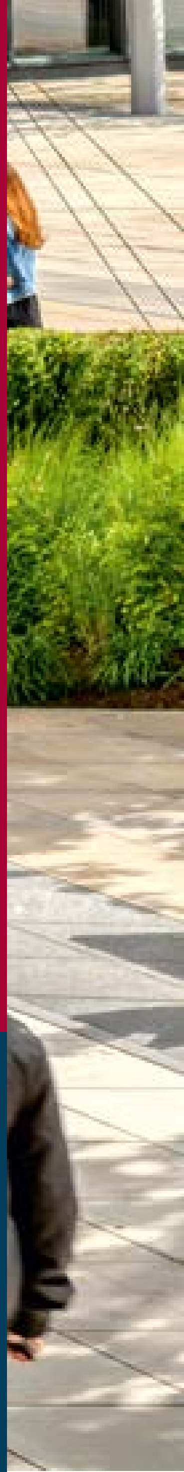
Marshalls

Delivering **sustainable growth**

Marshalls plc Annual Report and Accounts 2019

Paving a strong path **for the UK's leading hard landscaping manufacturer**

Our objective is to deliver sustainable growth, whilst maintaining a strong balance sheet with a flexible capital structure and a clear capital allocation policy.



> Our new 5 year Strategy lays the foundation for achieving our strategic goal of being the UK's leading manufacturer of products in the Built Environment.

Martyn Coffey
Chief Executive

Find out more online:
www.marshalls.co.uk

Front cover
Location - Southbank, London (London Eye)
Product - Callisto and Larissa Granite Paving

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Highlights

Our proven strategy continues to strengthen the business

Our continued focus on New Build Housing, Road, Rail and Water Management means we are positioned in the right parts of the market.

Financial highlights

- Revenue growth of 10% to £541.8 million (2018: £491.0 million)
- Continued improvement in operating margins which increased to 13.4% (2018: 13.2%)
- Profit before tax up 11% to £69.9 million (2018: £62.9 million) on a reported basis
- Return on capital employed ("ROCE") improved to 23.7% (2018: 21.9%) on a pre-IFRS 16 basis and on a reported basis was 21.4%
- Reported EPS up 12% to 29.36 pence (2018: 26.29 pence)
- Edenhall performed well in the period and its operational integration is complete
- Strong cash generation has continued with Group operating cash flow at 96% of EBITDA
- Net debt of £18.7 million (2018: £37.4 million) on a pre-IFRS 16 basis
- Reported net debt of £60.0 million, after the inclusion of £41.3 million of IFRS 16 liabilities
- Recommended final ordinary dividend increased by 21% to 9.65 pence (2018: 8.00 pence) per share
- Recommended supplementary dividend of 4.00 pence per share made possible by strong cash management

Revenue (£'m)

£541.8m
+10%

2019	541.8
2018	491.0
2017	430.2
2016	396.9
2015	386.2

EBITDA (£'m)

Reported basis: **£103.9m** +29%

Pre-IFRS 16: **£90.1m** +12%

2019	90.1
2018	80.8
2017	67.9
2016	60.8
2015	51.8

Operating profit (£'m)

Reported basis: **£73.7m** +14%

Pre-IFRS 16: **£72.6m** +12%

2019	72.6
2018	64.8
2017	53.4
2016	47.6
2015	37.5

Basic EPS (p)

Reported basis: **29.36p** +12%

Pre-IFRS 16: **29.48p** +12%

2019	29.48
2018	26.29
2017	21.52
2016	18.95
2015	14.32

Profit before tax (£'m)

Reported basis: **£69.9m** +11%

Pre-IFRS 16: **£70.1m** +11%

2019	70.1
2018	62.9
2017	52.1
2016	46.0
2015	35.3

Return on capital employed (%)

Reported basis: **21.4%**

Pre-IFRS 16: **23.7%** – up 180 basis points

2019	23.7
2018	21.9
2017	20.8
2016	23.0
2015	19.0

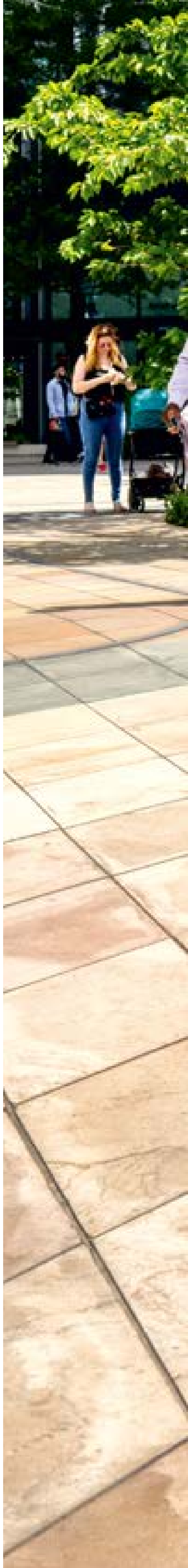
Final dividend recommended (p)

9.65p
+21%

2019	9.65	4.70
2018	8.00	4.00
2017	6.80	4.00
2016	5.80	3.00
2015	4.75	2.00

Notes:

1. The financial impact of IFRS 16 is summarised in Note 1.
2. Alternative performance measures are used consistently throughout the Annual Report and Accounts. These relate to like-for-like, EBITA, EBITDA, return on capital employed ("ROCE"), the ratio of operating cash flow to EBITDA and net debt. Following the transition to IFRS 16, reference has been made to "pre-IFRS 16" and "reported basis", the latter referring to amounts required under IFRS 16. For further details of their purpose, definition and reconciliation to the equivalent statutory measures see Note 1 to the Financial Statements.
3. The 2019 figures in the graphs use the pre-IFRS 16 figures.



