Executive Directors can only hold one external 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 pages 48 and 49.

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 ("EU") and applicable law, and they have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 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.

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 each of which complies 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.

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on pages 48 and 49 confirm that, to the best of each of their knowledge:

- the Group Financial Statements in this Annual Report, which have been prepared in accordance with International Financial Reporting Standards ("IFRS's") as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole;
- the Parent Company's Financial Statements in this Annual Report, which have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom GAAP) and applicable law give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company; and
- 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.

Disclosure of Information to Auditors

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 Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Going Concern

The Directors have adopted the going concern basis in preparing these Financial Statements in accordance with "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009.

Cautionary Statement and Directors' Liability

This Annual Report 2013 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 Birkby Grange at 11.00 am on Wednesday 14 May 2014 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

26 March 2014



Stoke Hall Sandstone, Hotel Missoni, Edinburgh

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 (which incorporates the Management Report). Marshalls plc is registered with company number 5100353.

The **Directors** of the Company are listed on pages 48 and 49.

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 (2012: nil).

Risk Management: The Group's risk management objectives and its approach to managing risk generally are described in the Strategic Report on pages 28 to 31.

CO₂ Emissions: Statistics relating to the Group's CO₂ (greenhouse gas) emissions in 2013 are included in the Strategic Report on pages 34 and 35.

Employees: The Company's policies in relation to disabled employees and employee involvement and communication are explained in the Strategic Report on pages 36 and 37.

Corporate Governance: Details of how the Group complies with the UK Corporate Governance Code are set out on pages 50 to 59.

Post-Balance Sheet Events of importance since 31 December 2013: Details of any important Group events and developments since the financial year end 31 December 2013 are included in the Strategic Report on pages 14 to 47.

Research and Development: Activity and likely future developments for the business are described in the Strategic Report on pages 14 to 47.

Dividends

The Board is recommending a final dividend of 3.50 pence (2012: 3.50 pence) per share which, together with the interim dividend of 1.75 pence (2012: 1.75 pence) per share, makes a combined dividend of 5.25 pence (2012: 5.25 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 4 July 2014 to shareholders registered at the close of business on 6 June 2014. The ex-dividend date will be 4 June 2014

The dividend paid in the year to 31 December 2013 and disclosed in the Consolidated Income Statement is 5.25 pence (2012: 5.25 pence) per share being the previous year's final dividend of 3.50 pence (2012: 3.50 pence) per share and the interim dividend of 1.75 pence (2012: 1.75 pence) per share in respect of the year ended 31 December 2012 and paid on 5 July 2013 and 6 December 2013 respectively.

Share Capital and Authority to Purchase Shares

The Company's share capital at 1 January 2014 was 199,378,755 Ordinary Shares of 25 pence. There has been no change between 31 December 2013 and 26 March 2014. Details of the share capital are set out in Note 22 on pages 140 to 141.

The Company held 2,425,000 Treasury Shares on 31 December 2013. On 26 March 2014, 2,425,000 Treasury Shares were transferred for the purposes of employee share scheme awards, with 985,905 being transferred to participants and the balance of 1,439,095 being transferred to the Marshalls plc Employee Benefit Trust (the

"EBT") for the purposes of satisfying future awards that may vest under employee share schemes. Save as set out below, 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).

The EBT holds shares in the Company on trust for employees (Investment Shares) and also purchases shares from time to time to satisfy awards granted to Directors and Senior Executives subject to the achievement of performance targets under the LTIP. At 31 December 2013 the EBT held 1,091,269 Ordinary Shares in the Company (2012: 1,446,563 shares) of which 188,105 represented Investment Shares beneficially owned by LTIP participants, with the balance held in respect of future Matching and Performance Share Awards. The decrease in holding between 31 December 2012 and 31 December 2013 was due to transfers of Investment Shares to individuals upon the lapse of corresponding Matching Shares under the LTIP in March 2013. On 26 March 2014 the EBT acquired a total of 2,425,000 Treasury Shares from the Company and participants in the LTIP for the purpose of satisfying LTIP awards vesting in March 2014 and future employee share scheme awards. Details of outstanding awards under the LTIP are set out in Note 20 on pages 137 and 138. 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. Employees purchase Ordinary Shares in the Company with 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 2013 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 2013 and 26 March 2014 under this authority, which will expire at the Annual General Meeting in May 2014. 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.

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

The Company has granted indemnities to each of its Directors in respect of their performance of their duties as a Director of any member of the Marshalls group of companies. In addition, the Company has granted indemnities to Martyn Coffey, Graham Holden and David Sarti in respect of their participation in and/or membership of the governing bodies of certain third party trade representative organisations on behalf of the Company, and to Ian Burrell in relation to his participation as a director of MPS Pension Trustees Limited, the Trustee of the Marshalls plc Pension Scheme. The indemnities are limited to what is permitted by law and the Company's Articles of Association and copies are available for inspection at the Registered Office of the Company. There were no other such indemnities in force during the year, and no payments were made under the indemnities.

Directors' Interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share-based payment awards are contained in the Remuneration Committee Report on pages 63 to 90.

Substantial Shareholdings

As at 26 March 2014, the Company had been notified, in accordance with Rule 5 of the Disclosure and Transparency Rules, of the following disclosable interests of 3 per cent or more in its voting rights.

	As at 26 March 2014	As at 31 December 2013
	%	%
Majedie Asset Management	9.36	9.60
Aviva Investors	8.88	9.02
Standard Life	6.81	5.76
Schroder Investment Management	4.79	4.70
M&G Investment Management	3.94	3.64
L&G Investment Management	3.45	3.41

Remuneration Committee Report

Chairman's Annual Statement

Dear Shareholder

I am pleased to report to you on the Remuneration Committee's activities and priorities during 2013. We have this year prepared our report in accordance with the new reporting regulations that took effect on 1 October 2013. Accordingly, this Report is divided into three sections:

- This Chairman's Annual Statement;
- Our Remuneration Policy; and
- Our Annual Remuneration Report, explaining how our remuneration policy has been implemented during 2013.



Alan Coppin

The first and third sections will be subject to an advisory vote of shareholders, while the Remuneration Policy will be subject to shareholder approval at the Company's Annual General Meeting on 14 May 2014.

Our remuneration policy aims to encourage behaviours that will ensure the sustainability and long term health of the business and avoid inappropriate risk-taking, while recognising and rewarding the creation of shareholder value. Remuneration targets are designed to support the delivery of our key strategic objectives which are set out in the Strategic Report on pages 14 to 47. Our remuneration packages also need to be appropriate to attract, motivate and retain talent, both at Executive Director level and throughout the business.

During the year, Graham Holden announced his intention to retire as Chief Executive. Martyn Coffey joined the Board as his designated successor in September 2013, and became Chief Executive when Graham Holden stepped down on 10 October 2013. Upon appointment, the Committee made an exceptional award to Martyn Coffey under the current 2005 Long Term Incentive Plan (the "LTIP"). No other introductory payment was made, and there was no buy-out of incentives from a previous employer. Details of Martyn Coffey's remuneration package and LTIP award are in the Annual Remuneration Report.

The second half of 2013 also saw a long-awaited improvement in economic conditions after a slow start to the year. Marshalls' market-leading position, which remained strong during the downturn, has meant that we are well placed to benefit from this improvement. Notable achievements during 2013 were the successful disposal of certain aggregate quarries, the growth of our International sales, and our innovation programme extending the continued success of our range of high value concrete and stone paving, sustainable urban drainage and street furniture products. The outcome has been an enhancement of EPS (up from 5.52p to 6.94p) and a considerable improvement in Net Debt (reduced from £63.5m to £35.6m). This pleasing performance means that, for the first time since its introduction in 2005, a modest proportion of those awards made 3 years ago under the LTIP will vest, and there will also be an award under the annual Performance Incentive Plan (the "PIP") to reflect achievement of a proportion of the 2013 annual targets. Further details are in the Annual Remuneration Report.

Main activities and future changes

The members of the Committee are identified on pages 48 and 49. During 2013 the Committee met 4 times, with the Chief Executive and the Company Secretary in attendance where appropriate. There were additional meetings with external remuneration consultants PwC during the year, and PwC attended some Committee meetings. The Committee's main activities are summarised below:

Meeting Matters discussed

- | | |
|--------|--|
| 4.2.13 | Review of Remuneration Policy, update on regulatory changes to remuneration reporting. Confirmation of Executive Directors' 2013 packages including salary, benefits and pension. Review annual bonus and long term incentive policy and plans. Confirm measurement of |
|--------|--|

- outstanding awards against targets for 2012. Approve detailed targets for 2013. Review of NED fees, Board expenses policy and Board expenses paid.
- 27.2.13 Approval (subject to results announcement) of total annual payments under performance related incentive schemes for 2012. Approval of individual PIP and LTIP awards for 2013. Review of 2012 Remuneration Committee Report.
- 6.6.13 Review proposed terms of appointment and remuneration package for new CEO.
21. 8.13 Approve and ratify new CEO package, set target for exceptional introductory LTIP award and approve. Review “good leaver” provisions under the LTIP and ratify award for departing director. Update on progress against 2013 incentive targets. Approve framework for external benchmarking review and advice on replacement or renewal of incentive plans by independent external advisers.
- 4.11.13 Review of external advisers’ recommendations on remuneration framework, including benchmarking report (Executive Directors and Non-Executive Directors). Report on pay and benefit conditions elsewhere in the business. Review and determine salary and benefit proposals for Executive Directors in 2014. Review of Chairman’s fee. Progress report on 2013 PIP and LTIP targets. Consider appropriateness of remuneration policy and of design of incentive schemes: review new incentive plan design proposals. Review of termination obligations arising under ED service contracts.
- 13.12.13 Approval (subject to shareholder consultation) of detailed proposals for 2014 MIP. Review detailed proposals for Executive Directors’ packages in 2014 and setting of incentive targets for 2014. Board review of Non-Executive Directors’ fees (other than Chairman’s). Board expenses policy review. Review terms of reference and Committee performance.

2014 Proposals

Incentive Schemes

The current Long Term Incentive Plan (“LTIP”) was introduced in 2005 and will expire in 2015. Since its introduction, the only awards that have vested (apart from a small number of “good leaver” awards to participants below Board level) are awards granted in 2011 that will vest proportionately following the 2013 results (see the Annual Remuneration Report). The LTIP in its current form is not supporting our objective to provide stretching but achievable performance-related incentives: accordingly, we are seeking shareholder approval for a new Marshalls plc Management Incentive Plan (the “MIP”) at our 2014 Annual General Meeting. This plan will replace both the current PIP (the annual / deferred bonus plan) and the LTIP. The MIP (Element B) envisages awards of restricted shares on achievement of performance targets set annually but which only vest after 3 years if the participant remains a Group employee and 50 per cent of which is subject to a 3 year EPS performance underpin. Once vested, the shares are subject to a further 2 year restriction on disposal. The Committee believes this element of the MIP, incorporating a longer term shareholding requirement for participants, will deliver more effective alignment with the interests of our shareholders than the LTIP while also allowing us to strengthen our available mechanisms for retention and motivation of key individuals. As the MIP awards are made after the relevant year-end, the first awards would not be made until 2015, so to avoid a year’s gap between incentive schemes, a final award under the LTIP will be made in March 2014.

The PIP, introduced in 2011 to replace annual bonus and Matching Share awards, has worked well to deliver its stated objectives of retention and flexibility. The final award under the current PIP relates to the 2013 financial year, with 50 per cent of participants’ accrued account value due to be paid in 2014 and the other 50 per cent in 2015. The principles on which the PIP operates are understood by participants, and meet good governance guidelines. We have included in the proposed new MIP an Element A which operates on broadly similar terms to the current PIP.

In designing the MIP, we have taken advice from PwC and have also engaged in a detailed consultation with our top 14 investors, representing approximately 60 per cent of issued share capital. This process led us to make amendments to our original proposals, following which I am pleased to confirm that we have a good level of shareholder support for the new plan. Full details of the MIP are set out in the Notice of Annual General Meeting issued with this Annual Report.

The MIP, if approved, will result in the first awards under Element B being granted in March 2015, with potential vesting not before March 2018. We have consequently decided to make a final award of performance shares under the 2005 LTIP in 2014 but have tailored the conditions to fit more closely with our current business plans and strategy objectives. Details of the 2014 LTIP performance conditions are explained in the Remuneration Policy and awards made to Executive Directors are shown in the Annual Remuneration Report.

Remuneration Policy

In our 2012 Remuneration Report, we sought to follow the new regulations as far as possible in explaining our policy on remuneration for our Executive Directors and senior managers. The principles of the policy were applied in the context of Martyn Coffey's appointment, and Graham Holden's retirement as a "good leaver". At our 2013 Annual General Meeting, the shareholder vote on our 2012 Remuneration Report was 99 per cent in favour.

It should be noted that the only material change to the policy to be approved at the 2014 Annual General Meeting is the introduction of the MIP, subject to shareholder approval, which it is intended will replace both the current PIP and LTIP.

Summary of decisions in respect of the changes to the Remuneration Policy and its operation in 2014

Element	Decision	Rationale
Salary	3.5% increase.	Reflects 3.5% inflation award for the workforce as a whole in 2014. No increase for retiring directors. Agreed first review of salary for new CEO in 2015.
Benefits	No change.	The current range and level of benefits is considered to be appropriate.
Pension	No change for existing Directors. Maximum of 20% of salary for new recruits.	The Company contribution is in line with market and sector benchmarks. (All Executive Directors currently take entitlement in the form of a pensions allowance).
Bonus Plan Marshalls plc Performance Incentive Plan (the "PIP")	2011 plan ends in 2013. Proposed to be replaced by Element A of the proposed MIP which operates on the same basis as the PIP. Maximum award as percentage of salary will be 150% under Element A of the proposed MIP (reduced from 250%).	Current PIP has achieved retention and incentive objectives. The PIP design allows flexibility in setting targets based on current operational and strategic KPIs. The PIP concept is understood by participants and has gained acceptance among investors generally. Performance conditions are closely aligned with strategy and remain appropriate (see Policy Report).

Element	Decision	Rationale
		The maximum award under the PIP is 250% of salary although in practice the Committee set the maximum for 2012 and 2013 awards at 200%. The maximum under Element A of the MIP which replaces the PIP has been reduced further to 150% of salary.
Long Term Incentive Plan Marshalls plc 2005 LTIP	No further new awards after 2014. To be replaced with Element B of the MIP. The key features of Element B are: <ul style="list-style-type: none"> - maximum award 100% of salary on date of grant; - annual targets set by reference to strategic objectives; - awards in form of contingent shares that vest on third anniversary subject to continued employment; - 50% of shares earned are subject to an EPS underpin; - shares must be held for minimum of 5 years from grant date; and - usual "good" and "bad" leaver, malus and clawback provisions in accordance with Remuneration Policy. 	Current LTIP expires in 2015. Majority of awards under LTIP have not vested, which has significantly reduced the effectiveness of the LTIP to retain and incentivise participants. Not sufficiently flexible to adapt to changing strategy. Will be used for final awards in 2014 incorporating performance targets that remain stretching but are more closely aligned with strategic growth objectives. Element B of the MIP will better align rewards with shareholder interests. Flexible to adapt to changing strategy. Increases the proportion of variable pay that is deferred into long term shareholding, in line with preferred minimum holding period of investor organisations. Simple to explain and administer.
Overall maximum under all incentive schemes reduces from 350% of salary in 2013 to 250% of salary in 2014 subject to MIP being approved by shareholders.		

How have we performed against our performance objectives in 2013?

KPIs	Targets (Min/Max)	Actual	% of max achieved
LTIP EPS Growth	RPI + 9% over 3 years = 12.5% vests RPI + 21% = 50% vests	2011-2013 RPI + 91.8 %	100%
Operating Cash Flow	RPI + 9% over 3 years = 12.5% vests RPI + 21% = 50% vests	2011-2013 RPI - 25.9 %	0%
PIP EPS	5.17p to 9.04p	EPS of 6.94p	45.7%
Cash	Net Debt in range £41.8m to £46.8m	Net Debt £35.6m	100 %
Customer Service	95%	98%	No deduction
Health & Safety	10% reduction in lost time accidents year on year	14.8% reduction	

The Principles of our Remuneration Policy

Competitive
Median salaries plus above-median incentives provide opportunity for highly competitive total reward for superior performance.

Performance linked
A significant part of executive reward is determined by the Company's success.
Failure to achieve threshold levels of performance results in no payout under short or long term incentives.

Shareholder aligned
A considerable part of the reward is related to share price performance and is paid in shares that have to be retained for the longer term until minimum shareholding requirements have been met.

Simple and transparent
All aspects of the remuneration structure are clear to employees and openly communicated. This supports our aim of engendering fairness and teamwork across the organisation.

I hope you find this report helpful and informative. We hope to receive your continued support of this Remuneration Report, the Remuneration Policy and our incentive plan proposals at the Company's Annual General Meeting on 14 May 2014.

Alan Coppin
Chairman of the Remuneration Committee

Remuneration Policy

This Report covers the reporting period from 1 January 2013 to 31 December 2013 and provides details of the remuneration policy for the Company. It has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. Shareholders will be asked to vote on this Policy at the Company's Annual General Meeting on 14 May 2014. This Policy is intended to apply for the 3 years beginning on the date of approval at the 2014 Annual General Meeting.

Remuneration Committee 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 Comparator Groups used in 2013 were:

- FTSE listed companies of comparable market capitalisation (40 companies); and
- companies in the Construction Sector (9 companies).

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 the median of the comparator group, with the opportunity to achieve upper quartile remuneration from a combination of stretching but achievable short and long term incentives.

The terms of reference for the Committee 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 annual and long term variable performance related incentive plans, 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.

This Policy is intended to apply for 3 years beginning on the date of approval at the 2014 Annual General Meeting.

Policy

Element	Purpose and how it supports the strategy	Operation	Opportunity/Maximum	Performance measures and period
Base salary	<p>Base salary recognises the market value of the Executive's role, skill, responsibilities, performance and experience.</p> <p>Fixed costs are minimised and above-median level of total remuneration is only provided where the performance elements of the package are earned.</p>	<p>An Executive Director's basic salary is considered by the Committee on their appointment and reviewed annually or when an individual changes position or responsibility. In reviewing base salary, the Committee considers remuneration practices within the Group as a whole and, where relevant, objective research on companies within the Company's peer groups. The Company when conducting a review also looks at the constituents of the comparator group to ensure they remain appropriate.</p>	<p>The Remuneration Committee policy in relation to salary is:</p> <ul style="list-style-type: none"> • up to the median salary on appointment depending on the experience and background of the new Executive Director; • on promotion, up to the median salary for the new role; • otherwise pay increases will not exceed the higher of inflation and/or pay rises generally for Group employees. 	None.

Element	Purpose and how it supports the strategy	Operation	Opportunity/Maximum	Performance measures and period
		<p>Other factors taken into account include:</p> <ul style="list-style-type: none"> the individual performance and experience of the Executive Director; the general performance of the Company; and the economic environment. <p>Salary is paid in 12 equal monthly instalments during the year.</p>	<ul style="list-style-type: none"> 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 average until the target positioning is achieved. the salaries of the Executive Directors are set out on page 87 in the Statement of Implementation of Remuneration Policy in the following Financial Year (2014). 	
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.	<p>Benefits for Executive Directors are a fully expensed company car, private medical insurance (including spouse and dependent children up to age 24), and death in service insurance.</p> <p>Martyn Coffey is entitled to claim travel and accommodation expenses until the third anniversary of his appointment. The cost of providing these benefits is borne by the Company.</p> <p>The Company may also carry permanent health insurance cover in respect of up to 100% of an Executive Director's salary. Although not a benefit to Executive Directors, this insurance offers some comfort to Executive Directors in the event of long term ill-health.</p>	<p>Package consistent with standard practice and in line with Comparator Group.</p> <p>The cost of the benefits set out is the maximum value available.</p> <p>The total amount claimed by Martyn Coffey over the three year period may not exceed £100,000 (net of tax).</p>	None.
Pension/ Pension Allowance	To enable Executive Directors to make appropriate provision for retirement.	<p>Executive Directors are entitled to membership of the defined contribution section of the Marshalls plc Pension Scheme. The Company contributes at an agreed percentage of basic salary.</p> <p>Executive Directors may take a pensions allowance in place of the Company's contribution to the Scheme.</p> <p>Pension allowances are excluded for the purposes of calculating any other element of remuneration based on a percentage of salary.</p>	The maximum Company contribution or pension allowance is 30% of salary.	None.
The Marshalls Incentive Plan ("MIP") Element A (replacing the current PIP)	<p>To link variable pay to achievement of annual financial and business objectives.</p> <p>EPS, Net Debt and Export sales performance targets clearly linked to strategy.</p> <p>Deferral of 50% of the balance into share-linked units provides shareholder alignment and enhances retention as payment is subject to confirmed alignment.</p>	<p>Annual target set by reference to strategic and operational objectives by Remuneration Committee. If conditions met, 50% of earned award paid as cash. 50% deferred as shares into individual plan account.</p> <p>50% of accrued plan account balance paid out annually for 3 years, provided forfeiture threshold exceeded each year, with the final balance paid at the end of the fourth year.</p> <p>Awards subject to continued employment at end of the period.</p> <p>The forfeiture thresholds if not achieved result in the loss of up to 50% of unpaid awards.</p>	Maximum Company Annual Contribution of 150% of salary for Executive Directors.	<p>EPS, Net Debt and Export sales performance targets. Details are set out in the Statement of Implementation of Remuneration Policy for 2014 and the AGM Notice. The Committee has the discretion to change the weighting of the targets on an annual basis.</p> <p>It is the view of the Committee that the targets for the MIP are commercially sensitive as they relate to specific profitability, debt limits and volume growth levels in the Company for the financial year to come and therefore their disclosure in</p>

Element	Purpose and how it supports the strategy	Operation	Opportunity/Maximum	Performance measures and period
		There are also malus and clawback provisions in the event of material misstatement or fraud or an error in the calculation of the performance conditions.		<p>advance is not in the interests of the Company or shareholders. The Committee will provide full retrospective disclosure to enable shareholders to judge the level of award provided against the targets set.</p> <p>The Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures 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. Discretion may also be exercised in cases where the Committee believe that the bonus outcome is not a fair and accurate reflection of business performance.</p>
MIP Element B (replacing the current LTIP)	<p>To link variable pay to achievement of annual financial and business objectives.</p> <p>EPS, Net Debt and Export sales performance targets clearly linked to strategy.</p> <p>To promote long term shareholding in the Company and strengthen alignment between interests of Executive Directors and senior managers and those of shareholders.</p>	<p>Annual target set by reference to strategic and operational objectives by Remuneration Committee.</p> <p>Awards are made annually in shares.</p> <p>Awards are subject to continued employment for 3 years.</p> <p>Awards, once vested, may not be sold for a further 2 years.</p> <p>Participants build up a shareholding over 5 years.</p> <p>There is a financial underpin which, if not achieved over 3 years results in the loss of up to 50% of unvested awards.</p> <p>There are also malus and clawback provisions in the event of material misstatement or fraud or an error in the calculation of the performance conditions.</p>	Maximum Company Annual Contribution of 100% of salary for Executive Directors.	<p>The targets for Element B are the same as for Element A set out above.</p> <p>In addition, there is a risk of forfeiture of 50% of this element of the award if a minimum performance target based on EPS is not achieved over the 3 years between award and vesting.</p> <p>The Committee retains the same discretion for Element B as for Element A set out above.</p>
Shareholding Requirement	In order to ensure a long-term alignment between the Executive Directors and shareholders the Company operates a minimum shareholding requirement for Executive Directors.	<p>The Executive Director is required to retain 50% of the net number of shares earned under the Company's incentive arrangements until the shareholding requirement is satisfied.</p> <p>A new Executive Director may build up the minimum requirement within the first 5 years from the year of joining. Failure to meet the shareholding requirement within 5 years of appointment will result in a reduction in the future levels of award under the Company's incentive plans.</p>	The minimum shareholding requirement for the CEO is 200% of salary, and the minimum for other Executive Directors is 100% of salary. The Committee has discretion to increase the level if it deems appropriate.	