Our 5 year Strategy

We do the right things, for the right reasons, in the right way. This is The Marshalls Way of doing business

Our vision

Our vision is to Create Better Spaces and Futures for Everyone; Socially, Environmentally and Economically.

Our mission

Our Continuing Mission is to Deliver Sustainable Growth through a Brand that Drives Customer Specification of Innovative Product Solutions for the Built Environment.

Our Strategic Goal is to become the UK's Leading Manufacturer of products for the Built Environment

Strategic Priorities

1 **Brand preference for product specification**
Read the Case Study on page 12

2 **Digital transformation**
Read the Case Study on page 30

3 **New product development**
Read the Case Study on page 13

4 **Logistics excellence**

5 **Sustainable materials supply**

6 **Customer centricity**

7 **Operational excellence**

8 **Growth in the emerging businesses**

Enabled by people and talent development

Read more about our people and culture pages 36 and 37

The Marshalls Way

Find out more about The Marshalls Way on page 11

At a Glance

The UK's leading manufacturer of hard landscaping products

Homeowners

Marshalls' Domestic customers range from DIY enthusiasts to professional landscapers, driveway installers and garden designers.

Marshalls specialises in helping homeowners to create beautiful, yet practical outdoor spaces which families can enjoy for years to come.

Homeowners revenue

26%

Flat

Public Sector and Commercial

In the Public Sector and Commercial end market, Marshalls satisfies the needs of a diverse commercial customer base which spans local authorities, commercial architects, specifiers, contractors and housebuilders. We have unrivalled technical expertise and manufacturing capability and an enviable product range.

Public Sector and Commercial revenue

69%

+15%

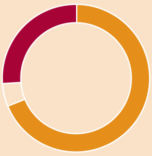
International

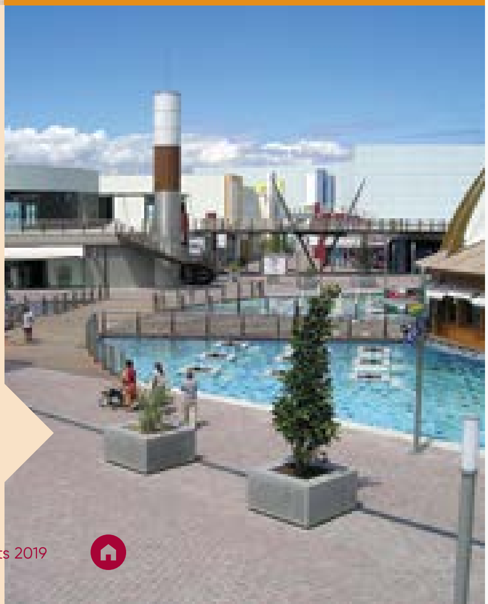
Marshalls' International operations comprise a manufacturing site in Belgium and sales and administration offices in the USA, China and Dubai. International revenue, which also includes exports from the UK, comprises 5 per cent of Group sales.

International revenue

5%

+13%





Where we operate

We have manufacturing plants, quarries and distribution sites across the UK. Our unique national network ensures proximity to customers and an efficient logistics footprint.

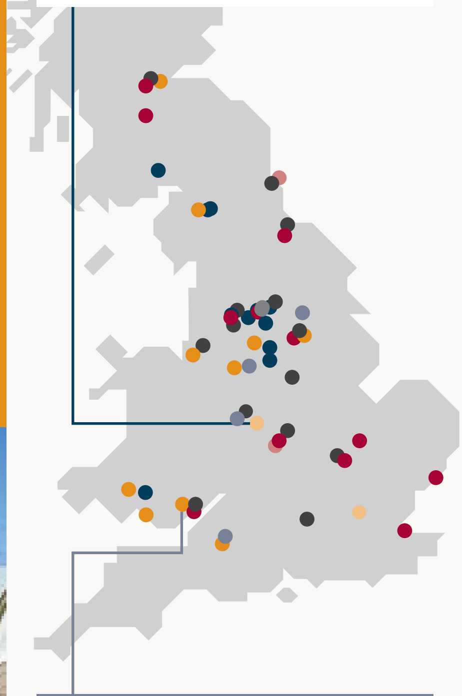
Locations:

- Marshalls Landscape
- Mineral Products
- Street Furniture
- CPM
- Premier Mortars
- Edenhall
- Design Space
- Administration

New Marshalls Design Space – Birmingham

The new Marshalls Design Space in Birmingham will support the major redevelopment of the city.

Read more on page 12



New factory – Newport, South Wales

Edenhall's new £6 million concrete brick manufacturing facility has significantly increased capacity.

Read more on page 13

Growth agenda

Proven record of sustained growth with 5-year CAGR growth in revenue of 9 per cent and PBT of 26 per cent.

Revenue

£541.8m +10%

Read more about our strategy on pages 20 and 21

Strong market position

Wide market reach targeting growth areas including New Build Housing, Road, Rail and Water Management. Wide-ranging mineral reserves with the "Marshalls Stone Standard" quality mark.

Operating profit margin

13.4% +2%

Read more about our markets on pages 14 and 15

Target acquisitions

The acquisitions of both CPM and Edenhall are enabling the Group to offer a broader product choice that complements our existing offering. Both acquisitions are now integrated into the Marshalls' business.

CPM
Acquired 19 October 2017

Edenhall
Acquired 11 December 2018

Read more about the integration of our acquisitions on page 32

Innovation and new products

The continued focus on innovation and new product development ensures we focus on manufacturing and materials technology capabilities.

Number of new product ranges

87

launched in the current innovation cycle

Read more about our investment in research and development on page 13

Diversified group

Serving Public Sector, Commercial and Domestic end markets. These have historically proved to offer security due to their counter-cyclical profiles.

Public Sector and Commercial (% of Group revenue)

69%

revenue growth of 15% in 2019

Read more about how we are improving our digital offering on page 30

Strong asset base and resources

Well-invested manufacturing plants with continuing emphasis on high quality maintenance, technology improvements and reinvestment. Capital investment of £22.9 million in 2019.

Capital investment in 2019

£22.9m

£101.5 million over the last 5 years

Read more about our capital investment on page 34

Sustainability

The Group has a sustainable business plan and has set KPIs for the key areas of this plan. Sustainability and corporate responsibility are key elements of The Marshalls Way. Delivering sustainable shareholder value is a key part of Group strategy.

ROCE

23.7%

On a pre-IFRS 16 basis

Read more about how we operate as a sustainable business on pages 36 to 41

Culture

The Marshalls Way underpins our culture along with our key objective of doing business responsibly. The corporate culture is embedded into our engagement with stakeholders.

Health and safety

14%

reduction in working days lost since 2016 (%)

Read more about our sustainability strategy on pages 36 to 41

Chair's Statement

The Marshalls Way means doing the right things, for the right reasons, in the right way

Summary

- Revenue growth of 10% despite challenging market conditions
- New 5 year Strategy launched during the year
- 12% increase in earnings per share reflecting continuing strength of the Marshalls brand
- Strong cash generation with year-end net debt down to £18.7 million on a pre-IFRS 16 basis (£60.0 million on a reported basis)
- Full year dividend of 18.35 pence (up 15%) and a discretionary supplementary dividend of 4.00 pence

Overview

I am now in my second year as your Chair and I am privileged to be part of the Marshalls story.

The last year has seen record revenue, profit and market capitalisation and the Group continues to outperform the construction market. Edenhall, acquired in December 2018, has had a very strong first year and has been an excellent addition for Marshalls. The business is now integrated into the Group and, given the great opportunity concrete bricks represent in the future, it has significant growth potential.

Results

Group revenue for the year was £541.8 million, an increase of 10 per cent on 2018, despite market conditions being challenging during the last year. Revenue in the Public Sector and Commercial end market was up 15 per cent, whilst Domestic sales were flat.

Profit before tax, on a reported post-IFRS 16 basis, was £69.9 million. On a pre-IFRS 16 basis, profit before tax was £70.1 million (2018: £62.9 million), an increase of 11 per cent. Reported EBITDA was £103.9 million. On a pre-IFRS 16 basis, EBITDA grew by 12 per cent to £90.1 million and the Group's earnings per share, at 29.48 pence, were up 12 per cent on a pre-IFRS 16 basis. Reported earnings per share were 29.36 pence.

Marshalls continues to have strong cash generation with year-end net debt of £18.7 million (2018: £37.4 million) on a pre-IFRS 16 basis.

> "The Board is committed to the promotion of strong ethical, environmental and corporate social responsibility principles."

Dividends

The Group continues to follow a progressive dividend policy aimed at achieving up to 2 times earnings cover over the business cycle. For the current year, the Board is recommending a final dividend of 9.65 pence per share (2018: 8.00 pence per share) which, together with the interim dividend of 4.70 pence per share (2018: 4.00 pence per share), makes a combined dividend of 14.35 pence per share (2018: 12.00 pence per share), an increase of 20 per cent for the year.

The Board is also recommending a supplementary dividend of 4.00 pence per share for 2019 (2018: 4.00 pence per share). The aim continues to be to maintain a degree of flexibility within our dividend strategy by utilising discretionary supplementary dividends commensurate with free cash flow and after considering future group capital requirements. The payment of this supplementary dividend provides increased returns for shareholders whilst at the same time recognising an appropriate degree of caution and stewardship.

Marshalls' new 5 year Strategy

The new 5 year Strategy was launched at our Capital Markets Day in June and has been very well received by investors. Our strategy lays the foundations for our goals and objectives and our 8 strategic priorities provide clear focus. The strategy is explained in more detail throughout this Annual Report and, in particular, in a Q&A format on pages 10 and 11.

The Marshalls Way

Our 5 year Strategy is underpinned by The Marshalls Way which is fundamental to the Group's culture of doing business responsibly. The development of The Marshalls Way has drawn on a Group-wide project which has seen significant engagement between the Board, employees and other stakeholders. Our recently refreshed Code of Conduct lays out what we expect from our employees and stakeholders in doing business the right way. This includes more regular and transparent consultation, interaction and reporting. The Marshalls Way means doing the right things, for the right reasons, in the right way. It features throughout this Annual Report because it is relevant to everything the Group does.

Environmental, social and governance ("ESG") objectives

The Board is committed to the promotion of strong ethical, environmental and corporate social responsibility principles. This is a fundamental element of The Marshalls Way. We recognise the need to have sustainable products and services and to consider the long-term impact of every decision the Group makes. We are focused on playing our part in addressing the risk of climate change and the protection of the environment and we are engaging with our stakeholders to ensure they also put sustainability first. Our ESG agenda is supported by a detailed framework and comprehensive policies.

Governance

We are committed to the highest standards of corporate governance and we comply with all the provisions of the UK Corporate Governance Code as outlined in our Corporate Governance Statement on pages 44 to 49. To ensure a strong alignment between the interests of management and our shareholders a large proportion of management's remuneration continues to be in shares which must be retained for up to 5 years.

During 2019, an external evaluation of Board performance was undertaken. The process and the outcomes are discussed in more detail on page 45. No areas of material concern were identified but a programme of priorities has been established for 2020.

The Board's priorities for 2020 include continuing our focus on sustainability and in reducing our net contribution to carbon emissions. We will continue to focus on people and culture through better communications, increased work on safety and strong succession and development programmes with a clear diversity agenda. These initiatives are explained in more detail in the Corporate Governance section on pages 44 to 49.