Element	Purpose and how it supports the strategy	Operation	Opportunity/Maximum	Performance measures and period
Marshalls plc Share Purchase Plan ("SPP")	All employee share purchase plan maximising the number of employee shareholders within the Company.	The SPP is a HM Revenue & Customs approved Employee Share Incentive Plan which allows all employees with more than 6 months service, including Executive Directors, to participate.	Participants may purchase shares from pre-tax salary. The Committee has the flexibility in line with the limits provided under the Plan to provide matching shares and free shares. The limits for awards under this Plan are the limits set by HMRC under the relevant legislation.	None. The tax efficiency is linked to continued employment with the Company for specified holding periods (a minimum of 3 years).
Non-Executive Directors' 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. Additional fee paid to the Senior Independent Director and for Chairmanship of a Board Committee.	Terms of engagement provided in formal letters of appointment. Remuneration is determined by the Board within the limits set by the Articles of Association and based on equivalent roles in the same comparator groups as are used for Executive Directors. The Chairman's fee is set by the Committee. Fees are reviewed annually, and periodically benchmarked against comparator groups. Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans, and are not eligible to join the Company's pension scheme. Non-Executive Directors receive a fixed travel and accommodation allowance in connection with the performance of their duties.	The Company's policy in relation to fees is: <ul style="list-style-type: none"> • up to median level fees on appointment depending on the experience and background of the new Non-Executive Director; • increases during a term of office will not normally exceed the lower of inflation or the general rise for employees; and • fees may be adjusted to recognise significant change in responsibility levels (for example if the Company's ranking as a constituent of the FTSE All Share Index changes). 	None.

Funding of Share Plans

The Company would normally expect to meet its obligations to satisfy awards under share incentive plans from shares purchased in the market by the Marshalls Employee Benefit Trust ("EBT") or held in treasury, although it also has the right to fulfil LTIP awards through the issue of new shares, subject to the limits below. The Company monitors the levels of share grants likely to vest and the impact of these on the ongoing requirement for shares.

In accordance with the guidelines set out by the ABI, the Company can issue a maximum of 10 per cent of its issued share capital in a rolling 10 year period to employees under all its share plans and a maximum of 5 per cent within this 10 per cent for discretionary share plans. The Company will remain within these limits for the new MIP.

The following table summarises the current level of theoretical dilution resulting from existing Company share plans. The Company would not expect to issue more than 7.5 per cent of the issued share capital for cash within any rolling 3 year period without prior consultation with shareholders. The use of treasury shares would count towards the dilution limit.

Type of Plan	Share Awards as a percentage of Issued Share Capital as at 31 December 2013 in a Rolling Ten Year Period	Share Awards as a percentage of Issued Share Capital as at 31 December 2013 granted during the Year
All Employee Share Plans (10% Limit)	2.56%	-
Discretionary Share Plans (5% Limit)	1.95%	0.87%

As at 31 December 2013 the EBT held 1,091,269 ordinary shares in Marshalls plc which were acquired in the open market. The EBT is funded to purchase shares through cash drawn down under the terms of a Loan Facility Agreement established at the time of the creation of the EBT. During 2013 the EBT did not acquire any shares.

Provisions of the previous Policy that will continue to apply

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

The PIP is a 4 year plan introduced in 2011 under which the final contribution will be made in respect of the 2013 results. 50 per cent of the resulting balance on PIP plan accounts will vest after the 2013 results are announced, while the remaining balance is deferred and would be expected to vest in 2015 after announcement of the 2014 results subject to continued employment.

The 2005 LTIP expires in 2015 and it is the intention to make no further awards under this incentive scheme following approval of the MIP. The Committee has approved a final grant of performance shares under the 2005 LTIP in March 2014, and has set EPS and OCF growth targets that are closely related to the medium term plans of the Group. If targets are met, 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 -						
“PIP” annual/deferred bonus plan	<p>In accordance with the Group's previous remuneration policy, 50% of PIP plan account balances from the 2011-2013 PIP will be paid in March 2014 with the balance being paid in March 2015 provided the participant remains employed. The PIP balance is expressed as shares and dividends paid during the relevant year are added at the end of the relevant financial year before plan account balances are calculated.</p> <p>The only entitlements remaining under the PIP are the payment of deferred earned balances held as shares in individual plan accounts, which are subject to continued employment (see the Annual Remuneration Report for the details of the 2013 performance targets and their satisfaction).</p>					
LTIP awards made in 2012 and 2013						
2005 Long Term Incentive Plan (“LTIP”)	Details of outstanding grants			Operation Annual grant of nil-cost options linked to performance conditions measured over a 3 year period.	Performance measures and period	
	Name	2012 Performance Shares	2013 Performance Shares		Performance conditions measured over 3 financial years. Performance measures and relative weightings are: • 50% EPS; and • 50% Operating Cash Flow (“OCF”)	
	Graham Holden	397,022	296,269		Vesting of 50% of the Award subject to EPS performance conditions:	
	Ian Burrell	228,288	185,803		Performance (EPS Growth)	% of Award Vesting*
	David Sarti	228,288	185,803		RPI + 9% RPI + 21%	12.5% 50%
				Vesting of 50% of the Award subject to OCF Growth:		
				Performance (OCF Growth)	% of Award Vesting*	
				RPI + 9% RPI + 21%	12.5% 50%	
				*Straight line vesting between points.		
				Definitions and Calculations		
				EPS is measured using International Financial Reporting Standards (“IFRSs”) based on the audited results of the Company 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.		

LTIP awards made in 2012 and 2013 (continued)											
	Introductory award to Martyn Coffey 100% of salary at date of grant = 243,412 Performance Shares	Martyn Coffey is required to retain 50% of the net number of shares earned under the Company's incentive arrangements until he has achieved a shareholding equal to 200% of base salary.	The introductory award for Martyn Coffey in 2013 used a share price target instead of the EPS and OCF growth targets. The performance condition is that the Company's average share price in the month following announcement of the Company's 2015 full year results must be within a range of £2 (50% vesting) and £2.50 (100% vesting), with straight line vesting between these points. Based on the average price of the Company's shares in the month of offer (June 2013) of 134.1 pence and in the month of award (September 2013) of 173.7 pence, this target was considered both stretching and aligned with the interests of shareholders.								
LTIP awards made in 2014											
2005 Long Term Incentive Plan ("LTIP")	Grants Performance Shares equal to 100% of salary for Executive Directors	Operation Annual grant of nil-cost options linked to performance conditions measured over a 3 year period.	Performance measures and 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:								
			<table border="0"> <tr> <td>Performance (EPS Growth)</td> <td>% of Award Vesting*</td> </tr> <tr> <td>75%</td> <td>0%</td> </tr> <tr> <td>100%</td> <td>50%</td> </tr> <tr> <td>125%</td> <td>100%</td> </tr> </table>	Performance (EPS Growth)	% of Award Vesting*	75%	0%	100%	50%	125%	100%
			Performance (EPS Growth)	% of Award Vesting*							
75%	0%										
100%	50%										
125%	100%										
Vesting of 25% of the Award subject to OCF Growth:											
			<table border="0"> <tr> <td>Performance (Annual OCF Growth)</td> <td>% of Award Vesting*</td> </tr> <tr> <td>5 %</td> <td>0%</td> </tr> <tr> <td>10 %</td> <td>50%</td> </tr> <tr> <td>15 %</td> <td>100%</td> </tr> </table> <p>*Straight line vesting between points.</p> <p>Definitions and Calculations</p> <p>EPS is measured using International Financial Reporting Standards ("IFRS") based on the audited results of the Company and subject to the discretion of the Committee with regard to one-off items.</p> <p>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.</p>	Performance (Annual OCF Growth)	% of Award Vesting*	5 %	0%	10 %	50%	15 %	100%
Performance (Annual OCF Growth)	% of Award Vesting*										
5 %	0%										
10 %	50%										
15 %	100%										

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. 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. Senior management participate in the PIP and the 2005 LTIP and are expected to participate in the MIP. The criteria for performance related pay under the PIP 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. Under the 2005 LTIP, the criteria for awards are the same as those applicable to awards made to Executive Directors, and the performance period is the same. It is expected that the senior management will be invited to participate in the MIP using the same performance criteria as Executive Directors.

Basic salaries for senior management, having been frozen at 2012 levels throughout 2013, increased by 3.5 per cent with effect from 1 January 2014, assuming there was no change in role or responsibilities. In the case of a promotion, a change of responsibilities or where necessary to attract a new recruit for a particular position, the increase may be higher.

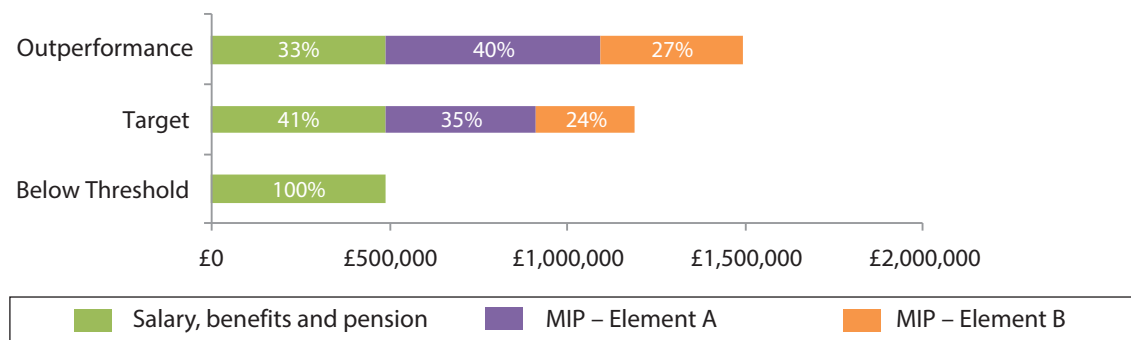
The basic pay of the general workforce is subject to a 3 year agreement, under which there was no increase for 2013 (after increases in 2011 and 2012). There will be a 3.5 per cent increase with effect from 1 January 2014, and a further annual increase in 2015 by the Retail Price Index (RPI) + 0.5 per cent, based on the average of the RPI figures for September, October and November 2014 and subject to a maximum increase of 4 per cent and a minimum increase of 2.9 per cent.

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 the Company's periodic "Pulse" surveys, the results of which are regularly and openly communicated to the Board. The Company did not use any remuneration comparison measurements.

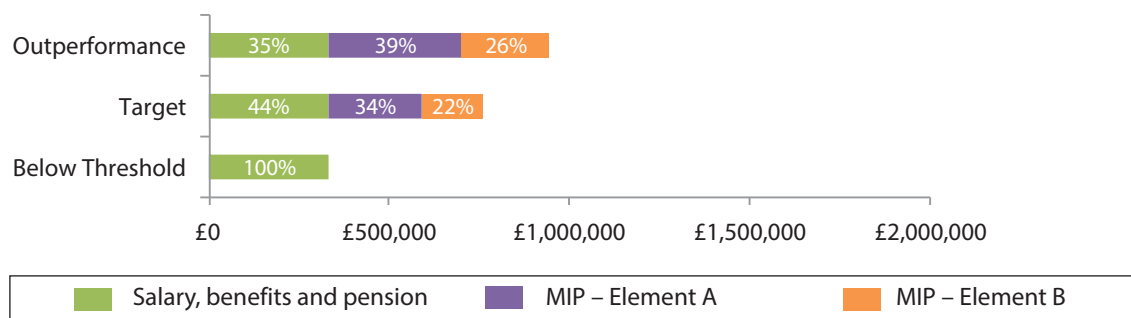
Total Remuneration Opportunity

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

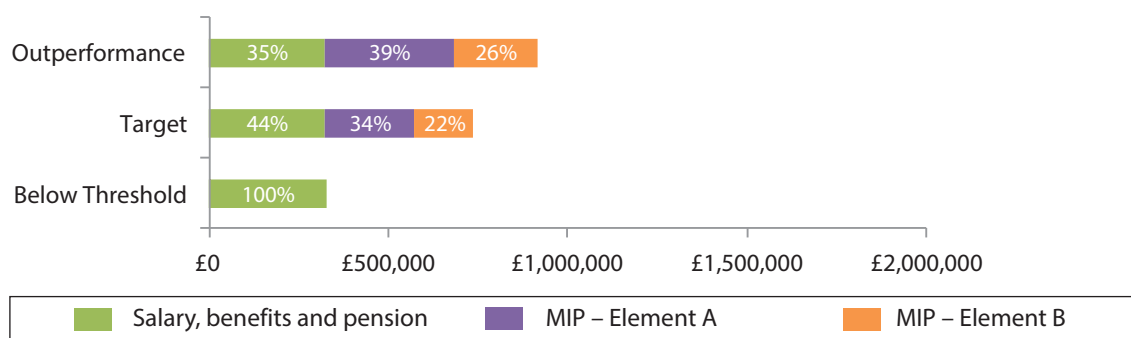
Chief Executive (Martyn Coffey)



Group Finance Director (Ian Burrell)



Chief Operating Officer (David Sarti)



Notes:

- (a) The base salary, benefits and pension information is taken from the Single Figure Remuneration table in the 2013 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.

Recruitment Policy

The following table sets out the Company's policy on recruitment of new Executive Directors for each element of the remuneration package:

Remuneration element	Policy on Recruitment
Base Salary	The Remuneration Committee will offer salaries that reflect the role and responsibility of the individual, using external benchmarks as a point of reference for comparative roles in line with its policy for existing Executive Directors, and would wherever possible aim to recruit at a salary lower than the previous salary for the same role (except where the previous salary was below median). In exceptional circumstances the Committee may offer salaries in excess of the median for the right candidate with an appropriate business case and in such cases will provide a full explanation to shareholders.
Benefits	The Remuneration Committee will offer the Company's standard benefit package as described in the Remuneration Policy. This may include relocation / travel and accommodation allowance where required to attract the right candidate.
Pension	The maximum contribution on recruitment will be 20% of salary. Current contribution levels were set for Executives who had been participating in the Company's defined benefit plan, so were historically higher.
MIP	The maximum award value will be set in line with the Company's policy for existing Executive Directors.
Maximum Level of Variable Remuneration	The maximum level of annual variable remuneration which may be earned by an Executive Director under the Company's incentive plan is 250 % of salary.
"Buy Outs"	<p>The Committee's policy is not to provide buy outs as a matter of course.</p> <p>However, should the Committee determine that the individual circumstances of recruitment justified the provision of a buyout, the value of any incentives that will be forfeited on cessation of a Director's previous employment will be calculated taking into account the following:</p> <ul style="list-style-type: none"> • the proportion of the performance period completed on the date of the 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"). <p>The Committee may then grant up to the equivalent value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buy out within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.</p>
Internal Recruit	An internal recruit will be permitted to keep any deferred payments or awards granted which the Company made or committed to before his or her appointment to the Board.

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

Each of the Executive Directors 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.

	Executive Directors				Non-Executive Directors			
Term	Ian Burrell	Martyn Coffey	Graham Holden	David Sarti	Andrew Allner	Alan Coppin	Mark Edwards	Tim Pile
Date of Contract/ Appointment	June 2001	September 2013	August 1992	November 2004	July 2003 (renewed in July 2013)	May 2010 (renewed in July 2013)	May 2010 (renewed in July 2013)	October 2010 (renewed in July 2013)
Notice Period in Months								
Company Director	12 (6)	12 (6)	12 (6)	12 (6)	6 (6)	6 (6)	6 (6)	6 (6)

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.

If a contract is to be terminated the Committee will determine such mitigation as it considers fair and reasonable in each case, taking into account (i) the best practice provisions of the UK Corporate Governance Code and published guidance from recognised institutional investor bodies; and (ii) legal advice. The Committee periodically considers what compensation commitments the Executive Directors' contracts would entail in the event of early termination. Where possible, the Company will seek to pay compensation in monthly instalments after termination. 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 a Director's office or employment.

Remuneration Element	Treatment on Exit	Committee Discretion
General	When determining any loss of office payment for a departing individual the Committee will always seek to minimise the cost to the Company whilst seeking to reflect the circumstances at the time.	The Committee retains discretion to make loss of office payments appropriate to the circumstances and applying the overriding principle that there should be no element of reward for failure.
Base Salary	Salary will be paid over the notice period. The Company has discretion to make a lump sum payment on termination of the salary payable during the notice period. In all cases the Company will seek to mitigate any payments due.	The Committee has discretion to make a lump sum payment.
Benefits	Benefits will normally be provided over the notice period. The Company has discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period. In all cases the Company will seek to mitigate any payments due.	The Committee has discretion to make a lump sum payment.
Pension / Salary Supplement	Company pension contributions / salary supplement will normally be provided over the notice period. The Company has discretion to make a lump sum payment on termination equal to the value of the Company pension contributions/salary supplement during the notice period. In all cases the Company will seek to mitigate any payments due.	The Committee has discretion to make a lump sum payment.

Remuneration Element	Treatment on Exit	Committee Discretion
<p>Variable / Performance-related remuneration provided under the MIP</p>	<p>Assuming approval in 2014, the Company will operate one incentive plan for the Executive Directors of the Company, the MIP. The treatment of awards on cessation of employment is governed by the rules of the MIP approved by shareholders.</p> <p>The rules of the MIP provide that on termination of employment before the performance measurement date or prior to the relevant vesting date, no award will be granted in respect of the year of cessation and any subsisting entitlements will lapse; unless the following circumstances apply:</p> <ul style="list-style-type: none"> • injury or disability; • redundancy within the meaning of the Employment Rights Act 1996 or equivalent legislation; • retirement by agreement with the Company by which they are employed; • the Executive being employed by a Company which ceases to be a Group Member; • the Executive being employed in an undertaking or part of an undertaking which is transferred to a person who is not a Group Member; or • any other circumstances if the Committee decides in any particular case to treat the Executive Director as a "good leaver". <p>If an Executive Director leaves in one of the above circumstances the rules provide for the following:</p> <p>Element A of the MIP</p> <p>The Committee will calculate the amount of any payment pro-rated to the amount of the plan year completed on the Executive's date of cessation and taking into account the level of satisfaction of the performance targets at the next performance measurement date. Any payment is made as soon as practicable after the determination of the level of satisfaction of the performance targets.</p> <p>Deferred balances will be paid as the performance conditions were satisfied at the date of grant.</p> <p>Element B of the MIP</p> <p>In respect of the year of cessation the Committee will calculate any award pro-rated to the amount of the plan year completed on the Executive's date of cessation and taking into account the level of satisfaction of the performance targets at the next performance measurement date. Any award will be made as soon as practicable after the determination of the level of satisfaction of the performance targets and will remain subject to the sale restrictions.</p> <p>Shares subject to subsisting awards at the date of cessation of employment shall vest on the date of cessation or the next measurement date as determined by the Committee pro-rated to the amount of the relevant vesting period completed and subject to the proportionate satisfaction of the financial underpin on such date provided that the shares shall remain subject to the relevant sale restrictions.</p> <p>It should be noted that the performance targets for subsisting awards were satisfied at the date of grant.</p>	<p>The Committee has discretion to determine that the reason for termination falls within the circumstances listed in the adjacent column.</p> <p>The Committee will only use its general discretion to determine that an Executive Director is a "good leaver" in exceptional circumstances and will provide a full explanation to shareholders, if possible in advance, of the basis for its determination.</p>

Commitments made to Directors retiring in 2014 (Graham Holden, who retires in April 2014, and David Sarti, who retires on 31 December 2014) will be honoured in accordance with the Company's remuneration policy in force during 2013. Although the Committee does not anticipate any payments for loss of office, it is expected that entitlements to incentives earned in respect of the period up to retirement in each case will be treated under the "good leaver" rules of the PIP and LTIP respectively.