Board changes

Angela Bromfield joined the Board as a Non-Executive Director on 1 October 2019. She has relevant sector experience and experience of strategy, marketing and e-commerce. She will be a valuable addition to the Board.

Tim Pile will retire from the Board following the 2020 Annual General Meeting having served as a Non-Executive Director since October 2010. I would like to thank Tim for his wise counsel and valuable contribution to Marshalls during his period of office.

Our people

Our employees continue to be a major strength of the business and every member of our skilled workforce has a key part to play in achieving our priorities and goals. During the year we launched the Employee Voice Group ("EVG") to promote employee engagement and this comprises representatives from across all business areas and levels. Janet Ashdown attends EVG meetings as our designated Non-Executive Director for workforce engagement.

We are committed to developing our people and I would like to thank all our staff for their continuing commitment and dedication to Marshalls.

Outlook

The Group has delivered further growth in 2019 despite a period of market slowdown and economic and political uncertainty. The CPA's winter forecast predicted an increase in UK market volumes of 0.6 per cent in 2019 followed by a decrease of 0.3 per cent in 2020. The underlying indicators in our key our key New Build Housing, Road, Rail and Water Management markets remain supportive.

The Board believes that the Group's new 5 year Strategy will continue to deliver sustainable growth, whilst maintaining a strong balance sheet and a flexible capital structure. The strategy is underpinned by positive market fundamentals, focused investment plans and an established brand.

Vanda Murray OBE
Chair

Read about our sustainability on pages 36 to 41

Read about The Marshalls Way on page 11

Chief Executive's Statement

We have delivered further growth and continue to outperform the market

Summary

- 2019 has seen further growth despite a period of market slowdown
- Operating profit increased by 12% to £72.6 million on a pre-IFRS 16 basis (£73.7 million on a reported basis)
- 12% increase in earnings per share
- Capital discipline remains a key priority and the Group's cash generation has continued
- The Group's long-term strategy continues to deliver sustainable growth

Introduction

The Group has delivered further growth in 2019 despite a period of market slowdown and economic and political uncertainty. Our proven strategy continues to strengthen the business and with continued focus on New Build Housing, Road, Rail and Water Management, we are positioned in the right parts of the market. Based on public indicators we continue to outperform the market.

2019 trading summary

Group revenue for the year ended 31 December 2019 was up 10 per cent at £541.8 million (2018: £491.0 million). Excluding the impact of Edenhall, revenue was up 3 per cent.

Sales in the Public Sector and Commercial end market, which represented approximately 69 per cent of Group sales, were up 15 per cent compared with the prior year. The Edenhall business, acquired on 11 December 2018, traded strongly during 2019, and its operational integration into the Marshalls Group is now complete.

In the Public Sector and Commercial end market, Marshalls' strategy offers sustainable integrated solutions to customers, architects and contractors. The objective is to create a brand preference in order to secure product specification. Our Design Space office in Central London has been updated and refreshed during the year to offer specifiers, designers and clients an enhanced experience and to showcase our full range of brand-leading capabilities and technical and design solutions. During the year we have also opened a new Marshalls Design Space in the heart of Birmingham supporting the major redevelopment in the city. We are continually developing our product ranges and systems to ensure that we remain at the forefront of innovation and technology within our industry.

Sales in the Domestic end market, which represented approximately 26 per cent of Group sales, were flat compared with 2018. These results are ahead of the overall Domestic market in 2019. Whilst the Domestic end market was softer in the second half and suffered from the poor weather, continued execution of the 2020 Strategy more than compensated for this by improving operating margins. The survey of domestic installers at the end of February 2020 revealed order books of 9.7 weeks (2019: 10.0 weeks) which compared with 10.9 weeks at the end of October 2019. In the Domestic end market, the Group's strategy continues to be to drive sales through the Marshalls Register of approved domestic installers. This ensures a consistently high standard of quality, customer service and marketing support. The Marshalls Register comprises approximately 1,900 installer teams.

> **"Our business strategy is underpinned by strong market positions, focused investment plans and an established brand."**

International revenue grew by 13 per cent during 2019 and represents approximately 5 per cent of Group sales. The Group continues to develop opportunities by improving its global supply chains and infrastructure to ensure that international operations are sustainable and aligned with market opportunities.

Reported operating profit increased to £73.7 million (2018: £64.8 million). The impact of IFRS 16, which has been applied since 1 January 2019, has been to increase operating profit by £1.1 million. Post-IFRS 16 EBITDA was £103.9 million, as a consequence of an additional £12.9 million depreciation in relation to right-of-use assets. On a pre-IFRS 16 basis, EBITDA improved to £90.1 million (2018: £80.8 million), an increase of 12 per cent. This result is after charging £1.4 million of operational restructuring costs.

The reported operating margin was 13.6 per cent (2018: 13.2 per cent). Pre-IFRS 16 operating margins increased to 13.4 per cent. Excluding the impact of Edenhall, the operating margin increased to 13.7 per cent. This is a direct result of our successful execution of the 2020 Strategy.

The impact on the Income Statement of transitioning to IFRS 16 has been marginal, with reported profit before tax of £69.9 million lower than the pre-IFRS 16 figure of £70.1 million. The financial impact of IFRS 16 is summarised in more detail on pages 104 to 106. Basic earnings per share on a reported basis was 29.36 pence (2018: 26.29 pence) per share, which represented an increase of 12 per cent.