Change of Control

The Committee has the following discretion under the rules of the MIP on a change of control:

Treatment on Change of Control	Committee Discretion
<p>Element A of the MIP</p> <p>The Committee will calculate the amount of any payment pro-rated to the amount of the plan year completed on the change of control and taking into account the level of satisfaction of underlying performance targets at the date of the change of control. Any payment shall be made as soon as practicable after the determination of the level of satisfaction of the performance targets.</p> <p>Element B of the MIP</p> <p>In respect of the year of the change of control the Committee will calculate any award pro-rated to the amount of the plan year completed on the change of control and taking into account the level of satisfaction of the performance targets at the date of the change of control. Any award shall be made as soon as practicable after the determination of the level of satisfaction of the performance targets and shall not be subject to the sale restrictions.</p> <p>Shares subject to subsisting awards shall vest on the date of the change of control and the sale restrictions shall be removed. It should be noted that the performance targets for subsisting awards were satisfied at the date of grant.</p>	<p>The Committee has a discretion whether to pro-rate any element to time. It is the Committee's policy in normal circumstances to pro-rate to time; however, in exceptional circumstances where the nature of the transaction produces exceptional value to shareholders and provided the performance targets are met the Committee will consider whether pro-rating is equitable.</p> <p>The Committee has the same discretion in relation to Element B as set out above for Element A and will operate it in the same manner.</p> <p>The Committee would provide a full explanation to shareholders of the basis on which their discretion is exercised in such circumstances.</p>

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 consulted its top 14 shareholders in relation to the proposal to introduce the 2014 MIP which is expected to replace the PIP and the 2005 LTIP, and took into account views expressed during the consultation when agreeing the final MIP design. The MIP will be the subject of a shareholder vote at the Company's 2014 Annual General Meeting and no awards under the MIP will be made prior to its approval at that meeting. The majority of the shareholders consulted have, as at the date of this report, expressed support for the proposals.

Annual Remuneration Report

This report covers the reporting period from 1 January 2013 to 31 December 2013.

Single Total Figure of Remuneration (Audited)

Executive Directors

	Salary		Other Benefits		PIP Bonus	
	2013	2012	2013	2012	2013	2012
	£'000	£'000	£'000	£'000	£'000	£'000
Ian Burrell	237	237	13	12	151	98
Martyn Coffey	125	-	16	-	79	-
Graham Holden	319	412	10	12	262	170
David Sarti	237	237	16	16	151	98
TOTAL	918	886	55	40	643	366
	<i>Notes (a) and (b)</i>		<i>Note (c)</i>		<i>Note (d)</i>	

Notes to Directors' Single Figure Remuneration Table

- (a) The table above shows salaries, performance related bonuses and benefits paid by reference to the year ended 31 December 2013. There was no increase in Executive Directors' salaries between 2012 and 2013.
- (b) Graham Holden retired from the Board on 10 October 2013. The table includes his remuneration for the period between 1 January and 10 October 2013. Martyn Coffey joined the Group and was appointed to the Board on 9 September 2013. The table includes his remuneration for the period between 9 September and 31 December 2013.
- (c) Benefits are car / car allowance, fuel / fuel allowance, private medical insurance, life insurance and in the case of Martyn Coffey a travel expense allowance of a maximum of £100,000 net of tax over a three year period.
- (d) In line with the Regulations the annual bonus column headed "PIP Bonus" shows 50 per cent of the total bonus contribution made to the PIP in respect of 2013 performance. The remaining 50 per cent in respect of 2013 is deferred into shares in the PIP account and must be held for a further holding period. This deferred balance is subject to performance based forfeiture and will be disclosed in the LTIP column when this risk is removed. The 2012 column has been re-stated on the same basis. Note (f) explains the different treatment of Graham Holden's entitlements due to his being a "good leaver".
- (e) The LTIP column shows the aggregate value of:
- Sums released from PIP account balances from earlier years that are no longer subject to deferral and forfeiture risk; and
 - 2011 Matching and Performance Share awards under the LTIP that have vested by reference to the 2011-2013 vesting period.
- No LTIP awards vested in 2012. The value shown for 2012 represents the released PIP balance for that year that was deferred in 2011.
- (f) Graham Holden's entitlement to LTIP breaks down as follows:
- PIP account balance that would be released from earlier years in the normal course (see Note (e) (i));
 - The estimated value of the deferred balance of the PIP account which is expected to vest early on 11 April 2014 under the "good leaver" rules;
 - The estimated value of 2011 Matching and Performance Share awards under the LTIP that vest in the normal course following the 2013 results; and
 - The estimated value of 2012 and 2013 LTIP awards, which are expected to vest on a pro-rata basis on 11 April 2014, under the "good leaver" rules.

LTIP		Pension contribution/ allowance		TOTAL	
2013	2012	2013	2012	2013	2012
£'000	£'000	£'000	£'000	£'000	£'000
662	127	71	71	1,134	545
-	-	23	-	243	-
2,213	221	96	123	2,900	938
662	127	71	71	1,137	549
3,537	475	261	265	5,414	2,032

Notes (e),
(f) and (g)

The following table summarises these entitlements:

LTIP Element	Value (Actual or Estimated in Accordance with the Regulations)
Balance of PIP Account	£1,051,352 (601,013 shares x 174.93 pence)
2011 Matching Award (estimated value under Regulations)	£478,379 (273,469 shares x 174.93 pence)
2011 Performance Share Award (estimated value under Regulations)	£309,829 (177,116 shares x 174.93 pence)
2012 LTIP Performance Share Award (estimated value under Regulations)	£263,609 (150,694 shares x 174.93 pence)
2013 LTIP Performance Share Award (estimated value under Regulations)	£110,279 (63,042 shares x 174.93 pence)

(g) All deferred shares or notional shares in the LTIP column have been valued in accordance with the new reporting regulations as the number of shares / notional shares x the average share price over the last quarter of 2013.

PIP: Annual Performance Awards (Audited)

The following table summarises the Plan Accounts for the Executive Directors under the PIP:

Plan Accounts	Martyn Coffey	Ian Burrell	David Sarti	Graham Holden
2013 Opening Balance (shares)	Nil	230,912	230,912	498,179
Value of Opening Balance as at 31 December 2012	Nil	£225,140	£225,140	£485,725
2013 Contribution (Note a)	£158,618	£301,542	£301,542	£524,422
(% of salary earned)	127.3%	127.3%	127.3%	127.3%
Dividends	-	£12,123	£12,123	£26,154
Impact of 2013 share price increase	-	£181,844	£181,844	£392,317
Value at Measurement Date (Note b)	£158,618	£720,649	£720,649	£1,428,618
2013 Element released (Note c)	£79,309	£360,324	£360,324	£1,428,618
Closing Balance (deferred into shares)	£79,309	£360,325	£360,325	Nil
Number of shares represented by closing balance (Note d)	44,997	204,439	204,439	Nil

(a) The 2013 performance conditions and their level of satisfaction are set out below. Martyn Coffey's entitlement to 2013 PIP relates to the period between 9 September 2013 and 31 December 2013 calculated on a pro-rata basis. Graham Holden's entitlement relates to the full year.

(b) This value is calculated by multiplying the opening balance of notional shares deferred in the bonus pool by the closing share price of 176.25 pence on 31 December 2013 (2012: 97.5 pence), adding the value of dividends paid on the equivalent number of ordinary shares during 2013 and adding the 2013 contribution.

(c) Graham Holden is entitled to receive the balance of his PIP account in shares on his retirement, including amounts that would otherwise have been deferred until 2015. Graham Holden has voluntarily waived £107,120, representing 20 per cent of base salary (as reported in 2012). This amount has been deducted from the value of his PIP account at the measurement date, resulting in a balance of 749,786 shares to be released on his retirement. (£1,428,618 - £107,120 = £1,321,498).

(d) This value is calculated using the closing share price on 31 December 2013 of 176.25 pence.

2013 PIP Performance Conditions and their level of satisfaction

Criteria	Percentage of Maximum Contribution based on Criteria	Forfeiture Threshold	Minimum Target	Maximum Target	2013 Actual	Percentage of Target achieved	Percentage of salary earned
EPS	67%	4.05p	5.17p	9.04p	6.94p	45.7%	61.3%
Cash	33%	N/A	£46.8m	£41.8m	£35.6m	100%	66.0%
Non-financial targets	15% deduction if not met					100%	No deduction

EPS

The Group's EPS from continuing operations improved from 5.52 pence in 2012 to 6.94 pence in 2013 and profit before tax on continuing operations grew from £9.3 million to £13.0 million.

Cash

The Net Debt at 31 December 2013 of £35.6 million was better than the lower (better) end of the target range set by the Committee at the beginning of 2013.

The Committee has discretion to adjust for the impact of one-off disposals and unbudgeted changes to corporation tax rates, exceptional items and associated cash costs in assessing whether targets are met. In 2013, adjustments were made to neutralise the effect of the disposal of aggregates quarries. To the extent that any such adjustments caused the published EPS to differ from the adjusted EPS, the Committee would require both to be below the forfeiture threshold before any PIP balances would be partially forfeited.

Additional Performance Conditions

The Group exceeded its minimum target of 95 per cent customer service on average throughout the year. The Group also saw a reduction of 14.8 per cent year on year in days lost to accidents against its target of 10.0 per cent. Therefore no negative adjustment was made to the 2013 contribution earned in the PIP.

Dividends

Dividends paid to ordinary shareholders during 2013 (5.25 pence per share) were credited to the deferred bonus pool.

2005 LTIP

A proportion of Matching and Performance Awards granted in 2011 have vested following the announcement of the 2013 annual results. Vesting of these awards was dependent on performance over the 3 financial years ending 31 December 2011, 2012 and 2013 and on continued employment until the vesting date.

Performance Measures

Performance Shares	Percentage of Award Vesting*	Actual	Percentage of 2011 Awards Vesting
EPS Growth of RPI +9%	12.5%	EPS changed from 3.43p to 6.94p being RPI + 91.8%	100% of EPS target
EPS Growth of RPI +21%	50%		
Operating Cash Flow Growth of RPI +9%	12.5%	OCF changed from £105.0m to £88.9m being RPI - 25.9%	0% of OCF target
Operating Cash Flow Growth of RPI +21%	50%		
Matching Shares	Percentage of Award Vesting*	Actual	Percentage of Awards Vesting
EPS Growth of RPI +9%	25%	EPS changed from 3.43p to 6.94p being RPI + 91.8%	100% of target
EPS Growth of RPI +21%	100%		

* Straight line vesting between points.

Definitions and Calculations

Performance Shares take the form of nil-cost options. Matching Shares are the right to receive a number of shares from the Company equivalent to 2 times the value of annual bonus invested by a participant in Investment Shares, subject to achievement of the performance conditions.

EPS is measured using International Financial Reporting Standards ("IFRSs") based on the audited results of the Company and subject to the discretion of the Committee with regard to one off items. Operating Cash Flow ("OCF") growth is calculated by taking the aggregate OCF for the 3 financial years preceding the year of grant of the award and comparing it with the aggregate OCF for the 3 years following the date of grant.

2005 LTIP Awards made in 2013 (Audited)

Executive Director	Basis of Award	Face Value £'000	Number of Shares	Measurement Period	Performance Conditions
Martyn Coffey (Note a)	100% of salary	400	243,412	30 days following 2015 results announcement	Share price (See Policy)
Graham Holden (Note b)	80% of salary (voluntary reduction by Graham Holden)	378	296,269	3 years from 17 April 2013	EPS Growth OCF Growth (See Policy)
Ian Burrell	100% of salary	237	185,803	3 years from 17 April 2013	EPS Growth OCF Growth (See Policy)
David Sarti	100% of salary	237	185,803	3 years from 17 April 2013	EPS Growth OCF Growth (See Policy)

(a) Exceptional award granted on appointment.

(b) The number of Performance Shares to be awarded in 2013 under the LTIP was calculated on the normal grant date i.e. immediately following announcement of the results in March 2013, but granting of the award was delayed to allow completion of the disposal of certain aggregates quarries. The value of the number of shares awarded to Graham Holden calculated at the grant date was greater than 80% of salary because the share price had increased. No awards exceeded the maximum limit of 100 per cent of salary on the grant date.

2005 LTIP Awards: Position of Awards outstanding as at 31 December 2013

Performance Share Awards

Executive Director	Number of Performance Shares awarded		Target EPS (50%) and OCF (50%) growth	Actual 2012 Awards	Potential Level of Vesting of 2012 Awards (Note a)	Actual 2013 Awards	Potential Level of Vesting of 2013 Awards (Note b)
	2013	2012					
Graham Holden (Note d)	296,269	397,022	RPI + 9% to 21%	EPS growth = 22.8%	EPS 67%	EPS growth =25.7%	EPS 100%
Ian Burrell	185,803	228,288					
David Sarti	185,803	228,288		OCF negative	OCF 0%	OCF negative	OCF 0%
Martyn Coffey	243,412	-	Share price in range 200p to 250p	N/A	N/A	Share Price 176.25p	0%

(a) Estimate assumes RPI to be 5.8 per cent over first two years of vesting period.

(b) Estimate assumes RPI to be 2.7 per cent over first year of vesting period.

(c) All estimates are measured as at 31 December 2013.

(d) The outstanding awards held by Graham Holden will be pro-rated to his leaving date of 11 April 2014. Details of the expected vesting levels in respect of 2012 and 2013 awards are included in the notes to the Single Figure Remuneration table on pages 78 and 79.

Pension Benefits (Audited)

The Defined Benefit Section of the Marshalls plc Pension Scheme (the "Scheme") closed to new members in 2000 and closed to future service accrual in 2006. Executive Directors are eligible for membership of the Defined Contribution Section of the Scheme.

Graham Holden is in receipt of a pension under the Defined Benefit Section of the Scheme with effect from his early retirement at age 50 in December 2009 and the Company ceased making contributions into a pension scheme on his behalf after that date.

During the year, contributions to the Defined Contribution Section of the Scheme (employer contribution: 30 per cent of basic salary, minimum employee contribution: 4 per cent of basic salary) were made on behalf of David Sarti. David Sarti elected to take fixed protection under pension regulations and ceased contributions to the Scheme after August 2013. No contributions to the Scheme were made on behalf of Ian Burrell during 2013, as he elected to take fixed protection in 2012. Contributions into the Scheme on their behalf having ceased, Graham Holden, Ian Burrell and David Sarti each receive as salary supplement a pensions allowance equal to their contractual entitlement of 30 per cent of basic salary.

Martyn Coffey does not participate in the Scheme and in lieu of contributions into the Scheme receives an annual pension allowance of £75,000.

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 November 2013. The Chairman's fees are set by the Committee and the Chief Executive; other Non-Executive Director fees are set by the Board as a whole. The Non-Executive Directors also received a fixed allowance for travel and accommodation associated with attendance at Board Meetings, which is paid through payroll and shown below as a grossed up taxable amount.

	Board fee		Committee fees		Allowance		Total	
	£'000		£'000		£'000		£'000	
	2013	2012	2013	2012	2013	2012	2013	2012
Andrew Allner Chairman and Chairman of Nomination Committee	129	129	-	-	10	10	139	139
Alan Coppin Senior Independent Director, Chairman of Remuneration Committee, Member of Audit and Nomination Committees	40	40	6	6	6	6	52	52
Mark Edwards Chairman of Audit Committee, Member of Remuneration and Nomination Committees	40	40	6	6	6	6	52	52
Tim Pile Member of Audit, Remuneration and Nomination Committees	40	40	-	-	6	6	46	46
Total	249	249	12	12	28	28	289	289

Aggregate Directors' Emoluments

	2013	2012
	£'000	£'000
Salaries	918	886
Taxable benefits	55	40
PIP bonus	643	366
LTIP	3,537	475
Pensions allowances	261	265
NEDs fees and fixed allowances	289	289
Total	5,703	2,321

Note: This table includes the salary and benefits of both Graham Holden and Martyn Coffey relating to their respective periods of office as a Director during the year. It also includes 2013 bonus and all future incentive awards payable upon Graham Holden's retirement as a "good leaver". A breakdown is shown in Note (f) to the Single Figure Remuneration table on pages 78 and 79.

Payments for loss of office

Graham Holden resigned from the Board on 10 October 2013 and will remain in employment until his agreed retirement date, expected to be 11 April 2014.

The Remuneration Committee has made the following determinations in respect of the incentive awards made in connection with his role as an Executive Director:

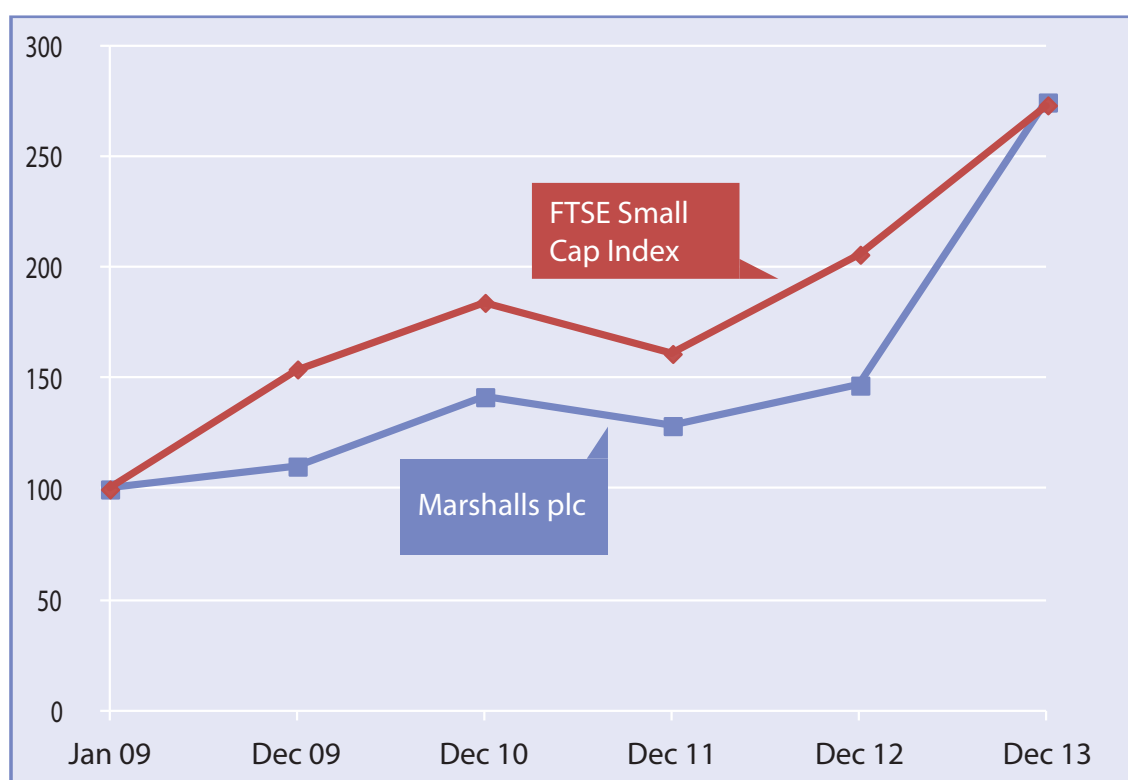
Plan	Committee Determination	Outcome
PIP	The Committee has determined that Graham Holden is a "good leaver" under the rules of the PIP.	Graham Holden will receive a PIP contribution to his Plan account in respect of the 2013 financial year, but he will not participate in any annual incentive scheme following the end of the 2013 financial year. The balance in the Plan will pay out according to the rules of the Plan on the date of his cessation of employment. The value of the balance of Graham Holden's Plan account calculated in accordance with the regulations is: Number of shares in plan account as at 31 December 2013 x average share price over the last quarter 601,013 shares x 174.93 pence (average share price last quarter of 2013) = £1,051,352.
2005 LTIP 2012 Performance Share Award	The Committee has determined that Graham Holden is a "good leaver" under the rules of the 2005 LTIP.	Awards are pro-rated for the period from the date of grant to the actual date of cessation of employment and are subject to the proportionate satisfaction of the performance conditions on the date of cessation. The maximum number of shares that could vest based on an anticipated date of cessation of employment on 11 April 2014 and the level of satisfaction of the performance conditions at 31 December 2013 is estimated at: (Number of shares granted) x Amount of vesting period completed on cessation x Performance vesting percentage 397,022 x (832/1,096) days x 50% = 150,694 shares 150,694 shares x 174.93 pence (average share price last quarter of 2013) = £263,609.
2005 LTIP 2013 Performance Share Award	The Committee has determined that Graham Holden is a "good leaver" under the rules of the 2005 LTIP.	Same treatment as for the 2012 grant. The maximum number of shares that could vest based on an anticipated date of cessation of employment on 11 April 2014 and the level of satisfaction of the performance conditions at 31 December 2013 is estimated at: (Number of shares granted) x Amount of vesting period completed on cessation x Performance vesting percentage 296,269 x (466/1,095) days x 50% = 63,042 shares 63,042 shares x 174.93 pence (average share price last quarter of 2013) = £110,279.

Graham Holden will continue to receive his current salary and benefits until the date of his cessation of employment. He will not be entitled to participate in the MIP. There will be no loss of office payments on his actual cessation of employment.

Payments to past Directors

Graham Holden resigned from the Board on 10 October 2013 and will remain in employment until 11 April 2014. The amounts shown in the Single Figure Table in this Report include his salary and benefits up to 10 October 2013 and all variable remuneration, incentive awards granted to him as an Executive Director and which will vest as a good leaver calculated in accordance with the Regulations, and benefits to which he was entitled and/or which he received in or for the full year 2013, including variable remuneration relating to the period between 10 October 2013 and 31 December 2013, as these are technically payments to a past Director under the Regulations.

Five Year Total Shareholder Return



This graph shows the Group's total shareholder return ("TSR") performance compared to the FTSE Small Cap Index for the period from 1 January 2009 to 31 December 2013. TSR is defined as share price growth plus reinvested dividends. The FTSE Small Cap Index has been used for comparison, since Marshalls plc was a constituent of the FTSE Small Cap Index throughout the period illustrated. This graph shows the value at 31 December 2013 of £100 invested in Marshalls plc on 31 December 2009 compared with the value of £100 invested in the FTSE Small Cap Index. The other plotted points are the intervening financial year ends.

CEO pay in last 5 years

This table shows the pay for the CEO role and how it has changed in the last 5 years. Graham Holden held this role from the beginning of the period in question until 10 October 2013. The table also shows separately the pay for Martyn Coffey between 10 October 2013 and 31 December 2013.

Graham Holden

Year	2009	2010	2011	2012	2013
Single figure remuneration (Note a)	711	671	752	938	2,900
% of maximum annual bonus earned	46.4%	38.6%	78.1%	33.0%	63.6%
% of maximum LTIP awards vesting	0	0	0	0	63.0%
Martyn Coffey					
Year	2009	2010	2011	2012	2013
Single figure remuneration	N/A	N/A	N/A	N/A	243
% of maximum annual bonus earned	N/A	N/A	N/A	N/A	63.6%
% of maximum LTIP awards vesting	N/A	N/A	N/A	N/A	0

Note (a): The 2013 single figure for Graham Holden is made up of (i) base salary up to 10 October 2013 of £319,000, benefits of £10,000, and pension allowance of £96,000 (ii) PIP annual bonus including deferred balance released early due to good leaver status of £1,313,000, and (iii) LTIP awards vesting, including 2012 and 2013 awards vesting early on a pro rata basis due to good leaver status, of a value of £1,162,000.

Percentage Change in CEO's Remuneration

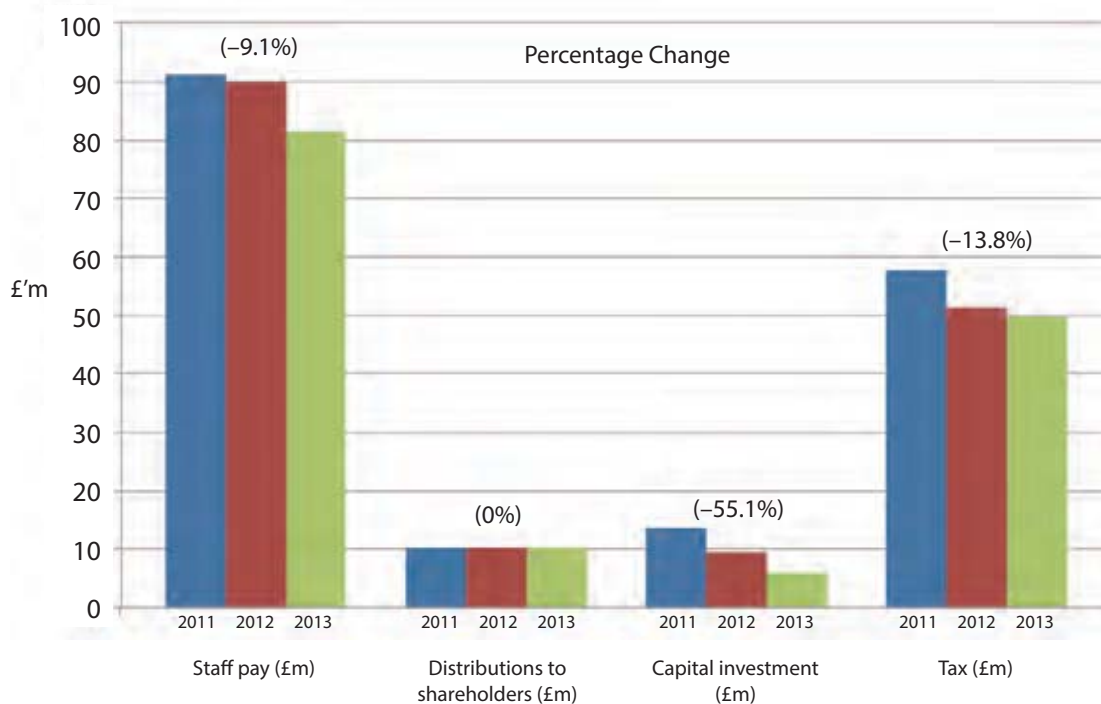
The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2012 and 2013 compares with the percentage change in the average of each of those components of pay for the UK-based employees of the Group as a whole.

	Salary	Percentage change	Taxable benefits	Percentage change	Bonus (Note b)	Percentage increase
	£'000	£'000	£'000	£'000	£'000	£'000
	2013	2012	2013	2012	2013	2012
Graham Holden	319	412	10	12	262	170
Martyn Coffey	90	-	16	-	79	-
Sub-total	409	412	26	12	341	170
		(0.7)%		116.7%		100.6%
UK total pay	65,102	67,735	2,528	2,686	1,267	861
Number of employees	2,041	2,207	454	504	272	274
Average per employee	31.9	30.7	5.6	5.3	4.7	3.1
		3.9%		5.7%		51.6%

(a) Graham Holden's base salary is shown as £412,000 for the full year in each of 2012 and 2013, so the difference relates to the shorter period served by Graham Holden as CEO between 1 January and 10 October 2013. Martyn Coffey's salary relates to the period from 10 October 2013 (when he became CEO) to 31 December 2013. The annual salary for the CEO in 2014 (£400,000) is 3 per cent below the annual salary for the previous CEO in 2013 (£412,000). Graham Holden voluntarily elected to waive an amount of deferred PIP in 2013 equal to 20 per cent of his base salary. The effect of this on overall remuneration is not shown in the above table because it has been deducted from his deferred PIP balance rather than as a reduction in base salary. The taxable benefits figure includes the initial 3 year travel allowance for Martyn Coffey.

(b) The bonus is the non-deferred contribution to the PIP account for the relevant year.

Relative Importance of Spend on Pay



The above graph illustrates the relative importance of spend on pay compared with other disbursements from profit (i.e. distributions to shareholders, investment for future growth and tax). These were the most significant outgoings for the Company in the last financial year. Spend on shareholders remained constant over the last 3 years, while the reduction in spend on pay, investment and taxation reflect the efficiency measures taken by the Company during the economic downturn.

The Directors of the Company believe that it is beneficial to show the comparison with two additional uses of the profit generated by the Company for the following reasons:

- Investment – the Company restricted investment during the economic downturn, but expects to invest strategically over the next period to take advantage of the more positive economic conditions and in order to ensure that the business grows in a sustainable manner with the 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, fuel duty and aggregates levy. As profitability increases, corporation tax will also increase.

Statement of Implementation of Remuneration Policy in the following Financial Year (2014)

Executive Directors:

Salary

The Committee approved a 3.5 per cent salary increase for Executive Directors effective from 1 January 2014, in line with inflation and increases for UK employees generally. In practice the increase applies to Ian Burrell only, as Martyn Coffey's salary was fixed on appointment until 1 January 2015, and David Sarti did not receive an increase in view of his retirement at the end of 2014.

Director	1 January 2014	1 January 2013	Percentage increase
	£'000	£'000	%
Martyn Coffey	400	N/A	N/A
Ian Burrell	245	237	3.5
David Sarti	237	237	0

Benefits and Pension

Benefits will continue during 2014 as shown in the Remuneration Policy.

All Executive Directors have elected to take their pension in the form of a pensions allowance. Martyn Coffey is entitled to a fixed allowance of £75,000 annually. Other Executive Directors are entitled to an allowance of 30 per cent of base salary.

Bonus and Incentives

MIP

An award will be made to Executive Directors under the MIP following shareholder approval. The performance conditions and weighting for the operation of awards under the MIP are:

Criteria	Percentage of Maximum Award
EPS	60%
Net Debt	30%
Export Sales	10%

Element A has a forfeiture threshold set annually at the time of grant. If this is breached, 50 per cent of the carried-over balance from previous years in Element A of the MIP account is forfeited.

Element B has a long term financial underpin based on a minimum EPS threshold set at the time of grant that must be maintained over the three years from the date of grant. If this is breached, 50 per cent of the Element B award is forfeited.

Minimum (0 per cent) and maximum (100 per cent) targets are set annually. There will be straight line vesting between the minimum and maximum targets. On-target performance delivers 70 per cent of the maximum Award.

Additional performance conditions:

- Customer Service (at or above 95 per cent); and
- Health and Safety incidence (reduction of 10 per cent).

There is a reduction of award value earned by 20 per cent if these additional conditions are not met.

The first measurement period under the MIP by reference to which these targets must be met will be the full financial year ending 31 December 2014. 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 provided against the targets set.

LTIP 2014

An award of Performance Shares equal to 100 per cent of base salary will be made to Executive Directors under the LTIP. The performance conditions for this award are set out in the Remuneration Policy on pages 67 to 77.

Historic Policy payments under the PIP

In accordance with the Group's previous remuneration policy, 50 per cent of PIP plan account balances will be paid in March 2014 with the balance being paid in March 2015 provided a participant remains employed.

Non-Executive Directors

The Board approved an increase in the fee by 3.5 per cent from 1 January 2014, in line with Executive Directors and employees. In addition, taking account of the PwC benchmarking review in November 2013, Alan Coppin's base fee was increased by £1,000 from 1 January 2014 to recognise his role as the Senior Independent Director ("SID"). There was no increase in the annual travel and expenses allowance, which will continue to be paid in accordance with the Remuneration Policy.

Director	1 January 2014	1 January 2013	Percentage increase
	£'000	£'000	%
Andrew Allner (Chairman)	134	129	3.5
Alan Coppin (SID)	48	46	5.0
Mark Edwards	47	46	3.5
Tim Pile	41	40	3.5

Total 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 shareholding requirements for Executive Directors are as follows:

Executive Director	Percentage of Salary	Timescale to achieve/achieved
Martyn Coffey	200%	Within 5 years of appointment
Graham Holden	200%	Yes
Ian Burrell	100%	Yes
David Sarti	100%	Yes

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

1. The number of shares the Director holds unconditionally to meet the requirement (where applicable);
2. The number of deferred and conditional shares held under the PIP; and
3. The number of shares subject to unvested LTIP awards.

Director	Shareholding Requirement		Unconditional Shares	LTIP/PIP that will vest unconditionally on 2013 results (Note b)	Unvested and Contingent LTIP/deferred PIP Awards Performance Shares (Note c)	Total interests in shares (including contingent interests)
	Percentage of salary	Number of required (Note a)	Number of Shares held	Number of Shares held	Number of Shares held	Number of Shares
Martyn Coffey	200	453,900	-	-	288,409	288,409
Graham Holden	200	467,518	458,036	1,200,372	693,291	2,351,699
Ian Burrell	100	139,116	160,524	259,086	618,530	1,038,140
David Sarti	100	134,411	176,579	259,086	618,530	1,054,195
Non-Executive						
Andrew Allner	-	-	35,000	-	-	35,000
Alan Coppin	-	-	10,000	-	-	10,000
Mark Edwards	-	-	49,000	-	-	49,000
Tim Pile	-	-	34,740	-	-	34,740

(a) The closing price of 176.25 pence per share on 31 December 2013 has been used to measure the number of shares required. In previous years the Company calculated the number of shares required by reference to their cost on the acquisition date.

(b) Following announcement of the 2013 Annual Results, 50 per cent of the deferred PIP balance as at 31 December 2013, 100 per cent of Matching Shares awarded in 2011 and 50 per cent of Performance Shares awarded in 2011 are expected to vest. In the case of non-retiring Executive Directors, the deferred PIP balance released is paid in cash and is not shown in this table. Graham Holden will receive his full deferred PIP balance in shares as a good leaver in 2014, and this column includes these PIP shares as well as the 2011 LTIP award that will vest on his retirement.

(c) These shares will not vest until the performance conditions have been met over the relevant measurement period. Graham Holden is expected to receive 213,736 shares out of his 2012 and 2013 LTIP entitlement as a "good leaver" on 11 April 2014 on a pro-rata basis. His remaining balance of 479,555 shares will lapse. See Remuneration Policy for an explanation of the operation of the PIP and LTIP.

(d) There were no changes between 1 January 2014 and 26 March 2014 save that Ian Burrell acquired 208 shares and David Sarti acquired 140 shares respectively in the Marshalls plc Share Purchase Plan (the "SPP"). See Remuneration Policy for a summary of the SPP.

(e) The Non-Executive Directors are not eligible to participate in the SPP, the PIP or the LTIP.

(f) None of the Directors held any options during the year other than approved options under the LTIP as listed as shown above, nor did they hold any interests in derivatives or other financial instruments relating to the Company's shares.

The table includes the interests of "connected persons" as defined under the Financial Services and Markets Act 2000.

The Committee and its advisors

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 Committee's agreed terms of reference are available on the Company's website (www.marshalls.co.uk) and on request from the Company Secretary.

The Board determines the remuneration of the Non-Executive Directors. No Director plays a part in any decision about his own remuneration. Alan Coppin, 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.

The Company's external remuneration advisers, PwC, attend 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 were appointed by the Committee following a competitive tender in 2010 and their fees are agreed by the Remuneration Committee according to the work performed. Terms of engagement are available from the Company Secretary. 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 Advisors Code of Conduct. PwC's work relating to executive remuneration during 2013 is summarised below.

Nature of work

- Review of current incentive arrangements;
- Advice on new scheme design;
- Support on shareholder consultation;
- Assistance in the preparation of the Remuneration Committee Report;
- Benchmarking of total remuneration in respect of the Company and its comparator group;
- Advice on the remuneration package in the context of the new CEO appointment; and
- Attendance at the Remuneration Committee meetings to provide advice when required.

PwC also provided advice to the Company during the year in relation to corporate tax matters. The fees paid to PwC for remuneration advice during 2013 were £80,000.

Statement of Shareholder Voting

The table below shows the May 2013 AGM voting results on Resolution 12 (approval of the Company's 2012 Remuneration Report).

	For	For as a percentage of votes cast	Against	Against as a percentage of votes cast	Withheld
Votes	144,736,331	99.59	597,472	0.41	720,069

The Committee believes the percentage of votes in favour of the Remuneration Report shows very strong shareholder support for the Group's remuneration arrangements.

Report of the Audit Committee

Chairman's Annual Statement

Dear Shareholder

I am delighted to present on behalf of the Board the Report of the Audit Committee for the year ended 31 December 2013.

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 by external audit and the internal audit function. The Committee continues to work closely with the external Auditors and the Group's Risk Committee.



Mark Edwards

The main area of focus during the year has been to consider the critical accounting judgements and the key operational and financial risks facing the Group. The Committee has reviewed the Group's Financial Statements and has provided assurance to the Board that they present a fair, balanced and understandable assessment of the Group's position and prospects.

This report explains how the Audit Committee has discharged its responsibilities during 2013, and reflects the recent changes to audit reporting under the Code. I hope you find it useful and informative.

Mark Edwards Chairman of the Audit Committee

During the year, the Audit Committee held 4 formal meetings and there were also meetings between the Audit Chairman, the Group Finance Director and the external Auditors. 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 advise the Board on whether it gives a fair, balanced and understandable explanation of the Group'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 Group's risk register;
- To review external auditor independence and audit and non-audit fees, and make recommendations regarding audit tender and the appointment and remuneration of auditors; 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 main role and responsibilities of the Audit Committee are set out in written Terms of Reference available on the Company's website at www.marshalls.co.uk. 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 members of the Committee are the independent Non-Executive Directors identified on pages 48 and 49. The Chairman of the Committee is a Chartered Accountant and the Board is satisfied he has recent and relevant financial experience as required by the Code. Other members also have relevant financial experience.

The Committee's performance was evaluated during 2013 as part of the Board evaluation process described in the Corporate Governance Report, and its terms of reference were updated to reflect the Code published in September 2012.

Highlights of 2013

When reviewing the annual and half-yearly results, the Committee exercises its judgment in relation to matters drawn to its attention by the Group Finance Director, the Internal Audit function, the Risk Committee and the Group's external Auditors. The Committee meets the external Auditors independently of management, and has 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 whether the accounts are fair, balanced and understandable.

The Committee identified the carrying value of goodwill and the recoverable value of finished goods inventory as two potential significant risks.

Carrying Value of Goodwill

Note 12 on pages 124 and 125 of the Financial Statements describes the estimation techniques used by management to assess whether there has been an impairment to the carrying value of goodwill.

The Committee considered and critically reviewed the assumptions used in management's impairment calculations. This included considering the basis for key assumptions and comparing these to previously approved budgets, industry forecast growth rates and external advice on discount rates to be applied. They considered the views of the external Auditor on this issue. This included a review of the sensitivity analysis undertaken by the external Auditor. On the basis of this review, the Committee agreed with management that no impairment to goodwill and other intangible assets was necessary.

Recoverable Value of Finished Goods Inventory

The Committee critically reviewed the carrying value of the Group's finished goods inventory, particularly with regard to 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 were presented to the Committee. This analysis was reviewed in the context of current trading and forecast for the next financial year. In addition, the external Auditors presented their findings with regard to the key audit testing over inventory valuation. The Committee concurred with management's assessment of the carrying value of Group inventories.

Other Matters

Other matters considered by the Audit Committee included the accounting treatment of the discontinued business, taxation, pensions and share-based expenses.

External Audit, Auditor Independence and Objectivity

The Audit Committee has primary responsibility for making a recommendation on the appointment, re-appointment and removal of the external Auditor to the Board. It keeps under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the Auditor. The Audit Committee has reviewed the independence and objectivity of the Auditor and considers that the appointed auditors,

KPMG Audit Plc, are independent and remain objective. KPMG Audit Plc have provided audit services to the Company since 1987, although their internal processes ensure that the audit partner and audit team within KPMG Audit Plc who conduct the Group audit are rotated every 5 years. The current audit partner will retire by rotation at the end of 2014. The Committee is mindful of the recommendations of the Code in relation to rotation and audit tender, and of the Competition Commission Order relating to the statutory audit market. Accordingly, it is anticipated that a tender process will be commenced in the next 12 months with a view to proposing an appointment which will be approved at the Company's 2015 Annual General Meeting. The present auditors would be expected to complete the 2014 audit.

The Committee takes account of the processes in place within KPMG Audit Plc designed to maintain independence, and has adopted procedures to safeguard independence. Any work awarded to the external auditors with a value of more than £25,000, or £50,000 in aggregate in any financial year, other than audit and tax compliance, requires the specific approval of the Audit Committee, and where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to them. Details of amounts paid to the external auditors for audit and non-audit services in 2013 are analysed in Note 3 on page 115, with the amount paid for non-audit work representing approximately £6,000 (4 per cent) of total fees paid to the external Auditors in 2013. This was for services associated with the corporate tax compliance procedures. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £267,000 (2012: £155,000).

The auditors have advised that the entity which carries out the Company's audit, KPMG Audit Plc, will be wound down and will be replaced for future audit work by KPMG LLP. The Committee has recommended to the Board that a resolution to appoint KPMG LLP as auditors should be put to shareholders at the Company's Annual General Meeting on 14 May 2014.

Risk Management

The Board is responsible for reviewing the effectiveness of the system of ongoing control, and for ensuring that it meets the necessary standards. The Group's risk management and internal control systems are subject to a full formal review by the Audit Committee twice a year. They 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, which reports directly to the Board, identifies, evaluates and takes steps to manage any material risks which might threaten the Group's business objectives. Regular risk reviews and an annual risk assessment report are carried out by the relevant senior managers and reported to the Risk Committee. These are included in a Risk Register that identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have, giving each risk a relative weighting reflecting its potential impact on the Group. Against each such risk, the controls that exist to manage and, where possible, minimise or eliminate those risks are also listed. The Risk Register helps to identify areas for action, and uses programmes including independent audit assessments that are designed to test the effectiveness of the Group's risk control systems. Information in relation to the management of risks and any changes to key risks or weighting is regularly reported to the Board, and the Risk Register is updated to reflect changes in circumstances or priorities. To the extent that any failings or weaknesses are identified during the review process, appropriate measures are taken to remedy these. In addition to the major risk review process, 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 2013. The Report of the Audit Committee, which is incorporated by reference into the Directors' Report, provides further information on the internal control and risk management systems in place in connection with financial reporting.