Capital discipline remains a key priority and the Group's strong cash generation has continued. On a pre-IFRS 16 basis net debt at 31 December 2019 was significantly reduced to £18.7 million (2018: £37.4 million). Operating cash flow was 96 per cent of EBITDA on a pre-IFRS 16 basis. Reported net debt was £60.0 million at 31 December 2019 following the inclusion of £41.3 million of IFRS 16 lease liabilities.

Group return on capital employed ("ROCE") remained strong and was 23.7 per cent on a pre-IFRS 16 basis (2018: 21.9 per cent). On a reported, post-IFRS 16 basis, ROCE was 21.4 per cent, following the inclusion of 41.3 million additional debt from lease liabilities. ROCE is defined as EBITA / shareholders' funds plus net debt.

Capital expenditure was £22.9 million in the year ended 31 December 2019 and further capital expenditure of £20 million is planned for 2020. We continue to generate a good pipeline of capital investment projects that will drive future organic growth. Edenhall's new £6 million state-of-the-art factory in South Wales was completed and fully commissioned in 2019. It has the capacity to deliver 100 million brick equivalents per annum. CPM's new precast factory was completed in 2018 and has increased the manufacturing capability for bespoke water management solutions.

Innovation and new product development

In the core Landscape Products business, the growth in revenue from new products continued strongly, increasing by 9 per cent during 2019. Research and development expenditure amounted to £5.5 million (2018: £4.9 million). The objective is to deliver innovative market leading new products that are aligned with customer needs across all business areas. The development pipeline continues to be strong and the Group is committed to providing high performance product solutions. The case study on page 13 provides further information about Marshalls' new product development strategy and showcases Edenhall's new concrete perforated bricks. These accounted for 30 per cent of Edenhall's brick sales in 2019.

Improvements in operational efficiency

The Group has a national network of concrete manufacturing sites and quarries which continues to provide a competitive advantage. Our flexible operating framework is enabling us to drive cost efficiency improvements across the network and to develop flexible strategies within the supply chain. Our objective continues to be to mitigate inflation on an ongoing basis to ensure sustainable business continuity and cost control. As part of our ongoing digital strategy we are currently integrating artificial intelligence into key business systems in order to create a new artificial intelligence infrastructure that will facilitate the delivery of further growth and efficiency benefits.

Health and safety

We aim to maintain the highest standards of health and safety which remains a cornerstone of The Marshalls Way. The Group has continued to invest in health and safety awareness training for all managers and supervisory staff and we continue to promote a culture in which all managers visibly demonstrate health and safety leadership. We remain committed to continual improvement in health and safety performance.

Marshalls ESG agenda

The Group has clear ESG policies which support a strong sustainability strategy. These principles are defined by The Marshalls Way and are embedded in our business model and investment priorities. Marshalls has an MSCI ESG rating of AAA and a FTSE4Good score of 3.5, which is ahead of both the sector and overall UK average. We are promoting our product ethical risk index to ensure that it is embedded throughout the supply chain.

Marshalls supports the UN Sustainable Development Goals and as part of the Group's climate change strategy we are committed to science-based targets. We support the Task Force on Climate Related Financial Disclosures ("TCFD") and are committed to making disclosures in line with TCFD recommendations.

Marshalls' new 5 year Strategy

In June 2019 we set out our new 5 year Strategy, following the successful execution of our 2020 strategy, launched in 2015 to deliver sustainable growth, increase operating margins and improve ROCE. Our new 5 year Strategy is outlined in more detail on pages 10 and 11.

The Group's long-term strategy continues to be to deliver sustainable growth with a continued emphasis on organic growth, investment and ESG initiatives. The priorities for investment within the new 5 year Strategy are set out in the Strategy section of this Annual Report on pages 20 and 21.

The strategy continues to focus on the maintenance of a strong balance sheet, a flexible capital structure and a clear capital allocation policy. These objectives drive both long-term growth and shareholder returns.

Martyn Coffey
Chief Executive

Q&A with the CEO

Our new 5 year Strategy lays the foundation for delivering further growth

Introduction

Our new 5 year Strategy lays the foundation for achieving our strategic goal of becoming the UK's leading manufacturer of products for the Built Environment. At the heart of the strategy are 8 priority areas for investment and business focus. We believe that these areas provide significant growth potential for the Group over the next 5 years.

How would you summarise the new 5 year Strategy?

We have seen 5 years of good growth and the delivery of our successful 2020 Strategy. We have also made significant progress in positioning the business for future growth. Consequently, the strategic direction for the next 5 years will be one of evolution rather than revolutionary change. We will continue to invest heavily in the business and to accelerate growth over the medium term. We will continue to challenge ourselves to be better, faster, smarter, more efficient, cost effective and innovative in order to challenge the market. We recognise that we have to respond positively to the pace of change in the macro-environment.

What does this mean for your future growth prospects?

There is an absolute ambition from the Board to make sure we deliver on our plans and continue to move the business forward. Our priority areas of New Build Housing, Road, Rail and Water Management remain attractive markets and we are well placed to deliver continued growth and operational profit improvements. Our capital allocation policy will continue to ensure that appropriate capital is allocated to projects that have the greatest potential. The 8 strategic pillars provide a framework for this.

How do you expect to achieve your strategic goals?

As part of our strategic plan for the next 5 years we have identified 8 strategic pillars that are summarised in the diagram on page 3 and in the illustration on page 11. These are regarded as areas of significant opportunity and will attract significant management focus and financial investment. We have set out further details covering 3 of these in specific case studies on pages 12, 13 and 30. The delivery of specific targets in all of these areas, and the strategy generally, is underpinned by The Marshalls Way and will be enabled by further investment in people and talent development. The Board regards the Group's culture as being paramount to the delivery of the strategy. The Marshalls Way is all about doing the right things, for the right reasons, in the right way.

What do you see as the Group's biggest challenges over the next 5 years?