Internal Controls and Audit

The Audit Committee monitors and reviews the effectiveness of internal control activities. The current process, under which firms of external accountants, that are independent from the Company's external Auditors and have no other connection with the Group, carry out regular internal audit assignments of a financial and systems nature, has been reviewed and is regarded as an effective means of managing the internal audit function. The Audit Committee notes that the Company has implemented and continued to operate a self certification internal control process to support the internal audit process throughout the year. The Audit Committee monitors and reviews the internal audit programme, which includes both regular audit checks and assignments to look at areas of critical importance; for example during 2013 there were specific assignments in relation to IT systems and the Group's purchasing activities. The results are reported to the Audit Committee. 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.

The Committee is pleased to report that no significant failings or weaknesses were identified during the year, and there were no losses identified as a result of fraud.

Whistleblowing and Bribery

The Audit Committee monitors any reported incidents under the Serious Concerns Policy (Whistle-blowing Policy) which is available to all employees. This policy is displayed on operating site notice boards 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 Audit Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. During 2013 the Committee recorded a single allegation of financial impropriety at one of the Group's operating sites which was investigated fully but was not found to be substantiated.

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 notice boards. There is an online compliance training module for employees to reinforce the Anti-Bribery Code and procedures, which has to date been completed by 217 employees in decision-making roles with potential exposure to bribery risk (78 per cent of target). There is a maintained register of employee interests, and a gifts and hospitality record. The internal audit review programme includes a review of the adequacy of the Company's procedures in relation to the prevention of bribery.

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

Mark Edwards
Chairman of the Audit Committee
26 March 2014

Independent Auditor's Report to The Members of Marshalls plc Only

Opinions and conclusions arising from our audit

1 Our opinion on the Financial Statements is unmodified

We have audited the Financial Statements of Marshalls plc for the year ended 31 December 2013 set out on pages 98 to 150. 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 2013 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 as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with UK Accounting Standards; 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.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the Financial Statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Carrying value of Goodwill (Balance sheet value £35 million).

Refer to page 92 (Report of the Audit Committee), pages 108 and 109 (accounting policy) and pages 124 to 125 (financial disclosure).

The risk

All the goodwill in the Group is held within the Landscape Cash Generating Unit ("CGU"). The recession has had a significant impact on the construction industry leading to reduced sales volumes and decreased margins. The potential continuing impact of the recession on future trading results increases the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability of goodwill. The Directors review goodwill for impairment annually as described in Note 12 and based on this review did not consider it necessary to record a goodwill impairment charge in the year ended 31 December 2013. The key assumptions which could have an impact on the value in use include the assumed revenue and margin growth rates, and the discount rate. Due to the potential for a significant variance in the recoverable value if different assumptions were used this is considered a key audit risk.

Our response

Our audit procedures included, among others, testing the mathematical accuracy of the value in use model used, comparison of the input assumptions of growth rates to externally derived data including a comparison to the Construction Products Association ("CPA") industry growth forecasts and assessing the appropriateness of the discount rate. We also performed independent sensitivity analysis to evaluate the impact that reasonably possible changes in the assumptions would have on the CGU's recoverable amount and considered the accuracy of prior years forecasts. We considered the adequacy of the Group's disclosures (see Note 12) in respect of impairment testing and whether disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the key assumptions and the requirements of accounting standards.

Recoverable value of Finished Goods Inventory (Balance sheet value £56 million).

Refer to page 92 (Report of the Audit Committee), page 110 (accounting policy) and page 126 (financial disclosure).

The risk

As described in Note 1(j), The Directors record inventory at the lower of cost and net realisable value. The Group holds a large amount of inventories in order to meet customer demand. The non-perishable nature of the inventories, the business model of production across multiple locations and the wide range of product lines contribute to a high inventory holding. There is a risk that inventory lines which have been held for a significant period of time could have a reduced recoverable value as management may have to significantly discount the products in order to sell them. Therefore this is considered a key audit risk.

Our response

Our audit procedures included, among others, the use of data analysis techniques to compare on a product by product basis, inventory on hand at the year end and respective sales history in order to build independently a profile of inventory ageing and assess the length of time expected to take the inventory to sell. We then further analysed any inventory lines which are slow moving and considered their realisable value in the context of recent trading performance and the provisions held. We also assessed the overall level of inventory provisions made by the Directors based on our knowledge of recent margins achieved by the Group across its product range. In order to assess the accuracy of management's previous estimates we analysed the throughput of inventory previously identified as slow moving and reviewed the movement in the level of inventory provisions from prior periods and the level of inventory write offs. We also considered whether disclosures about the carrying value of inventory and write downs made during the year met the requirements of the accounting standards.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group Financial Statements as a whole was set at £1.3 million. This has been determined with reference to a benchmark of Group profit before tax (of which it represents 10 per cent), which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £65,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the UK entities covered 95 per cent of Group revenue, 89 per cent of the total profits and losses that made up Group profit before tax and 93 per cent of Group assets. An overseas subsidiary, Marshalls NV, based in Belgium, represents the remaining 5 per cent of revenue, 11 per cent of the total profits and losses that made up Group profit before tax and 7 per cent of total Group assets.

A local statutory audit is performed over the Belgian subsidiary, Marshalls NV but this is completed after the date of this report.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- 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 Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the information given in the Corporate Governance Statement set out on pages 50 to 59 in the Directors' Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the Financial Statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' Statement that they consider that 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 performance, business model and strategy; or
- the Report of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 58, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 50 to 55 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review;

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on pages 57 and 58, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Chris Hearld (Senior Statutory Auditor) for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

1 The Embankment, Neville Street, Leeds, LS1 4DW

26 March 2014

Consolidated Income Statement

for the year ended 31 December 2013

			Before operational restructuring costs and asset impairments	Operational restructuring costs and asset impairments	Total
	Notes	2013 £'000	2012* £'000	2012* £'000	2012* £'000
Revenue	2	307,390	300,938	-	300,938
Net operating costs	3	(291,300)	(288,087)	(21,521)	(309,608)
Operating profit / (loss)	2	16,090	12,851	(21,521)	(8,670)
Financial expenses	6	(3,649)	(4,291)	-	(4,291)
Financial income	6	585	713	-	713
Profit / (loss) before tax	2	13,026	9,273	(21,521)	(12,248)
Income tax (expense) / credit	7	(67)	1,507	4,367	5,874
Profit / (loss) for the financial period before post tax profit of discontinued operations		12,959	10,780	(17,154)	(6,374)
Post tax profit of discontinued operations	8	503	676	-	676
Profit / (loss) for the financial period		13,462	11,456	(17,154)	(5,698)
Profit / (loss) for the period Attributable to:					
Equity shareholders of the parent		14,096	11,470	(17,154)	(5,684)
Non-controlling interests		(634)	(14)	-	(14)
		13,462	11,456	(17,154)	(5,698)
Earnings per share (total operations):					
Basic	9	7.20p	5.87p		(2.91)p
Diluted	9	7.07p	5.75p		(2.91)p
Earnings per share (continuing operations):					
Basic	9	6.94p	5.52p		(3.26)p
Diluted	9	6.82p	5.41p		(3.26)p
Dividend:					
Pence per share	10	5.25p			5.25p
Dividends declared	10	10,292			10,292

* The comparatives have been restated in respect of discontinued operations (Note 8) and in respect of the revisions to IAS19 - "Employee Benefits (2011)" (Note 20).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	2013	2012*
	£'000	£'000
Profit for the financial period**	13,462	11,456
Operational restructuring costs and asset impairments	-	(17,154)
Profit / (loss) for the financial period	13,462	(5,698)
Other comprehensive income / (expense)		
<i>Items that will not be reclassified to the Income Statement:</i>		
Remeasurements of the net defined benefit liability	(18,735)	(9,063)
Deferred tax arising	3,747	2,084
Deferred tax on share-based payments	176	-
Total items that will not be reclassified to the Income Statement:	(14,812)	(6,979)
<i>Items that are or may in the future be reclassified to the Income Statement:</i>		
Effective portion of changes in fair value of cash flow hedges	2,787	(2,050)
Fair value of cash flow hedges transferred to the Income Statement	(1,447)	840
Deferred tax arising	(286)	298
Impact of the change in rate of deferred taxation	275	360
Foreign currency translation differences - foreign operations	(51)	116
Foreign currency translation differences - non-controlling interests	45	(106)
Total items that are or may be reclassified subsequently to the Income Statement:	1,323	(542)
Other comprehensive income / (expense) for period, net of income tax	(13,489)	(7,521)
Total comprehensive income / (expense) for the period	(27)	(13,219)
Attributable to:		
Equity shareholders of the parent	562	(13,099)
Non-controlling interests	(589)	(120)
	(27)	(13,219)

* The comparatives have been restated in respect of discontinued operations (Note 8).

** 2012 before operational restructuring costs and asset impairments.

Consolidated Balance Sheet

at 31 December 2013

	Notes	2013 £'000	2012 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	154,721	175,607
Intangible assets	12	41,071	41,413
Investment in associates	13	664	650
Employee benefits	20	-	8,212
Deferred taxation assets	21	1,626	-
		<u>198,082</u>	<u>225,882</u>
Current assets			
Inventories	14	70,807	75,416
Trade and other receivables	15	32,373	30,218
Cash and cash equivalents	16	17,652	11,101
		<u>120,832</u>	<u>116,735</u>
Total assets		<u>318,914</u>	<u>342,617</u>
Liabilities			
Current liabilities			
Trade and other payables	17	65,882	61,513
Corporation tax		4,802	2,828
Interest bearing loans and borrowings	18	3,453	99
		<u>74,137</u>	<u>64,440</u>
Non-current liabilities			
Interest bearing loans and borrowings	18	49,768	74,545
Employee benefits	20	4,347	-
Deferred taxation liabilities	21	15,230	20,058
		<u>69,345</u>	<u>94,603</u>
Total liabilities		<u>143,482</u>	<u>159,043</u>
Net assets		<u>175,432</u>	<u>183,574</u>
Equity			
Capital and reserves attributable to equity shareholders of the parent			
Share capital	22	49,845	49,845
Share premium account		22,695	22,695
Own shares		(9,512)	(9,571)
Capital redemption reserve		75,394	75,394
Consolidation reserve		(213,067)	(213,067)
Hedging reserve		(162)	(1,216)
Retained earnings		246,944	255,610
		<u>172,137</u>	<u>179,690</u>
Equity attributable to equity shareholders of the parent		<u>172,137</u>	<u>179,690</u>
Non-controlling interests	23	3,295	3,884
Total equity		<u>175,432</u>	<u>183,574</u>

Approved at a Directors' meeting on 26 March 2014.
On behalf of the Board:

M. Coffey
Chief Executive

I.D. Burrell
Finance Director

The Notes on pages 104 to 143 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2013

	2013 £'000	2012 £'000
Cash flows from operating activities		
Profit for the financial period*	13,462	11,456
Operational restructuring costs and asset impairments	-	(17,154)
Profit / (loss) for the financial period	13,462	(5,698)
Income tax expense / (credit) on continuing operations	67	(1,507)
Income tax credit on operational restructuring costs and asset impairments	-	(4,367)
Profit on disposal and closure of discontinued operations	(272)	-
Income tax credit on discontinued operations	110	402
Profit / (loss) before tax on total operations	13,367	(11,170)
Adjustments for:		
Depreciation	13,455	14,783
Amortisation	938	1,247
Operational restructuring costs and asset impairments	-	21,521
Share of results of associates	(14)	(28)
Gain on sale of property, plant and equipment	(131)	(1,944)
Gain on exchange of property	-	(594)
Equity settled share-based expenses	2,353	468
Financial income and expenses (net)	3,064	3,578
Operating cash flow before changes in working capital and pension scheme contributions	33,032	27,861
(Increase) / decrease in trade and other receivables	(2,933)	9,970
Decrease in inventories	2,840	4,968
Increase / (decrease) in trade and other payables	5,146	(2,742)
Operational restructuring costs paid	(870)	(7,431)
Pension Scheme contributions	(5,600)	(3,600)
Cash generated from the operations	31,615	29,026
Financial expenses paid	(3,649)	(4,292)
Income tax paid	(842)	(46)
Net cash flow from operating activities	27,124	24,688
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	175	8,595
Financial income received	9	4
Net proceeds from disposal of discontinued operations	16,999	150
Acquisition of property, plant and equipment	(5,462)	(8,307)
Acquisition of intangible assets	(596)	(1,212)
Net cash flow from investing activities	11,125	(770)
Cash flows from financing activities		
Payments to acquire own shares	-	(57)
Net (decrease) / increase in other debt and finance leases	(95)	154
Decrease in borrowings	(21,328)	(8,609)
Equity dividends paid	(10,292)	(10,292)
Net cash flow from financing activities	(31,715)	(18,804)
Net increase in cash and cash equivalents	6,534	5,114
Cash and cash equivalents at beginning of the period	11,101	5,998
Effect of exchange rate fluctuations	17	(11)
Cash and cash equivalents at end of the period	17,652	11,101

* 2012 before operational restructuring costs and asset impairments.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

	Attributable to equity holders of the Company							Total £'000	Non- controlling interests £'000	Total equity £'000
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000			
Current year										
At 1 January 2013	49,845	22,695	(9,571)	75,394	(213,067)	(1,216)	255,610	179,690	3,884	183,574
Total comprehensive income / (expense) for the period										
Profit for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	14,096	14,096	(634)	13,462
Other comprehensive income / (expense)										
Foreign currency translation differences	-	-	-	-	-	-	(51)	(51)	45	(6)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	2,787	-	2,787	-	2,787
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	(1,447)	-	(1,447)	-	(1,447)
Deferred tax arising	-	-	-	-	-	(286)	-	(286)	-	(286)
Defined benefit plan actuarial losses	-	-	-	-	-	-	(18,735)	(18,735)	-	(18,735)
Deferred tax arising	-	-	-	-	-	-	3,747	3,747	-	3,747
Deferred tax on share-based payments	-	-	-	-	-	-	176	176	-	176
Impact of the change in rate of deferred taxation	-	-	-	-	-	-	275	275	-	275
Total other comprehensive income / (expense)	-	-	-	-	-	1,054	(14,588)	(13,534)	45	(13,489)
Total comprehensive income / (expense) for the period	-	-	-	-	-	1,054	(492)	562	(589)	(27)
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based expenses	-	-	-	-	-	-	2,177	2,177	-	2,177
Dividends to equity shareholders	-	-	-	-	-	-	(10,292)	(10,292)	-	(10,292)
Disposal of own shares	-	-	59	-	-	-	(59)	-	-	-
Total contributions by and distributions to owners	-	-	59	-	-	-	(8,174)	(8,115)	-	(8,115)
Total transactions with owners of the Company	-	-	59	-	-	1,054	(8,666)	(7,553)	(589)	(8,142)
At 31 December 2013	49,845	22,695	(9,512)	75,394	(213,067)	(162)	246,944	172,137	3,295	175,432

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2013

	Attributable to equity holders of the Company							Total £'000	Non- controlling interests £'000	Total equity £'000
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000			
Prior year										
At 1 January 2012	49,845	22,695	(9,514)	75,394	(213,067)	(304)	277,621	202,670	3,394	206,064
Total comprehensive income / (expense) for the period										
Loss for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	(5,684)	(5,684)	(14)	(5,698)
Other comprehensive income / (expense)										
Foreign currency translation differences	-	-	-	-	-	-	116	116	(106)	10
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	(2,050)	-	(2,050)	-	(2,050)
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	840	-	840	-	840
Deferred tax arising	-	-	-	-	-	298	-	298	-	298
Defined benefit plan actuarial losses	-	-	-	-	-	-	(9,063)	(9,063)	-	(9,063)
Deferred tax arising	-	-	-	-	-	-	2,084	2,084	-	2,084
Impact of the change in rate of deferred taxation	-	-	-	-	-	-	360	360	-	360
Total other comprehensive income / (expense)	-	-	-	-	-	(912)	(6,503)	(7,415)	(106)	(7,521)
Total comprehensive income / (expense) for the period	-	-	-	-	-	(912)	(12,187)	(13,099)	(120)	(13,219)
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based expenses	-	-	-	-	-	-	468	468	-	468
Dividends to equity shareholders	-	-	-	-	-	-	(10,292)	(10,292)	-	(10,292)
Purchase of own shares	-	-	(57)	-	-	-	-	(57)	-	(57)
Total contributions by and distributions to owners	-	-	(57)	-	-	-	(9,824)	(9,881)	-	(9,881)
Changes in ownership interests in subsidiaries										
Issue of shares	-	-	-	-	-	-	-	-	610	610
Total transactions with owners of the Company	-	-	(57)	-	-	(912)	(22,011)	(22,980)	490	(22,490)
At 31 December 2012	49,845	22,695	(9,571)	75,394	(213,067)	(1,216)	255,610	179,690	3,884	183,574

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshall's plc (the "Company") is a Company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 26 March 2014.

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

The following new accounting standards and amendments to standards are mandatory and have been adopted for the first time in the year ended 31 December 2013:

Amendments to IAS 19 – *"Employee Benefits (2011)"*;

Amendments to IAS 1 – *"Presentation of Items of Other Comprehensive Income"*;

Amendments to IFRS 13 – *"Fair Value Measurement"*;

Amendments to IFRS 7 – *"Financial Instruments: Disclosures - Offsetting Financial Assets and Liabilities"*;

Amendments to IAS 32 – *"Financial Instruments: Offsetting Financial Assets and Liabilities"*; and

Annual improvements to IFRSs – *"2009-2011 Cycle"*.

The impact of IAS 19 – *"Employee Benefits (2011)"* and IFRS 13 – *"Fair Value Measurement"* are described below. The implementation of the other standards has only had a presentational impact.

The Group adopted IAS 19, *"Employee Benefits (2011)"*, on 1 January 2013 and changed its basis for deferring its income or expense relating to defined benefit plans. As a result of the change the Group now determines the net interest income on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset at the beginning of the annual period. The comparative figures have been restated accordingly. As the discount rate and the rate of return on assets at 31 December 2011 were equal there has been no impact on the net interest income once restated.

IFRS 13 – *"Fair Value Measurement"*, establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 – *"Financial Instruments: Disclosures"*.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

These standards have not had a material impact on the Consolidated Financial Statements.

1 Accounting policies (continued)

Significant accounting policies (continued)

(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 UK GAAP; these are presented on pages 144 to 150.

(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 14 to 47. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also set out in the Strategic Report. In addition, Note 19 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 19 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 2013. In the opinion of the Directors there are sufficient unutilised facilities held which mature after twelve months. The Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. The Group took decisive action in 2012 to align its operational capacity with expected market conditions. Markets remain uncertain but, 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 share-based payments.

The comparative figures for the financial year ended 31 December 2012 have been restated in respect of discontinued operations.

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.

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

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

Judgements made by management in the application of adopted IFRSs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 28.

Notes to the Consolidated Financial Statements (continued)

1 Accounting policies (continued)

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

(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.

(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 re-measurement 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).

1 Accounting policies (continued)

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

(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.

Notes to the Consolidated Financial Statements (continued)

1 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% to 5% per annum
Short leasehold property	-	over the period of the lease
Fixed plant and equipment	-	3.3% to 25% per annum
Mobile plant and vehicles	-	14% to 30% 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 product).

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 2011, 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.

1 Accounting policies (continued)

(h) Intangible assets (continued)

(i) Goodwill (continued)

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 its fair value or at its 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 but before 1 January 2011, 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 2011 were not adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2011.

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 I). 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 meet 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 I).

(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 I).

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.

Notes to the Consolidated Financial Statements (continued)

1 Accounting policies (continued)

(h) Intangible assets (continued)

(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 l).

(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) 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 v), 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.

1 Accounting policies (continued)

(l) Impairment (continued)

(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.

(m) Share capital

(i) Share capital

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or 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).

(n) 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.

(o) 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 lower of the amount of any cumulative unrecognised net actuarial losses and past service cost and 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 on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Income Statement.

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.

Notes to the Consolidated Financial Statements (continued)

1 Accounting policies (continued)

(p) Share-based payment transactions

The Group enters into equity-settled share-based payment transactions with its employees. In particular, annual awards are made to Directors under a Long Term Incentive Plan.

The Long Term Incentive Plan allows Group 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. 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 based on the intrinsic value of shares issued at exercise date. Consequently, a deferred tax asset is recognised at grant date based on the number of shares expected to be issued proportioned in line with the vesting period.

(q) Own shares held by 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.

(r) 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.

(s) Trade and other payables

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

(t) 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 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.

(u) 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.

1 Accounting policies (continued)

(u) Expenses (continued)

(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).

(v) 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 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.

(w) Segment reporting

The Group has determined that, in accordance with IFRS 8 "Operating Segments" and based on its internal reporting framework and management structure, it has only one reportable segment. Such determination is necessarily judgemental in its nature and has been determined by management in preparing the Consolidated Financial Statements. The level of disclosure of segmental and other information is determined by such assessment. Further details of the considerations made and the resulting disclosures are provided in Note 2 below.

2 Segmental analysis

	Revenue		Operating profit (before operational restructuring costs and asset impairments)		Operating profit / (loss)	
	2013 £'000	2012* £'000	2013 £'000	2012* £'000	2013 £'000	2012* £'000
Continuing operations	307,390	300,938	16,090	12,851	16,090	(8,670)
Financial income and expenses (net)			(3,064)	(3,578)	(3,064)	(3,578)
Profit / (loss) before tax			13,026	9,273	13,026	(12,248)

* The comparatives have been restated in respect of discontinued operations (Note 8).