The Group continues to have significant challenges, both external and internal to the business. External challenges include ongoing macro-economic and political uncertainty, cyber risk and climate change. We regularly risk assess all these challenges and develop risk mitigation strategies that seek to address a range of downside scenarios. Internal challenges include the ongoing need for all employees to maintain the highest standards in everything we do.

> **"The strategic direction for the next 5 years will be one of evolution rather than revolutionary change."**

In areas such as health and safety, competition, anti-bribery, labour standards, environmental sustainability and ESG, we aim to exceed legal and regulatory compliance. We aim to be at the forefront of defining best practice in all these areas.

How do you see changing technology impacting your business model and medium-term strategy?

Advances in technology are increasingly part of modern life. Customers are looking for us to provide an end-to-end digital offering and further investment in our digital proposition will continue to be a priority. Digital is one of our 8 strategic pillars and our digital journey is set out in more detail in the case study on page 30. We lead the market on quality for our products and services and our aim is to match this with market leading and forward thinking technology. We have a clear opportunity to pioneer the digital standard for our industry.

What part are acquisitions likely to play in your 5 year Strategy?

Our strategy towards acquisitions means we will continue to be selective in where we focus our attention and we will look at potential targets that will add value to our existing business model. Specifically, we will focus on bolt-on acquisition opportunities in Water Management and New Build Housing products. Such companies will be manufacturers, have hard assets and be based in the UK, where we are strong.

What factors could affect your strategy and how will you prepare for these?

The potential impact of extended economic and political uncertainty continues to be a risk. We have had Brexit plans and preparations in place for many months now and are confident that we have done all we can to prepare for further uncertainty in the macro-economy, e.g. delays in key infrastructure projects. Our strategy will be scaled back or accelerated as required, so that we can react to external and economic uncertainties. We are very confident that the strategy is the right one, with in-built flexibility such that the pace at which it is delivered can be adapted.

What emerging risks are you worried about and how will you mitigate such risks?

We have a well-defined risk management process and we formally review these risks, and the Group's response to them, twice a year. The Group's main risks are volatility in the market, cyber risk, the risk of reputational damage if we do not do things in the right way and people related risks. Most recently, the implications of an increase in the coronavirus is currently being assessed and we are carrying out appropriate contingency planning. The rapid pace of digital change in the market is a significant emerging risk and new technology could lead to further major changes in the market. In mitigation, we are continuing to invest in digital as a key part of the new 5 year Strategy.

How are you ensuring that you have the right people and skills to deliver the strategy?

Our People and Talent Development plan supports the delivery of the 5 year Strategy. The Board has led the development of an employee engagement strategy, which will both empower our people and measure engagement and culture. A new "talent strategy" has been implemented which will seek to ensure that we have the right people with the right skills. The aim is to ensure that Marshalls has an increasingly strong talent and skills pipeline, supported by a commitment to improve diversity and our gender pay gap results.

Why should potential investors invest in your Company?

The recent period of sustained growth has been supported by real changes in the business, its operational processes and controls. Our investments in digital and operational efficiency programmes mean that we are now in the best possible position to benefit from future market growth. We have successfully integrated both the CPM and Edenhall businesses into the core business and we now have a set model that is capable of integrating further acquisitions in the same efficient way. Our focus has been towards New Build Housing, Water Management and Infrastructure and these are now firmly aligned with the national agenda.

The Marshalls Way

Our culture is built on strong foundations of passion and pride. We are proud of our depth of experience, but we are humble enough never to stop learning.

We do the right things, for the right reasons, in the right way. Because this is The Marshalls Way of doing business, which has enabled us to become the UK's leading hard landscaping manufacturer.

Our teams understand what The Marshalls Way means day to day and we work together to demonstrate this in all we do. We all know that when we **Act with Courage** and **Inspire with Purpose** then we can help **Shape the Future** so that we **Win Together**.

Do the right things

- We have high standards
- We deliver market leading quality to our customers
- We strive to meet the needs and expectations of our customers
- We are continually developing the business and our people

For the right reasons

- We consider the long-term impact of every decision we make
- We are guided by strong principles
- We operate in the most ethical and sustainable way
- We take responsibility for every action

In the right way

- We set clear expectations
- We anticipate and embrace change
- We put people, communities and the environment first
- We work as a team to proactively propose solutions

Read our business model on pages 16 and 17

Read more about our sustainability report on pages 36 and 41

Case Study
Strategic priority

To create a brand preference to secure product specification

Our products are specified by developers, builders and architects. We have direct links with our customers' customers.

> **Marshalls have been a trusted partner of Quintain during the delivery of Wembley Park. Marshalls have worked efficiently with our design and construction partners for the past 3 years and have excelled in the process.**

Quintain Limited

The Marshalls brand

We have:

- an excellent product range;
- market leading quality and performance;
- superior product knowledge;
- strong working relationships;
- a strong digital presence and strategy;
- in-field commercial and technical support;
- a strong trading policy; and
- national reach.

Case study – Quintain / Marshalls Wembley Park

- 5,000 new homes and supporting infrastructure by 2020
- 12-month process to secure Key Supplier status
- Design and delivery of over £1.75 million of product to date
- Phased delivery of further hard landscaping in 2020 and 2021
- Granite steps to be supplied to lead up to the stadium from Wembley Way
- Total expected value of Marshalls phase 1 work – c£3.34 million
- Phase 2 of development programme at Wembley Park now underway

Case study – Marshalls Design Space

- New Marshalls Design Space in the heart of Birmingham supporting the major redevelopment of the city
- Updated and refreshed London Design Space to offer specifiers, designers and clients an enhanced specification
- The Design Spaces showcase the continual development of our product ranges and systems to ensure we remain at the forefront of innovation and technology within our industry

Case Study
Strategic priority

New product development

By choosing Marshalls Edenhall brick over a clay alternative, you are potentially reducing the embodied CO_2 impact of the bricks used to build with by nearly a third. Because concrete carbonates over time, the impact over the lifetime of the brick could be reducing the CO_2 impact by closer to 50 per cent.

We have delivered more products in the Domestic and Commercial space over the last few years than anyone in our industry.

We continue to lift our heads above the day to day to really hear what our customers want.

Product development focuses on meeting customer needs and increasing speed and efficiency of product installation.

Through creating new, innovative products, we continue to drive the market forward.

New product sales represented
13%
of total revenue for 2019

New product ranges launched in the current innovation cycle
87

R&D investment in the year
£5.5 million

Edenhall concrete perforated brick

- Innovative masonry product – unique manufacturing technique and mix design
- Minimal energy input compared to traditional clay brick – far smaller environmental footprint
- Produced by compacting a semi-dry concrete mix
- 100% recyclable concrete mix
- Tighter production tolerances, very consistent and reliable – BRE A+ rated
- Low water absorption and minimal efflorescence

New
£6 million
manufacturing facility in South Wales has increased Edenhall's capacity by 100 million concrete bricks

The concrete perforated brick now represents 30% of Edenhall's revenue and is increasing

"Edenhall's concrete facing bricks look very good and production performance has been strong. We have no reservations and since switching to these in 2019 we have taken over 900,000 to site."

Phil D'arcy
Site Manager, Linden Homes

Growth Markets

Based on public indicators we continue to outperform the market

Through detailed market analysis, we continue to drive new product development, particularly in the areas of New Build Housing, Water Management, Road and Rail.

Construction market growth

The CPA's winter forecast shows total construction output increasing by 0.6 per cent in 2019. The CPA highlights a slowdown in the construction sector in the second half of 2019 due to a combination of poor weather and heightened political and economic uncertainty in the lead up to the revised Brexit deadline and the 2019 General Election. The Group continues to outperform the CPA's growth forecasts.

The CPA forecasts that:

- construction output will fall by 0.3 per cent in 2020 before returning to growth of 1.2 per cent in 2021;
- private housing starts will fall by 2.0 per cent in 2020 and increase by 2.0 per cent in 2021; and
- infrastructure work will rise by 3.4 per cent in 2020 and 5.0 per cent in 2021.

The fall in construction output in the second half of 2019 was in all sectors, but was mainly driven by a decline in new construction output, particularly in private housing and infrastructure. Repair and maintenance activity also declined.

There remains economic and market uncertainty as the UK enters the "implementation period" of our exit from the EU which allows for negotiations with the EU on trade agreements.

However, the outcome of the UK General Election in December 2019 has created more certainty and a more positive swing in consumer confidence. The GfK Consumer Confidence Index improved by 3 points in December 2019. Although still low this is the biggest positive move since the summer of 2016.

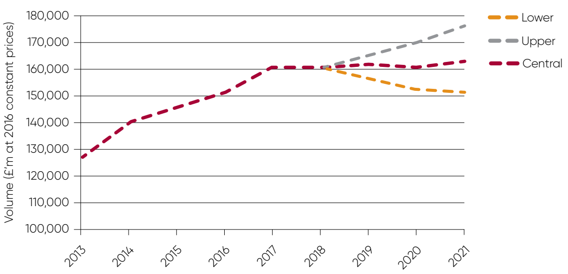
Against this background, Marshalls continues to target those areas of the market with the greatest growth potential and the underlying indicators in the New Build Housing, Road, Rail and Water Management markets remain supportive.

CPA total construction output

CPA 2020 ↓ £442m

Total construction output

Chain linked volume – 2016 prices



Why is this important for Marshalls?

- Detailed analysis means we understand the long-term drivers of market growth
- We are able to highlight significant variations between regions and sectors
- This information facilitates the formulation of our strategy and scenario planning

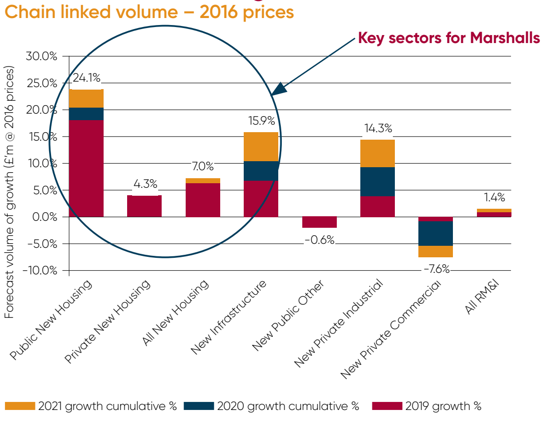
Response to market challenges – our strategic priorities

- We target individual market sectors – those with sustainable growth
- We aim to deliver an end-to-end digital offer with market leading and forward thinking technology
- We drive specification and sales for the Group's new product ranges

CPA cumulative growth forecasts

Cumulative value of growth from 2018

Chain linked volume – 2016 prices



Why is this important for Marshalls?

- New housing and infrastructure are key sectors for Marshalls' Public Sector and Commercial business – the chart highlights continued growth in these areas
- Private housing RM&I is the main driver for our UK Domestic end market
- These 3 sectors are explained in further detail below

Response to market challenges – our strategic priorities

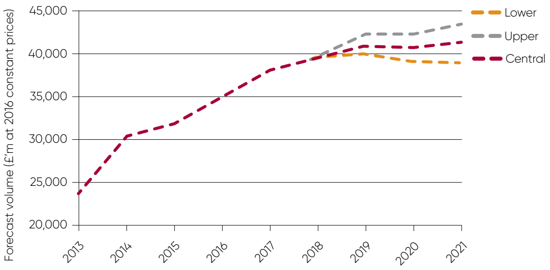
- We deliver products that lead on quality and performance
- We focus on building strong relationships
- We aim to ensure that our products are specified by developers, contractors and architects

CPA all new housing

CPA 2019 £231m

All new housing

Chain linked volume – 2016 prices



Why is this important for Marshalls?