Notes to the Consolidated Financial Statements (continued)

2 Segmental analysis (continued)

Operating segments

IFRS8 "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. The Directors have concluded that, in terms of the Group's operations, the detailed requirements of IFRS 8 support the reporting of the Group's operations as a single business segment. As far as Marshalls is concerned the CODM is regarded as being the Executive Directors.

Detailed consideration has been given to the Group's overall business strategy and this is explained in detail in the Strategic Report on pages 14 to 47. The fundamental strategic objectives remain as follows:

- to develop, improve, reduce cost and innovate in our unique manufacturing and distribution network;
- to invest in marketing direct to the consumer to "pull through demand" and build brand awareness;
- to continue to develop the integrated product offer; and
- to invest in acquisitions and organic expansion.

These strategic objectives increasingly require the CODM to view the business on a national and a Group level. The Group's national manufacturing plan 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 Group's key end markets, namely the Domestic and Public Sector and Commercial end markets and the Group's operating assets produce and deliver a range of broadly similar products that are sold into each of these end markets. The focus is on the one integrated production, logistics and distribution network supporting both end markets and operating and financial information is available for the one combined integrated logistics and distribution network. Whilst KPI information is available to the CODM from the different functional areas of the business, "performance assessment" and "resource allocation" continue to be addressed on a Group basis. The Group's structure and strategy mean that business performance is focused on production efficiency, logistics and distribution efficiency, the performance of customers and operational planning. These are completely inter-dependent and are undertaken on a fully integrated basis, not in isolation.

For these reasons, and on the basis of the strategy, structure and nature of its business, and having considered the specific requirements of IFRS 8, the Directors have concluded that the Group has one operating segment. In order to assist the reader of the Annual Report some revenue information has been presented in the Strategic Report relating to the Group's Public Sector and Commercial, Domestic and International end markets.

	2013	2012*
	£'000	£'000
Geographical destination of revenue:		
United Kingdom	290,855	287,487
Rest of the World	16,535	13,451
	307,390	300,938

* The comparatives have been restated in respect of discontinued operations (Note 8).

Marshalls NV contributed revenue of £13,274,000 (2012: £8,877,000). All other revenue originates in the United Kingdom from continuing operations. The Group's International operations do not currently meet the definition of a reportable operating segment under IFRS 8.

3 Net operating costs

	2013	2012*
	£'000	£'000
Raw materials and consumables	117,176	100,589
Changes in inventories of finished goods and work in progress	1,470	6,598
Personnel costs	80,549	81,899
Depreciation - owned	13,041	13,883
- leased	158	79
Amortisation of intangible assets	938	1,247
Own work capitalised	(1,071)	(1,272)
Other operating costs	80,425	89,298
International "start-up" costs	84	499
Operating costs	292,770	292,820
Other operating income	(1,325)	(2,167)
Net gain on asset and property disposals	(131)	(1,944)
Gain on property exchange (Note 11)	-	(594)
Share of results of associates	(14)	(28)
Net operating costs before operational restructuring costs and asset impairments	291,300	288,087
Operational restructuring costs and asset impairments (Note 5)	-	21,521
Net operating costs	291,300	309,608

	2013	2012
	£'000	£'000
Net operating costs include:		
Auditor's remuneration (see below)	169	169
Leasing costs	7,305	7,413
Hire of plant and machinery	4,769	5,186
Research and development costs	2,775	2,425

In respect of the year under review, KPMG Audit Plc carried out work in relation to:

	2013	2012
	£'000	£'000
Audit of Marshalls plc	20	20
Audit of financial statements of subsidiaries of the Company	143	133
Taxation compliance services	6	6
Other services	-	10
	169	169

*The comparatives have been restated in respect of discontinued operations (Note 8).

Notes to the Consolidated Financial Statements (continued)

4 Personnel costs

Personnel costs (including amounts charged in the year in relation to Directors):	2013 £'000	2012* £'000
Wages and salaries	67,119	69,178
Social security costs	7,636	7,870
Share based expenses	1,658	468
Contributions to defined contribution Pension Scheme	4,136	4,383
	<hr/>	<hr/>
Included within net operating costs (Note 3)	80,549	81,899
Personnel costs included in International "start-up" costs (Note 3)	-	263
Personnel costs related to net profit on asset and property disposals (Note 3)	-	1,378
Personnel costs included in operational restructuring costs (Note 5)	-	6,321
Personnel costs included in profit on discontinued operations (Note 8)	656	-
	<hr/>	<hr/>
Total personnel costs	81,205	89,861

Remuneration of Directors:	2013 £'000	2012 £'000
Salary	918	886
Other benefits	55	40
PIP bonus	643	366
Amounts receivable under the LTIP	3,537	475
Pensions allowances	261	265
Non-Executive Directors' fees and fixed allowances	289	289
	<hr/>	<hr/>
	5,703	2,321

The aggregate of emoluments and amounts receivable under the PIP and the LTIP of the highest paid director was £2,900,000 (2012: £938,000) including a salary supplement pension allowance of £96,000 (2012: £123,000).

There are no Directors to whom retirement benefits are accruing in respect of qualifying services. As set out in the Directors' Remuneration Report on pages 63 to 90, the Executive Directors receive a pensions allowance equal to their contractual entitlement of 30 per cent of basic salary.

Further details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 63 to 90.

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

	2013 Number	2012* Number
Continuing operations	2,042	2,208

* The comparatives have been restated in respect of discontinued operations (Note 8).

5 Operational restructuring costs and asset impairments

	2013 £'000	2012 £'000
Operational restructuring costs	-	10,226
Asset impairments	-	11,295
	<hr/>	<hr/>
	-	21,521
	<hr/>	<hr/>

The Board determined that certain charges to the Consolidated Income Statement should be separately identified for better understanding of the Group's results for the year ended 31 December 2012.

Operational restructuring costs in 2012 reflected the implementation of a wide range of contingency measures aimed at reducing costs, reducing inventories and conserving cash. These initiatives included works closure costs which reflected the need for capacity reductions. Operational restructuring costs included redundancy costs of £nil (2012: £6,205,000).

Asset impairments included the write down of plant and machinery and other assets together with the impairment of certain intangible assets and other items of plant that were temporarily mothballed. The recoverable amounts were based on the fair value of the assets.

Asset impairments are analysed as follows:

	2013 £'000	2012 £'000
Property, plant and equipment (Note 11)	-	6,396
Intangible assets (Note 12)	-	1,282
Investment in associates (Note 13)	-	1,566
Inventories (Note 14)	-	2,051
	<hr/>	<hr/>
	-	11,295
	<hr/>	<hr/>

6 Financial expenses and income

	2013 £'000	2012* £'000
(a) Financial expenses		
Interest expense on bank loans, overdrafts and loan notes	3,638	4,279
Finance lease interest expense	11	12
	<hr/>	<hr/>
	3,649	4,291
	<hr/>	<hr/>
(b) Financial income		
Expected return on the Defined Benefit Pension Scheme	576	709
Interest receivable and similar income	9	4
	<hr/>	<hr/>
	585	713
	<hr/>	<hr/>

* The comparatives have been restated in respect of the revisions to IAS 19, "Employee Benefits (2011)", as described in Note 1. As the discount rate and the rate of return on assets at 31 December 2011 were equal there has been no impact on the net interest income and earnings per share once restated. A restated balance sheet has not been provided given there is no impact on the balance sheet.

Notes to the Consolidated Financial Statements (continued)

7 Income tax expense

	2013	Before operational restructuring costs and asset impairments 2012*	Operational restructuring costs and asset impairments 2012*	Total 2012*
	£'000	£'000	£'000	£'000
Current tax expense				
Current year	4,251	1,293	(2,596)	(1,303)
Adjustments for prior years	(1,642)	(2,148)	-	(2,148)
	2,609	(855)	(2,596)	(3,451)
Deferred taxation expense				
Origination and reversal of temporary differences:				
Current year	(2,944)	(736)	(1,771)	(2,507)
Adjustments for prior years	402	84	-	84
Income tax expense / (credit) in the Consolidated Income Statement (continuing operations)	67	(1,507)	(4,367)	(5,874)
Tax on discontinued operations	210	402	-	402
Total tax expense / (credit)	277	(1,105)	(4,367)	(5,472)

	2013	Before operational restructuring costs and asset impairments 2012*	Operational restructuring costs and asset impairments 2012*	Total 2012*
	%	£'000	£'000	£'000
Reconciliation of effective tax rate				
Profit / (loss) before tax:				
Continuing operations	100.0	13,026	9,273	(21,521)
				(12,248)
Tax using domestic corporation tax rate	23.3	3,051	2,272	(5,273)
Disallowed amortisation of intangible assets	0.3	33	63	-
Net income / (expenditure) not taxable	6.4	839	240	906
Adjustments for prior years	(9.5)	(1,240)	(2,064)	-
Impact of the change in the rate of corporation tax on deferred taxation	(20.0)	(2,616)	(2,018)	-
	0.5	67	(1,507)	(4,367)
				(5,874)

*The comparatives have been restated in respect of discontinued operations (Note 8).

The deferred tax credit arose due to reductions in the rate of corporation tax to 21 per cent by April 2014 and 20 per cent by April 2015 which were substantially enacted, following the receipt of Royal Assent, in July 2013.

The net amount of deferred taxation credited to the Consolidated Statement of Comprehensive Income in the year was £3,912,000 (2012: £2,742,000).

8 Discontinued operations

On 30 April 2013 the Group completed the sale of aggregate quarries to Breedon Aggregates England Limited for cash consideration of £17.5 million. The final consideration will be up to £19.2 million dependent on certain conditions being satisfied. The assets sold comprised quarries solely supplying aggregates, sand and gravel. The Group has retained all of its dimensional stone quarries, some of which produce aggregate as an ancillary product. The disposed quarries were the freehold and leasehold quarries at Clearwell, near Lydney, Gloucestershire, which produces primarily high quality limestone aggregates and the Group's sand and gravel quarries located at Dunsville, near Hatfield, South Yorkshire, Astley Moss in Greater Manchester and Mold in North Wales which operates under the Lloyds Sand and Gravel trading name and the business carried on from these quarries. Also included was an option to develop sand and gravel resources near Saredon, Staffordshire. On 23 August 2013 additional consideration of £1.2 million was received following the satisfactory completion of a post completion condition. This condition had required the commissioning of a sand extraction plant to the satisfaction of the purchaser. The additional consideration, net of attributable costs, has given rise to a post-tax profit of discontinued operations of £0.5 million.

The results of the discontinued operations which have been included in the Consolidated Income Statement were as follows:

	2013	2012
	£'000	£'000
Revenue	2,989	8,755
Net operating costs	(2,648)	(7,677)
Profit before tax	341	1,078
Income tax expense	(110)	(402)
Profit after tax	231	676
Profit on disposal and closure of discontinued operations	272	-
Net profit attributable to discontinued operations	503	676
Basic earnings per share (pence)	0.26	0.35
Diluted earnings per share (pence)	0.25	0.34

Notes to the Consolidated Financial Statements (continued)

8 Discontinued operations (continued)

Effect of disposal on the financial position of the Group

	2013 £'000
Property, plant and equipment	12,774
Inventories	1,734
Other net current assets	1,969
	<hr/>
Assets disposed of	16,477
	<hr/>
Consideration received, satisfied in cash	18,660
Attributable costs and professional fees	(1,811)
	<hr/>
Net consideration received	16,849
	<hr/>
Profit on disposal	372
Taxation	(100)
	<hr/>
Net profit on disposal	272
	<hr/>
Analysis of net consideration received:	
On sale of aggregate quarries on 30 April 2013	16,849
Deferred consideration received	150
	<hr/>
	16,999
	<hr/>

During the year ended 31 December 2013 these aggregates businesses contributed an inflow of £422,000 to the Group's net operating cash flows (2012: £2,034,000), paid £nil in respect of investing activities (2012: paid £260,000), and paid £nil in respect of financing activities (2012: £nil).

A post tax profit of £272,000 arose on the disposal of the aggregates businesses, being the net proceeds of disposal less the carrying amount of the relevant net assets.

Basic earnings per share from discontinued operations of 0.26 pence (2012: 0.35 pence) per share is calculated by dividing the profit attributable to ordinary shareholders from discontinued operations of £503,000 (2012: £676,000) by the weighted average number of shares in issue during the period of 195,742,757 (2012: 195,464,528).

Diluted earnings per share from discontinued operations of 0.25 pence (2012: 0.34 pence) per share is calculated by dividing the profit attributable to ordinary shareholders and potentially dilutive ordinary shares from discontinued operations of £503,000 (2012: £676,000) by the weighted average number of shares in issue during the period of 195,742,757 (2012: 195,464,528) plus potentially dilutive ordinary shares of 3,635,998 (2012: 3,914,227) which totals 199,378,755 (2012: 199,378,755).

9 Earnings per share

Basic earnings per share from total operations of 7.20 pence (2012: 2.91 pence loss) per share is calculated by dividing the profit attributable to ordinary shareholders from total operations and after adjusting for non-controlling interests of £14,096,000 (2012: £5,684,000 loss) by the weighted average number of shares in issue during the period of 195,742,757 (2012: 195,464,528).

Basic earnings per share from total operations before operational restructuring costs and asset impairments of 7.20 pence (2012: 5.87 pence) per share is calculated by dividing the profit from total operations before operational restructuring costs and asset impairments and after adjusting for non-controlling interests of £14,096,000 (2012: £11,470,000) by the weighted average number of shares in issue during the period of 195,742,757 (2012: 195,464,528).

9 Earnings per share (continued)

Basic earnings per share from continuing operations of 6.94 pence (2012: 3.26 pence loss) per share is calculated by dividing the profit from continuing operations and after adjusting for non-controlling interests of £13,593,000 (2012: £6,360,000 loss) by the weighted average number of shares in issue during the year of 195,742,757 (2012: 195,464,528).

Basic earnings per share from continuing operations before operational restructuring costs and asset impairments of 6.94 pence (2012: 5.52 pence) per share is calculated by dividing the profit from continuing operations before operational restructuring costs and asset impairments and after adjusting for non-controlling interests of £13,593,000 (2012: £10,794,000) by the weighted average number of shares in issue during the period of 195,742,757 (2012: 195,464,528).

Profit attributable to ordinary shareholders

	2013	2012
	£'000	£'000
Profit from continuing operations before operational restructuring costs and asset impairments	12,959	10,780
Operational restructuring costs and asset impairments	-	(17,154)
Profit / (loss) from continuing operations	12,959	(6,374)
Profit from discontinued operations	503	676
Profit / (loss) for the financial period	13,462	(5,698)
Loss attributable to non-controlling interests	634	14
Profit / (loss) attributable to ordinary shareholders	14,096	(5,684)

Weighted average number of ordinary shares

	2013	2012
	Number	Number
Number of issued ordinary shares (at beginning of the period)	199,378,755	199,378,755
Effect of shares transferred into employee benefit trust	(1,210,998)	(1,489,227)
Effect of treasury shares acquired	(2,425,000)	(2,425,000)
Weighted average number of ordinary shares at end of the period	195,742,757	195,464,528

Diluted earnings per share from total operations of 7.07 pence per share is calculated by dividing the profit from total operations, after adjusting for non-controlling interests, of £14,096,000 by the weighted average number of shares in issue during the period of 195,742,757 plus potentially dilutive shares of 3,635,998 which totals 199,378,755.

For total operations at 31 December 2012 the potential ordinary shares set out below are considered to be anti-dilutive to the total earnings per share calculation.

Diluted earnings per share from total operations before operational restructuring costs and asset impairments of 7.07 pence (2012: 5.75 pence) per share is calculated by dividing the profit from total operations before operational restructuring costs and asset impairments and after adjusting for non-controlling interests of £14,096,000 (2012: £11,470,000) by the weighted average number of shares in issue during the period of 195,742,757 (2012: 195,464,528) plus potentially dilutive shares of 3,635,998 (2012: 3,914,227) which totals 199,378,755 (2012: 199,378,755).

Diluted earnings per share from continuing operations before operational restructuring costs and asset impairments of 6.82 pence (2012: 5.41 pence) per share is calculated by dividing the profit from continuing operations before operational restructuring costs and asset impairments and after adjusting for non-controlling interests of £13,593,000 (2012: £10,794,000) by the weighted average number of shares in issue during the period of 195,742,757 (2012: 195,464,528) plus potentially dilutive shares of 3,635,998 (2012: 3,914,227) which totals 199,378,755 (2012: 199,378,755).

Notes to the Consolidated Financial Statements (continued)

9 Earnings per share (continued)

Diluted earnings per share from continuing operations of 6.82 pence per share is calculated by dividing the profit from continuing operations, after adjusting for non-controlling interests, of £13,593,000 by the weighted average number of shares in issue during the period of 195,742,757 plus potentially dilutive shares of 3,635,998 which totals 199,378,755.

For continuing operations at 31 December 2012 the potential ordinary shares set out below are considered to be anti-dilutive to the continuing earnings per share calculation.

Weighted average number of ordinary shares (diluted)

	2013 Number	2012 Number
Weighted average number of ordinary shares	195,742,757	195,464,528
Effect of shares transferred into employee benefit trust	1,210,998	1,489,227
Effect of treasury shares acquired	2,425,000	2,425,000
Weighted average number of ordinary shares (diluted)	199,378,755	199,378,755

10 Dividends

After the balance sheet date dividends of 3.50 pence (2012: 3.50 pence) per qualifying ordinary share were proposed by the Directors. The dividends have not been provided for and there were no income tax consequences. The total dividends proposed in respect of the year are as follows:

	Pence per qualifying share	2013 £'000	2012 £'000
2013 final	3.50	6,861	
2013 interim	1.75	3,431	
	5.25	10,292	
2012 final	3.50		6,861
2012 interim	1.75		3,431
	5.25		10,292

The following dividends were approved by the shareholders and recognised in the period.

	Pence per qualifying share	2013 £'000	2012 £'000
2013 interim	1.75	3,431	
2012 final	3.50	6,861	
	5.25	10,292	
2012 interim	1.75		3,431
2011 final	3.50		6,861
	5.25		10,292

The 2013 final dividend of 3.50 pence per qualifying ordinary share, total value £6,861,000, will be paid on 4 July 2014 to shareholders registered at the close of business on 6 June 2014.

11 Property, plant and equipment

Cost	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
At 1 January 2012	90,861	32,261	302,501	425,623
Exchange differences	(209)	-	(93)	(302)
Additions	4,312	7	6,575	10,894
Disposals	(6,203)	-	(6,068)	(12,271)
At 31 December 2012	88,761	32,268	302,915	423,944
At 1 January 2013	88,761	32,268	302,915	423,944
Exchange differences	29	-	12	41
Additions	115	486	4,861	5,462
Disposals	(196)	(12,653)	(10,070)	(22,919)
Transfers	634	-	(634)	-
At 31 December 2013	89,343	20,101	297,084	406,528
Depreciation and impairment losses				
At 1 January 2012	31,364	7,664	195,271	234,299
Depreciation charge for the year	2,194	583	12,006	14,783
Exchange differences	(1)	-	(34)	(35)
Disposals	(1,945)	-	(5,161)	(7,106)
Impairment losses (Note 5)	1,219	-	5,177	6,396
At 31 December 2012	32,831	8,247	207,259	248,337
At 1 January 2013	32,831	8,247	207,259	248,337
Depreciation charge for the year	2,366	157	10,932	13,455
Exchange differences	-	-	17	17
Disposals	(188)	(2,618)	(7,196)	(10,002)
At 31 December 2013	35,009	5,786	211,012	251,807
Net Book Value				
At 1 January 2012	59,497	24,597	107,230	191,324
At 1 January 2013	55,930	24,021	95,656	175,607
at 31 December 2013	54,334	14,315	86,072	154,721

A property exchange undertaken during the year ended 31 December 2012 has given rise to a gain of £594,000 (Note 3) and has resulted in an increase in additions in that year of £2,587,000.

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

The carrying amount of tangible fixed assets includes £215,000 (2012: £352,000) in respect of assets held under finance leases. Group cost of land and buildings and plant and machinery includes £nil (2012: £937,000) and £607,000 (2012: £1,311,000) respectively for assets in the course of construction.

Notes to the Consolidated Financial Statements (continued)

11 Property, plant and equipment (continued)

Capital commitments

	2013	2012
	£'000	£'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	569	224

Depreciation charge

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

	2013	2012
	£'000	£'000
Net operating costs (Note 3): continuing operations	13,199	13,962
Discontinued operations	256	821
	13,455	14,783

12 Intangible assets

	Goodwill	Customer relationships	Supplier relationships	Patents, trademarks and know-how	Development costs	Software	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2012	43,691	2,210	1,200	1,660	159	8,218	57,138
Additions	-	-	-	-	-	1,212	1,212
At 31 December 2012	43,691	2,210	1,200	1,660	159	9,430	58,350
At 1 January 2013	43,691	2,210	1,200	1,660	159	9,430	58,350
Additions	-	-	-	-	-	596	596
At 31 December 2013	43,691	2,210	1,200	1,660	159	10,026	58,946
Amortisation and impairment losses							
At 1 January 2012	8,912	928	458	1,154	61	2,895	14,408
Amortisation for the year	-	-	90	116	8	1,033	1,247
Impairment losses (Note 5)	-	1,282	-	-	-	-	1,282
At 31 December 2012	8,912	2,210	548	1,270	69	3,928	16,937
At 1 January 2013	8,912	2,210	548	1,270	69	3,928	16,937
Amortisation for the year	-	-	60	32	8	838	938
At 31 December 2013	8,912	2,210	608	1,302	77	4,766	17,875
Carrying amounts							
At 1 January 2012	34,779	1,282	742	506	98	5,323	42,730
At 1 January 2013	34,779	-	652	390	90	5,502	41,413
At 31 December 2013	34,779	-	592	358	82	5,260	41,071

12 Intangible assets (continued)

All goodwill has arisen from business combinations. The carrying amount of goodwill is allocated across Cash Generating Units ("CGUs") and these CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations and at both 31 December 2013 and 31 December 2012 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 five year forecasts, containing assumptions for revenue growth and operational gearing, and appropriate long term growth rates of 2.3 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 rates used to calculate the value in use were 9.4 per cent (2012: ranged from 6.7 per cent to 7.2 per cent), with the pre-tax discount rate used for the Landscape Products CGU being 9.4 per cent (2012: 7.2 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 £596,000 (2012: £776,000) of own work capitalised.

Amortisation charge

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

	2013	2012
	£'000	£'000
Net operating costs (Note 3): continuing operations	938	1,247

13 Investment in associates

	2013	2012
	£'000	£'000
Carrying value		
At 1 January	650	2,188
Impairment losses (Note 5)	-	(1,566)
Share of results of associates	14	28
At 31 December	664	650
	2013	2012
	£'000	£'000
Investment at cost	2,250	2,250
Impairment losses (Note 5)	(1,566)	(1,566)
Cumulative share of results of associates	(20)	(34)
Carrying value at 31 December	664	650

The Group's share of results of associates in the year ended 31 December 2013 was £14,000 profit (2012: £28,000 profit) and, on the grounds of materiality, no additional disclosure has been made.

Notes to the Consolidated Financial Statements (continued)

14 Inventories

	2013 £'000	2012 £'000
Raw materials and consumables	12,311	13,716
Finished goods and goods for resale	58,496	61,700
	70,807	75,416

Inventories stated at fair value less cost to sell at 31 December 2013 amounted to £1,864,000 (2012: £3,785,000). The write down of inventories made during the year amounted to £534,000 (2012: £2,697,000) of which £nil (2012: £2,051,000) is in respect of operational restructuring costs (Note 5). There were no reversals of inventory write downs made in previous years either in 2013 or 2012.

15 Trade and other receivables

	2013 £'000	2012 £'000
Trade receivables	23,606	19,849
Other receivables	2,648	3,782
Prepayments and accrued income	6,119	6,587
	32,373	30,218

Ageing of trade receivables

	2013 £'000	2012 £'000
Less than 30 days	13,790	11,068
31 - 60 days	7,909	7,056
61 - 90 days	1,837	1,680
More than 90 days	70	45
	23,606	19,849

No receivables were due after more than one year. All amounts disclosed above are considered recoverable and no material amounts are regarded as overdue.

16 Cash and cash equivalents

	2013 £'000	2012 £'000
Bank balances	17,626	11,079
Cash in hand	26	22
Cash and cash equivalents in the Consolidated Cash Flow Statement	17,652	11,101

17 Trade and other payables

	2013 £'000	2012 £'000
Current liabilities		
Trade payables	41,018	29,964
Taxation and social security	7,109	9,172
Other payables	4,459	6,014
Accruals	13,012	14,739
Financial liabilities	284	1,624
	<u>65,882</u>	<u>61,513</u>

All trade payables are due in six months or less.

18 Loans

	2013 £'000	2012 £'000
Current liabilities		
Bank loans	3,370	-
Finance lease liabilities	83	99
	<u>3,453</u>	<u>99</u>
Non current liabilities		
Bank loans	49,627	74,325
Finance lease liabilities	141	220
	<u>49,768</u>	<u>74,545</u>

Bank loans

The bank loans are secured by inter-group guarantees with certain subsidiary undertakings.

Finance lease liabilities

	Minimum lease payments 2013 £'000	Interest 2013 £'000	Principal 2013 £'000	Minimum lease payments 2012 £'000	Interest 2012 £'000	Principal 2012 £'000
Less than one year	89	6	83	110	11	99
One to two years	59	4	55	87	6	81
Two to five years	88	2	86	144	5	139
	<u>236</u>	<u>12</u>	<u>224</u>	<u>341</u>	<u>22</u>	<u>319</u>

Notes to the Consolidated Financial Statements (continued)

19 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 and further details of which are set out in Note 18.

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 2012.

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 the 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 Long Term Incentive Plan and other employee share 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 2013 and 31 December 2012.

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 14 to 47. 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 132.

(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.

19 Financial instruments (continued)

Financial risks (continued)

(b) Interest rate risk (continued)

Approximately 75 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 £151,000 asset (2012: £576,000 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 £1,268,000 (2012: £468,000) has been recognised in Other Comprehensive Income for the year with £544,000 (2012: £314,000) 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 19(e)) and forward contracts this gives a total of £2,787,000 (2012: £2,050,000) recognised in Other Comprehensive Income for the year with £1,447,000 (2012: £840,000) 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 increased / 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 instrument 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 is performed on the same basis for 2012.

	2013	2012
	£'000	£'000
Increase of 100 basis points	(233)	(413)
Decrease of 100 basis points	233	413

(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 15 on page 126.

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.

Notes to the Consolidated Financial Statements (continued)

19 Financial instruments (continued)

(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. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £5,000 asset (2012: £8,000 asset) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2013 all outstanding forward exchange contracts have a maturity date within six months.

	2013 Sterling	2013 Euro	2013 US Dollars	2013 Total	2012 Sterling	2012 Euro	2012 US Dollars	2012 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	16,406	1,190	56	17,652	10,248	849	4	11,101
Trade receivables	21,058	2,548	-	23,606	17,614	2,235	-	19,849
Secured bank loans	(40,000)	(12,997)	-	(52,997)	(62,825)	(11,500)	-	(74,325)
Trade payables	(32,514)	(7,690)	(814)	(41,018)	(22,527)	(6,922)	(515)	(29,964)
Forward exchange contracts	(221)	(63)	-	(284)	(1,518)	(106)	-	(1,624)
Balance sheet exposure	(35,271)	(17,012)	(758)	(53,041)	(59,008)	(15,444)	(511)	(74,963)

Sensitivity analysis

A 10 per cent strengthening and weakening of the following currencies against the pound sterling at 31 December 2013 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 is performed on the same basis for 2012:

	2013 £'000	2012 £'000
10 per cent strengthening of £ against €	1576	1457
10 per cent weakening of £ against €	(1576)	(1457)
10 per cent strengthening of £ against \$	96	64
10 per cent weakening of £ against \$	(96)	(64)

(e) Pricing risk

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 2014. The Group classifies its fuel hedges as cash flow hedges and states them at fair value. The fair value of the fuel hedges is £440,000 liability (2012: £1,056,000 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 £1,519,000 (2012: £1,582,000) has been recognised in Other Comprehensive Income with £903,000 (2012: £526,000) being reclassified from equity to the Income Statement. The fuel hedges have been fully effective in the period.

19 Financial instruments (continued)

(f) Other risks

Further information about the Group's strategic and financial risks is contained in the Strategic Report on pages 14 to 47.

Effective interest rates and maturity of liabilities

At 31 December 2013 there were £224,000 (2012: £319,000) Group borrowings on a fixed rate. Interest rate swaps have been taken out with the intention to fix the interest on 75 per cent of the Group's core debt. The interest rate profile of the financial liabilities were:

31 December 2013	Fixed or variable rate	Effective interest rate %	Total	6 months or less	6-12 months	1-2 years	2-5 years
			£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents (Note 16)	Variable	2.46	(17,652)	(17,652)	-	-	-
Bank loans	Variable	2.46	52,997	-	3,370	25,000	24,627
Finance lease liabilities	Fixed	5.33	224	41	42	55	86
			35,569	(17,611)	3,412	25,055	24,713

31 December 2012	Fixed or variable rate	Effective interest rate %	Total	6 months or less	6-12 months	1-2 years	2-5 years
			£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents (Note 16)	Variable	2.65	(11,101)	(11,101)	-	-	-
Bank loans	Variable	2.65	74,325	-	-	-	74,325
Finance lease liabilities	Fixed	6.98	319	53	46	81	139
			63,543	(11,048)	46	81	74,464

At 31 December the undiscounted outstanding contractual payments (including interest) of financial liabilities was as follows:

31 December 2013	Fixed or Variable rate	Carrying value £'000	Total	6 months or less	6-12 months	1-2 years	2-5 years
			£'000	£'000	£'000	£'000	£'000
Bank loans	Variable	52,997	55,256	565	3,902	25,848	24,941
Trade payables	Variable	41,018	41,018	41,018	-	-	-
Finance lease liabilities	Fixed	224	236	44	45	59	88
Financial liabilities	Fixed	284	921	386	306	92	137
			94,523	97,431	42,013	4,253	25,999

31 December 2012	Fixed or Variable rate	Carrying value £'000	Total	6 months or less	6-12 months	1-2 years	2-5 years
			£'000	£'000	£'000	£'000	£'000
Bank loans	Variable	74,325	79,897	916	911	1,827	76,243
Trade payables	Variable	29,964	29,964	29,964	-	-	-
Finance lease liabilities	Fixed	319	341	59	51	87	144
Financial liabilities	Fixed	1,624	1,614	753	710	150	1
			106,232	111,816	31,692	1,672	2,064

Notes to the Consolidated Financial Statements (continued)

19 Financial instruments (continued)

Borrowing facilities

The total bank borrowing facilities at 31 December 2013 amounted to £145.0 million (2012: £170.0 million) of which £92.0 million (2012: £95.7 million) remained unutilised. There are additional seasonal bank working capital facilities of £20.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2013, in respect of which all conditions precedent had been met, were as follows:

	2013	2012
	£'000	£'000
Committed:		
- Expiring in more than two years but not more than five years	50,373	70,675
- Expiring in one year or less	16,630	-
Uncommitted:		
- Expiring in one year or less	25,000	25,000
	92,003	95,675

The committed facilities are all revolving credit facilities with interest charged at a variable rate based on LIBOR.

The total borrowing facilities at 31 December 2013 amounted to £145 million. This was due to the cancellation at no cost by the Group on 19 July 2013 of a £25 million loan facility that was due to mature in August 2015.

The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium term debt. Following the cancellation of the £25 million loan facility and the renewal of certain other bank facilities on 16 August 2013 the committed facilities are set out as follows:

	Facility	Cumulative
	£'000	Facility
		£'000
Committed facilities:		
Q3 2016	50,000	50,000
Q3 2015	50,000	100,000
Q3 2014	20,000	120,000
On demand facilities:		
Available all year	25,000	145,000
Seasonal (February to August inclusive)	20,000	165,000

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 2013 are shown below:

	2013		2012	
	Book amount	Fair Value	Book amount	Fair value
	£'000	£'000	£'000	£'000
Trade and other receivables	32,373	32,373	30,218	30,218
Cash and cash equivalents	17,652	17,652	11,101	11,101
Bank loans	(52,997)	(52,061)	(74,325)	(73,689)
Finance lease liabilities	(224)	(236)	(319)	(341)
Trade and other payables	(65,598)	(65,598)	(59,889)	(59,889)
Interest rate swaps, forward contracts and fuel hedges	(284)	(284)	(1,624)	(1,624)
Financial (liabilities) / assets – net	(69,078)		(94,838)	
Other assets / (liabilities) – net	244,510		278,412	
	175,432		183,574	

19 Financial instruments (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 one 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 2013				
Derivative financial liabilities	-	284	-	284
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2012				
Derivative financial liabilities	-	1,624	-	1,624
	<hr/>	<hr/>	<hr/>	<hr/>

20 Employee benefits

The Company sponsors a funded defined benefit pension scheme in the UK. 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 closed to future service accrual with effect from 30 June 2006 and members no longer pay contributions to the Defined Benefit Section. Company contributions after this date are used to fund any deficit in the Scheme and to meet 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.

Notes to the Consolidated Financial Statements (continued)

20 Employee benefits (continued)

The Scheme poses a number of risks to the Company, for example longevity risk, investment risk, interest rate risk and inflation 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 they face. 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 Scheme is subject to regular actuarial valuations, which are usually carried out every three years. The next actuarial valuation is due to be carried out with an effective date of 5 April 2016. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and 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 2013. The results of that valuation have been projected to 31 December 2013 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 are as follows:

	2013	2012	2011
	£'000	£'000	£'000
Present value of a Scheme liabilities	(262,900)	(246,573)	(237,621)
Fair value of Scheme assets	258,553	254,785	250,587
Net amount recognised at year end (before any adjustments for deferred tax)	(4,347)	8,212	12,966

The amounts recognised in Comprehensive Income are:

The current and past service costs, settlement 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 liability are included in Other Comprehensive Income.

	2013	2012
	£'000	£'000
Service cost:		
Net interest credit recognised in the Consolidated Income Statement	(576)	(709)
Remeasurements of the net liability:		
Difference between actual and expected investment return	5,108	2,261
Loss arising from changes in financial assumptions	13,437	2,636
Loss arising from changes in demographic assumptions	987	-
Experience (gain) / loss	(797)	4,166
Charge recorded in Other Comprehensive Income	18,735	9,063
	18,159	8,354

20 Employee benefits (continued)

The principal actuarial assumptions used were:

	2013	2012
Liability discount rate	4.60%	4.70%
Inflation assumption – RPI	3.40%	2.90%
Inflation assumption – CPI	2.40%	1.90%
Rate of increase in salaries	n/a	n/a
Revaluation of deferred pensions	2.40%	1.90%
Increases for pensions in payment:		
CPI pension increases (maximum 5% pa)	2.40%	1.90%
CPI pension increases (maximum 5% pa, minimum 3% pa)	3.20%	3.10%
CPI pension increases (maximum 3% pa)	2.20%	1.80%
Mortality assumption - before retirement	Same as for after retirement	Ax92 Tables
Mortality assumption - after retirement (males)	S1PMA tables	S1PMA tables
Loading	105%	105%
Projection Basis	Year of birth	Year of birth
	CMI_2012 1.0%	CMI_2010 1.0%
Mortality assumption - after retirement (females)	S1PFA tables	S1PFA tables
Loading	105%	105%
Projection Basis	Year of birth	Year of birth
	CMI_2012 1.0%	CMI_2010 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	21.9	21.8
Female age 65 at year end	24.1	23.9
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	23.2	23.2
Female age 45 at year end	25.6	25.5

Changes in the present value of assets over the period:

	2013	2012
	£'000	£'000
Fair value of assets at start of period	254,785	250,587
Interest income	11,961	11,898
Return on assets (excluding amount included in net interest expense)	(5,108)	(2,261)
Contributions from the employer	5,600	3,600
Benefits paid	(8,685)	(9,039)
Fair value of assets at end of period	258,553	254,785
Actual return on assets over the period	6,853	9,637

Notes to the Consolidated Financial Statements (continued)

20 Employee benefits (continued)

Changes in the present value of liabilities over the period:	2013	2012
	£'000	£'000
Liabilities at start of period	246,573	237,621
Interest cost	11,385	11,189
Remeasurement (gains) / losses:		
Actuarial losses arising from changes in financial assumptions	13,437	2,636
Actuarial losses arising from changes in demographic assumptions	987	-
Other experience (gains) / losses	(797)	4,166
Benefits paid	(8,685)	(9,039)
	<hr/>	<hr/>
Liabilities at end of period	262,900	246,573
	<hr/>	<hr/>
The split of the Scheme's liabilities by category of:	2013	2012
	£'000	£'000
Active members	-	-
Deferred pensioners	133,817	124,925
Pensioners in payment	129,083	121,648
	<hr/>	<hr/>
	262,900	246,573
	<hr/>	<hr/>
Average duration of the Scheme's liabilities at the end of the period (years)	19	19
	<hr/>	<hr/>
The major categories of Scheme assets are as follows:	2013	2012
Return seeking assets	£'000	£'000
UK Equities	40,428	34,256
Overseas Equities	13,836	11,881
Other Equity Type Investments	38,200	38,201
	<hr/>	<hr/>
Total return seeking assets	92,464	84,338
	<hr/>	<hr/>
Debt instruments	£'000	£'000
Corporate Bonds	-	1,144
Insured Pensioners	1,295	781
Cash	2,564	1,398
Liability Driven Investments	162,230	167,124
	<hr/>	<hr/>
Total matching assets	166,089	170,447
	<hr/>	<hr/>
Total market value of assets	258,553	254,785
	<hr/>	<hr/>

The Scheme has no investments in the Company or in property occupied by the Company.

The Company expects to contribute £4,600,000 to the Scheme during year ending 31 December 2014.

Sensitivity of the liability value to changes in the principal assumptions

If the discount rate was 0.1 per cent higher (lower), the Scheme liabilities would decrease by approximately £4.5 million (increase by £4.6 million) if all the other assumptions remained unchanged.

If the inflation assumption was 0.1 per cent higher (lower), the Scheme liabilities would increase by £1.7 million (decrease by £2.8 million).

If life expectancies were to increase (decrease) by 1 year, the Scheme liabilities would increase by £8.7 million (decrease by £8.5 million) if all the other assumptions remained unchanged.

20 Employee benefits (continued)

Share-based payments

Marshalls plc 2005 Long Term Incentive Plan (The "LTIP")

Share-based payment awards have been made during the year in accordance with the rules of the LTIP. The LTIP rules provide for the award of Matching Shares and Performance Shares subject, in the case of Matching Shares, to participants investing a stated percentage of their annual bonus in the LTIP. The minimum investment by Executive Directors is 50 per cent of annual bonus until they have reached the share ownership targets set by the Board; thereafter they may choose to invest annual bonus on a voluntary basis. The annual bonus investment is used to purchase Investment Shares to qualify for a Matching Share award, subject to defined limits. In addition, Performance Shares may be awarded to participants without requiring a qualifying investment.

Both Matching Shares and Performance Shares 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. Matching Share awards are dependent on an improvement in reported earnings per share, while Performance Share awards are dependent on an improvement in reported earnings per share and operating cash flow, each measured using International Financial Reporting Standards. The Remuneration Committee may exercise its discretion with regard to the effect of one-off items. Full details of the performance criteria are set out in the Directors' Remuneration Report on pages 63 to 90.

The Performance and Matching 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	587,957	17 March 2011	3 years
	761,601	17 March 2011	3 years
	853,598	20 March 2012	3 years
	667,875	17 April 2013	3 years
	243,412	10 September 2013	3 years
Equity settled awards granted to other employees	157,927	17 March 2011	3 years
	673,039	17 March 2011	3 years
	833,746	20 March 2012	3 years
	791,012	17 April 2013	3 years
	5,570,167		

	Weighted average share price at date of grant (pence per share) 2013	Number of options 2013	Weighted average share price at date of grant (pence per share) 2012	Number of options 2012
Outstanding at 1 January	108	3,951,999	97	4,864,886
Granted	134	1,702,299	101	1,727,042
Lapsed	107	(84,131)	84	(2,639,929)
Outstanding at 31 December	116	5,570,167	108	3,951,999

There were no share options exercised or that expired during the period. None of the options were exercisable at 31 December 2013.

Notes to the Consolidated Financial Statements (continued)

20 Employee benefits (continued)

The fair value of services received in return for Matching Shares granted are 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.

	10 September 2013 grant	17 April 2013 grant	20 March 2012 grant	17 March 2011 grant
Fair value at grant date (pence per share)	60	106	84	94
Share price on date of grant (pence per share)	173	127	101	113
Expected volatility used in the modelling under the Black-Scholes valuation model	65.0%	65.0%	65.0%	65.0%
Dividend yield	6.0%	6.0%	6.0%	6.0%
Risk-free interest rate (based on national government bonds)	2.0%	2.0%	2.0%	2.0%

The Company's share price at 31 December 2013 was 176.25p.

The expected volatility is wholly based on the historic volatility (since the Scheme of Arrangement in July 2004), adjusted for any expected changes to future volatility due to publicly available information.

The total expenses recognised for the period arising from share-based payments are as follows

	2013 £'000	2012 £'000
Awards granted and total expense recognised as employee costs	<u>716</u>	<u>468</u>

Performance Incentive Plan ("PIP")

Share-based payment awards have been made during the year in accordance with the rules of the PIP. Full details of the performance criteria and the basis of operation of the PIP are set out in the Directors' Remuneration Report on pages 63 to 90.

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	927,365	839	31 December 2011	4 years
	374,762	365	31 December 2012	3 years
	364,858	643	31 December 2013	2 years
Equity settled awards granted to other employees	466,179	422	31 December 2011	4 years
	233,609	228	31 December 2012	3 years
	215,388	380	31 December 2013	2 years
	<u>2,582,161</u>	<u>2,877</u>		

20 Employee benefits (continued)

Analysis of closing balance (deferred into shares):	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	800	453,875
Equity settled awards granted to other employees	788	447,226
	1,588	901,101

	Value £'000	Number of options 2013	Value £'000	Number of options 2012
Outstanding at 1 January	1,403	1,439,243	1,261	1,393,544
Granted	1,023	580,246	593	608,371
Change in value of notional shares	1,209	-	171	-
Element released	(2,047)	(1,118,388)	(622)	(562,672)
Outstanding at 31 December	1,588	901,101	1,403	1,439,243

The total expenses recognised for the period arising from share-based payments are as follows:

	2013	2012
	£'000	£'000
Awards granted and total expense recognised as employee costs	942	746

Further details in relation to the Directors are set out in the Directors' Remuneration Report on pages 63 to 90.

Employee Profit Sharing Scheme

At 31 December 2013 the scheme held 42,414 (2012: 42,414) ordinary shares in the Company.

21 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Property, plant and equipment	-	-	(13,206)	(15,631)
Intangible assets	-	-	(335)	(390)
Inventories	-	-	(500)	(776)
Employee benefits	869	-	-	(1,890)
Equity settled share-based expenses	757	-	-	-
Other items	-	-	(1,189)	(1,371)
Tax assets / (liabilities)	1,626	-	(15,230)	(20,058)

The 2013 Budget on 20 March 2013 announced that the UK Corporation Tax rate will reduce to 20 per cent by 2015. Reductions in the rate to 21 per cent (effective April 2014) and 20 per cent (effective April 2015) were substantially enacted, following the receipt of Royal Assent, in July 2013. This will reduce the Group's future current tax charge accordingly. The deferred taxation liability at 31 December 2013 has been calculated based on the rate of 20 per cent substantively enacted at the balance sheet date.

The deferred taxation asset of £869,000 (2012 liability: £1,890,000) in relation to employee benefits is in respect of the net deficit for the defined benefit obligations of £4,347,000 (2012: £8,212,000 net surplus) (Note 20) calculated at 20 per cent (2012: 23 per cent).

Notes to the Consolidated Financial Statements (continued)

21 Deferred taxation (continued)

Deferred tax assets on capital losses have not been recognised due to uncertainty around the future use of the losses.

Movement in temporary differences

Year ended 31 December 2013

	1 January 2013 £'000	Recognised in income £'000	Recognised in Other Comprehensive Income £'000	31 December 2013 £'000
Property, plant and equipment	(15,631)	2,425	-	(13,206)
Intangible assets	(390)	55	-	(335)
Inventories	(776)	276	-	(500)
Employee benefits	(1,890)	(988)	3,747	869
Equity settled share-based expenses	-	581	176	757
Impact on Other Comprehensive Income of the change in rate of deferred tax	92	-	275	367
Other items	(1,463)	193	(286)	(1,556)
	<u>(20,058)</u>	<u>2,542</u>	<u>3,912</u>	<u>(13,604)</u>

Year ended 31 December 2012

	1 January 2012 £'000	Recognised in income £'000	Recognised in Other Comprehensive Income £'000	31 December 2012 £'000
Property, plant and equipment	(17,967)	2,336	-	(15,631)
Intangible assets	(796)	406	-	(390)
Inventories	(1,089)	313	-	(776)
Employee benefits	(3,242)	(732)	2,084	(1,890)
Equity settled share-based expenses	63	(63)	-	-
Impact on Other Comprehensive Income of the change in rate of deferred tax	(268)	-	360	92
Other items	(1,924)	163	298	(1,463)
	<u>(25,223)</u>	<u>2,423</u>	<u>2,742</u>	<u>(20,058)</u>

22 Capital and reserves

Share capital

	Issued and paid up 2013 £'000	2012 £'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.

22 Capital and reserves (continued)

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.

	2013	2012
	£'000	£'000
3.50 pence (2012: 3.50 pence) per ordinary share	6,861	6,861

23 Non-controlling interests

	2013	2012
	£'000	£'000
Non-controlling interests		
At 1 January	3,884	3,394
Issue of shares	-	610
Share of result for the period	(634)	(14)
Foreign currency translation differences	45	(106)
At 31 December	3,295	3,884

24 Analysis of net debt

	1 January 2013 £'000	Cash flow £'000	Other changes £'000	31 December 2013 £'000
Cash at bank and in hand	11,101	6,534	17	17,652
Debt due within one year	-	(3,370)	-	(3,370)
Debt due after one year	(74,325)	24,838	(140)	(49,627)
Finance leases	(319)	100	(5)	(224)
	(63,543)	28,102	(128)	(35,569)

Reconciliation of Net Cash Flow to Movement in Net Debt

	2013	2012
	£'000	£'000
Net increase in cash equivalents	6,534	5,114
Cash outflow from decrease in debt and lease financing	21,568	8,247
Effect of exchange rate fluctuations	(128)	197
Movement in net debt in the period	27,974	13,558
Net debt at 1 January	(63,543)	(77,101)
Net debt at 31 December	(35,569)	(63,543)

Notes to the Consolidated Financial Statements (continued)

25 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 2013

	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 one year	1,025	799	226	-	-	-
between one and five years	20,477	2,918	2,902	5,213	9,444	-
in more than five years	31,430	788	784	1,573	4,873	23,412
	52,932	4,505	3,912	6,786	14,317	23,412

31 December 2012

	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 one year	2,462	1,657	805	-	-	-
between one and five years	11,453	2,356	2,343	3,507	3,247	-
in more than five years	35,287	1,053	1,047	2,100	6,238	24,849
	49,202	5,066	4,195	5,607	9,485	24,849

The minimum lease payments under non-cancellable operating leases (above) comprise property £30,069,000 (2012: £31,417,000) and plant, machinery and vehicles £22,863,000 (2012: £17,785,000). During 2012 the Group sold an office building for £6.1 million and agreed to lease this back under an operating lease over 25 years. Rent payments are non contingent and there is no option to purchase the property back at the end of the lease.

Certain leased properties have been sublet by the Group. Sublease payments of £106,371 (2012: £118,020) are expected to be received during the following financial year. An amount of £118,720 (2012: £118,470) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

26 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 employers liability and vehicle insurance.

Beneficiary	Amount	Period	Purpose
XL Winterthur	£300,000	19 Dec 2003 to 31 Oct 2014	Employers' liability
Mitsui Sumitomo Insurance (London Management) Limited	£1,610,000	23 Dec 2011 to 31 Oct 2014	Employers' liability
Aviva Insurance Limited	£350,000	19 Mar 2013 to 31 Oct 2014	Vehicle insurance

27 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 0.24 per cent (2012: 0.47 per cent) of the voting shares of the Company.

In addition to their salaries, the Group also provides non-cash benefits to Directors, and contributes to a defined contribution pension scheme on their behalf. Further details in relation to Directors are disclosed in the Directors' Remuneration Report on pages 63 to 90.

28 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 104 to 113.

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*".

In relation to the Group's intangible fixed assets (Note 12) impairment tests have been undertaken using commercial judgement and a number of assumptions and estimates in relation to relevant trading volumes and margins. These estimates have been determined using the best available information derived from a combination of business specific analysis (both current and historic) and the latest available external industry forecasts. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates in order to calculate present values.

Note 20 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 20 on pages 133 to 139.

Note 21 contains details of the Group'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.

Company Balance Sheet

at 31 December 2013

	Notes	2013 £'000	2012 £'000
Fixed assets			
Investments	32	339,634	338,728
Deferred taxation assets	33	569	-
		340,203	338,728
Current assets			
Debtors	34	958	898
Current liabilities			
Creditors	35	(13,861)	(346)
Net current (liabilities) / assets		(12,903)	552
Net assets		327,300	339,280
Capital and reserves			
Called up share capital	36	49,845	49,845
Share premium account	37	22,695	22,695
Own shares	37	(9,512)	(9,571)
Capital redemption reserve	37	75,394	75,394
Equity reserve	37	1,463	388
Profit and loss account	37	187,415	200,529
Equity shareholders' funds		327,300	339,280

Approved at a Directors' meeting on 26 March 2014.
On behalf of the Board:

M. Coffey
Chief Executive

I.D. Burrell
Finance Director

The Notes on pages 146 to 150 form part of these Company Financial Statements.

Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2013

	2013 £'000	2012 £'000
Loss for the financial year	(4,761)	(2,767)
Equity dividends	(10,292)	(10,292)
Deficit for the financial year	(15,053)	(13,059)
Purchase of own shares	-	(57)
Share-based expenses	2,904	718
Deferred tax on share-based expenses	169	-
Share-based expense adjustment	-	(250)
Net reduction in shareholders' funds	(11,980)	(12,648)
Shareholders' funds at beginning of year	339,280	351,928
Shareholders' funds at end of year	327,300	339,280

The Notes on pages 146 to 150 form part of these Company Financial Statements.

Notes to the Company Financial Statements

29 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) Basis of preparation

The Company Financial Statements are prepared under the historical cost convention and in accordance with UK GAAP and applicable accounting standards. There is no material difference between historical cost profits and those reported in the profit and loss account.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the consolidated cash flows for all Group companies are included within the Consolidated Financial Statements.

As these Parent Company Financial Statements are presented together with the Consolidated Financial Statements, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned entities which form part of the Group (or investees of the Group qualifying as related parties). The Consolidated Financial Statements of Marshalls plc within which this Company is included are set out on pages 98 to 143.

(b) Investments

Fixed asset investments are stated at cost less provision for impairment where appropriate. The Directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged in the profit and loss account in the year.

(c) Pension costs

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 Company is unable to identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis and therefore, as required by FRS 17 – “*Retirement benefits*”, accounts for the Scheme as if it were a defined contribution scheme.

Defined contribution scheme

Contributions to the Group's defined contribution Pension Scheme are determined as a percentage of employees' earnings and are charged to the profit and loss account as incurred.

(d) Share-based payment transactions

The Company enters into equity settled share-based payment transactions with its employees and its subsidiaries' employees. In particular, annual awards are made to Directors under a long term incentive plan.

The long term incentive plan allows Company employees to acquire shares of Marshalls plc. The fair value of options granted to Company employees 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. The fair value of the options granted is measured using an 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 share options that vest. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its subsidiaries' financial statements with the corresponding credit being recognised directly in equity.

29 Accounting policies (continued)

(e) Own shares held by 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.

(f) Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash, at or close to their carrying values, or traded in an active market. Liquid resources comprise term deposits of less than one year.

(g) Leased assets

The rental cost of all operating leases is charged to the profit and loss account on a straight line basis over the lives of the leases.

(h) Current tax

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.

(i) Deferred taxation

Full provision is made for deferred taxation resulting from timing differences, other than those specifically excluded by FRS 19 – "*Deferred Taxation*", between profits computed for taxation purposes and profits stated in the Financial Statements to the extent that there is an obligation to pay more tax in the future as a result of those timing differences. Deferred taxation assets are recognised to the extent that they are expected to be recoverable. Deferred taxation assets and liabilities are not discounted.

(j) Financial guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(k) 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).

30 Operating costs

The audit fee for the Company was £20,000 (2012: £20,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditors for services other than the statutory audit of the Company are not disclosed in the notes to the Company Financial Statements since the Consolidated Financial Statements of the Group are required to disclose non-audit fees on a consolidated basis.

Notes to the Company Financial Statements (continued)

31 Ordinary dividends: equity shares

	2013		2012	
	per share	£'000	per share	£'000
2012 Final: paid 6 July 2013	3.50p	6,861	3.50p	6,861
2013 Interim: paid 7 December 2013	1.75p	3,431	1.75p	3,431
	<u>5.25p</u>	<u>10,292</u>	<u>5.25p</u>	<u>10,292</u>

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.

	2013	2012
	£'000	£'000
3.50 pence (2012: 3.50 pence) per ordinary share	<u>6,861</u>	<u>6,861</u>

32 Investments

At 1 January 2013	£'000	338,728
Additions		906
At 31 December 2013		<u>339,634</u>

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 £906,000 represents adjustments to the number of shares expected to vest in respect of share-based payment awards granted to employees of Marshalls Group Limited.

The principal subsidiary undertakings of Marshalls plc at 31 December 2013 are set out below. With the exception of Marshalls NV, Xiamen Marshalls Import Export Company Limited and Marshalls Landscape Products (North America) Inc. 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 and Marshalls Landscape Products (North America) Inc. is registered in the USA.

Subsidiaries	Principal activities	Class of share	% Ownership
Marshalls Group Limited	Intermediate holding company	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 NV *	Landscape products manufacturer and supplier	Ordinary	66.7
Xiamen Marshalls Import Export Company Limited *	Sourcing and distribution of natural stone products	Ordinary	100
Marshalls Landscape Products (North America) Inc.*	Landscape products supplier	Ordinary	100

* held by subsidiary undertaking

33 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Equity settled share-based expenses	<u>569</u>	<u>-</u>	<u>-</u>	<u>-</u>

Movement in temporary differences Year ended 31 December 2013

	1 January 2013 £'000	Recognised in income £'000	Recognised in equity reserve £'000	31 December 2013 £'000
Equity settled share-based expenses	<u>-</u>	<u>400</u>	<u>169</u>	<u>569</u>

34 Debtors

	2013 £'000	2012 £'000
Corporation tax	<u>958</u>	<u>898</u>

No debtors were due after more than one year.

35 Creditors

	2013 £'000	2012 £'000
Amounts owed to subsidiary undertakings	<u>13,861</u>	<u>346</u>

36 Share capital

As at 31 December 2013, the issued and fully paid up share capital was as follows:

	2013 Number	2013 Nominal Value £'000	Issued and paid up 2012 Number	2012 Nominal Value £'000
At 31 December	<u>199,378,755</u>	<u>49,845</u>	<u>199,378,755</u>	<u>49,845</u>

Disclosures regarding share-based expenses are given in Note 20 on pages 137 to 139.

Notes to the Company Financial Statements (continued)

37 Share capital and reserves

	Ordinary share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 January 2013	49,845	22,695	(9,571)	75,394	388	200,529
Share-based expenses	-	-	-	-	906	1,998
Deferred tax on share-based expenses	-	-	-	-	169	-
Disposal of own shares	-	-	59	-	-	(59)
Loss for the financial year	-	-	-	-	-	(4,761)
Equity dividends	-	-	-	-	-	(10,292)
At 31 December 2013	49,845	22,695	(9,512)	75,394	1,463	187,415

38 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2013 or 31 December 2012.

39 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.

40 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 employers liability and vehicle insurance.

Beneficiary	Amount	Period	Purpose
XL Winterthur	£300,000	19 Dec 2003 to 31 Oct 2014	Employers liability
Mitsui Sumitomo Insurance (London Management) Limited	£1,610,000	23 Dec 2011 to 31 Oct 2014	Employers liability
Aviva Insurance Limited	£350,000	19 Mar 2013 to 31 Oct 2014	Vehicle insurance

41 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. As set out in Note 20 the Group introduced a new defined contribution section to the Scheme to replace the existing defined benefit section which closed to future service accrual on 1 July 2006.

Full details of the Scheme are provided in Note 20. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis. Accordingly, as permitted by FRS 17 – "Retirement benefits", the Scheme has been accounted for in these Company Financial Statements as if the Scheme was a defined contribution scheme.

The latest funding valuation of the Scheme was carried out as at 6 April 2013 and was updated for FRS 17 purposes to 31 December 2013 by a qualified independent Actuary. Certain employees are members of the Company Defined Contribution Scheme which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly.

The Group deficit on an FRS 17 basis at 31 December 2013 was £4,347,000 (2012: £nil). FRS17 stipulates that an employer should only recognise a Pension Scheme surplus as an asset to the extent that it is able to recover that surplus either through reduced contributions in the future or through refunds from the Scheme. Refunds from the Scheme had not been agreed at the measurement date.

Shareholder Information

Shareholder analysis at 31 December 2013

<i>Size of Shareholding</i>	<i>Number of Shareholders</i>	<i>%</i>	<i>Number of Ordinary Shares</i>	<i>%</i>
1 to 500	1,984	40.81	299,662	0.15
501 to 1,000	610	12.55	460,125	0.23
1,001 to 2,500	820	16.86	1,402,265	0.70
2,501 to 5,000	566	11.64	2,031,455	1.02
5,001 to 10,000	369	7.59	2,616,681	1.31
10,001 to 25,000	203	4.18	3,202,887	1.61
25,001 to 100,000	156	3.21	7,533,267	3.78
100,001 to 250,000	58	1.19	8,677,240	4.35
250,001 to 500,000	38	0.78	14,338,113	7.19
500,001 and above	58	1.19	158,817,060	79.66
	<u>4,862</u>	<u>100.0</u>	<u>199,378,755</u>	<u>100.0</u>

Financial calendar

Preliminary Announcement of results for the year ended

31 December 2013	Announced	26 March 2014
Annual General Meeting		14 May 2014
Final dividend for the year ended 31 December 2013	Payable	4 July 2014
Half - yearly results for the year ending 31 December 2014	Announcement	29 August 2014
Half - yearly dividend for the year ending 31 December 2014	Payable	5 December 2014
Results for the year ending 31 December 2014	Announcement	March 2015

Advisers

Stockbrokers

Citigroup Global Markets Limited
Numis Securities Limited

Auditors

KPMG Audit Plc

Legal Advisers

Herbert Smith 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
Barclays Bank plc

Registrars

Computershare Investor Services PLC
The Pavilions
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Shareholders' enquiries should be addressed to the Registrars at the above address (Tel: 0870 707 1134)

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West Yorkshire

Telephone: 01422 306400
Internet address:
<http://www.marshalls.co.uk>

Registered in England and Wales: No. 5100353

Financial History - Consolidated Group

	Year to December 2009*	Year to December 2010*	Year to December 2011*	Year to December 2012*	Year to December 2013
	£'000	£'000	£'000	£'000	£'000
Consolidated Income Statement					
Revenue	288,869	299,934	325,112	300,938	307,390
Net operating costs	<u>(273,301)</u>	<u>(288,962)</u>	<u>(310,117)</u>	<u>(288,087)</u>	<u>(291,300)</u>
Operating profit (before operational restructuring and works closure costs, goodwill and asset impairments)	15,568	10,972	14,995	12,851	16,090
Operational restructuring and works closure costs, goodwill and asset impairments	<u>(7,217)</u>	<u>-</u>	<u>-</u>	<u>(21,521)</u>	<u>-</u>
Operating profit / (loss)	8,351	10,972	14,995	(8,670)	16,090
Financial income and expenses (net)	(4,314)	(2,563)	(3,007)	(3,578)	(3,064)
Redemption of debenture	(7,259)	-	-	-	-
Profit before tax (before operational restructuring and works closure costs, goodwill and asset impairments and redemption of debenture)	11,254	8,409	11,988	9,273	13,026
Profit / (loss) before tax	(3,222)	8,409	11,988	(12,248)	13,026
Income tax (expense) / credit	<u>1,857</u>	<u>(1,638)</u>	<u>(1,071)</u>	<u>5,874</u>	<u>(67)</u>
Profit / (loss) for the financial period before post tax profit / (loss) of discontinued operations	(1,365)	6,771	10,917	(6,374)	12,959
Post tax profit / (loss) of discontinued operations	613	579	(3,661)	676	503
Profit / (loss) for the financial period	<u>(752)</u>	<u>7,350</u>	<u>7,256</u>	<u>(5,698)</u>	<u>13,462</u>
Profit / (loss) for the period attributable to:					
Equity shareholders of the parent	(752)	7,350	7,390	(5,684)	14,096
Non-controlling interests	-	-	(134)	(14)	(634)
	<u>(752)</u>	<u>7,350</u>	<u>7,256</u>	<u>(5,698)</u>	<u>13,462</u>
Financial Information					
EBITA	9,107	12,405	16,174	(7,423)	17,028
EBITDA	26,778	29,101	32,413	6,538	30,227
EBITA before operational restructuring and works closure costs, goodwill and asset impairments	16,324**	12,405	16,174	14,098**	17,028
EBITDA before operational restructuring and works closure costs, goodwill and asset impairments	33,995**	29,101	32,413	28,059**	30,227
Earnings per share (pence) ***					
Basic: (continuing operations)	(0.76)	3.46	5.66	(3.26)	6.94
Basic: (total operations)	(0.42)	3.76	3.78	(2.91)	7.20
Basic continuing operations: (before operational restructuring and works closure costs goodwill and asset impairments and redemption of debenture)	5.04**	3.46	5.66	5.52**	6.94
Dividends per share (pence) – IFRS	3.05	5.25	5.25	5.25	5.25
Dividend cover (times) – IFRS (continuing)	1.65**	0.66	1.08	1.12**	1.32
Dividends per share (pence) – Traditional ***	5.25	5.25	5.25	5.25	5.25
Dividend cover (times) – Traditional (continuing)	0.96**	0.66	1.08	1.12**	1.32
Year end share price (pence)	86.0	104.8	90.5	97.5	176.25
Tax rate (%)	<u>19.5</u>	<u>19.5</u>	<u>8.9</u>	<u>(16.3)**</u>	<u>0.5</u>
* the comparatives have been restated in respect of discontinued operations					
** before operational restructuring and works closure costs, goodwill and asset impairments and redemption of debenture stock in 2009					
*** earnings and dividends per share have been adjusted by the "bonus factor" inherent in the Rights Issue					
Consolidated Balance Sheet	2009	2010	2011	2012	2013
	£'000	£'000	£'000	£'000	£'000
Non-current assets	256,943	236,906	249,271	225,882	198,082
Current assets	<u>122,737</u>	<u>113,610</u>	<u>128,640</u>	<u>116,735</u>	<u>120,832</u>
Total assets	379,680	350,516	377,911	342,617	318,914
Current liabilities	(77,132)	(94,616)	(88,550)	(64,440)	(74,137)
Non-current liabilities	<u>(121,449)</u>	<u>(57,660)</u>	<u>(83,297)</u>	<u>(94,603)</u>	<u>(69,345)</u>
Net assets	181,099	198,240	206,064	183,574	175,432
Net borrowings	<u>(69,156)</u>	<u>(66,841)</u>	<u>(77,101)</u>	<u>(63,543)</u>	<u>(35,569)</u>
Gearing ratio	<u>38.2%</u>	<u>33.7%</u>	<u>37.4%</u>	<u>34.6%</u>	<u>20.3%</u>



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