- New Build Housing is a key strategic growth area
- The sector comprises private housing and public housing
- Public housing starts have been affected by a recent slowdown in the wider market but a return to growth of 2 per cent is forecast in 2021

Response to market challenges – our strategic priorities

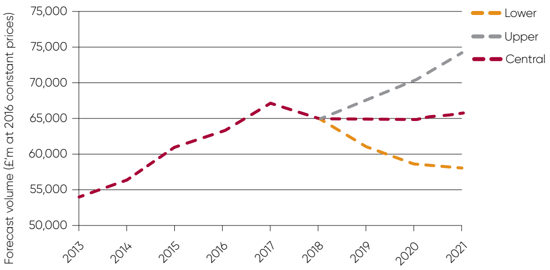
- We develop strategic relationships with housebuilders and merchants across the UK
- We focus on the development of new products
- We source and supply sustainable materials and focus on environmental considerations

CPA Other New Work

CPA 2020 £91m

Other New Work (Non Housing)

Chain linked volume – 2016 prices



Why is this important for Marshalls?

- Demand for infrastructure products (e.g. for road and rail) continues to grow
- Water Management, Road and Rail are key strategic growth areas
- Demand for new product innovation – e.g. Landscape Protection

Response to market challenges – our strategic priorities

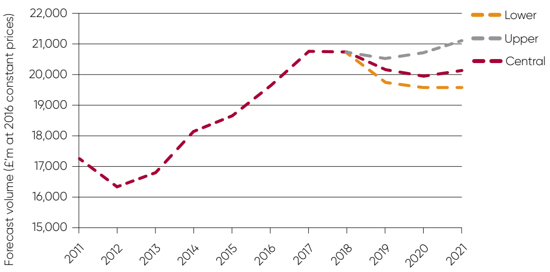
- The acquisition of CPM has significantly extended our water management offer
- New Commercial website launched in 2018
- Continued focus on product innovation, research and development and sustainability

CPA Private Housing RM&I

CPA 2020 £203m

Private Housing RM&I

Chain linked volume – 2016 prices



Why is this important for Marshalls?

- Driven by housing wealth, pension wealth and savings which remain robust in the key over-55s age category
- Property transactions and the availability of credit are key drivers of activity in this sector
- Consumer confidence remains a key factor along with regional differences in house price inflation

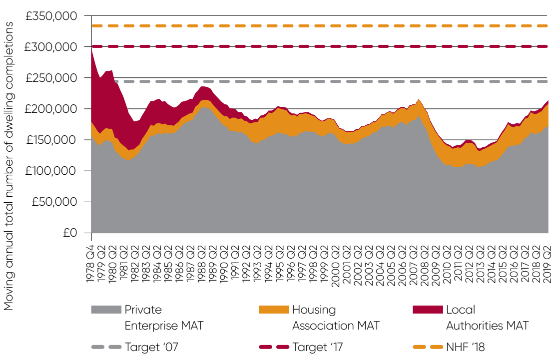
Response to market challenges – our strategic priorities

- We focus on our network of approved domestic installers to drive growth
- New Domestic website launched in 2019
- We have invested further in digital technology to enhance the customer experience

Housing Completions

Historical Government Statistics

Historical Government Statistics – Dwellings Completed MAT



208,417 new dwellings were completed in the 4 quarters to 2019 Q2, 8 per cent more than the 4 quarters to 2018 Q2 and 91,583 behind the Government target set in 2017.

Why is this important for Marshalls?

- Latent demand for housing remains strong and the Government's manifesto pledge is to increase the supply of new homes to 1,000,000 by the end of the new 5-year parliamentary term
- Housing starts are expected to return to growth in 2021 with support from the second phase of Help to Buy
- There is a potential lag in relation to starts, as housebuilders focus on completions and finishing units under construction

Response to market challenges – our strategic priorities

- The acquisition of Edenhall increases our capacity to service the new housing sector
- We aim to provide a broader product choice and market leading customer service
- We aim to grow our existing business in Mortars and Screeds

Business Model

How we do business

Our business model is constantly developing through collaboration with customers and feedback from stakeholders. Our customer-focused investment in digital technology is transforming the customer experience and advancing the business model.

Our capital

Financial
- Strong balance sheet and a conservative capital structure
- An efficient portfolio of bank facilities, with extended maturities, provides prudent headroom

Business
- National coverage and sustainable operations across a national network of manufacturing sites
- Long-standing relationships with customers and suppliers and a diverse product range covering a number of end markets

Intellectual
- With over 130 years' experience we have a reputation built on transparency and long-standing core values
- Marshalls is a Superbrand underpinned by efficient, well-invested plants with high skills and expertise
- We focus on innovation and strong R&D and NPD

Natural resources
- Marshalls has extensive reserves of UK natural stone
- Strong supply chain relationships ensure the ethical sourcing of natural stone from India, China and Vietnam

Human
- The Group has an experienced workforce of 2,816 employees with specialist skills and a high level of engagement

Technology
- We are accelerating the development of our digital strategy to enhance service and the overall customer experience, and to improve operational efficiency and communication

Social and relationships
- We have strong stakeholder relationships through constructive dialogue with local authorities, industry bodies and regulators
- Our stakeholder relationships are underpinned by a focus on responsible business which is a key part of the Marshalls culture

Our business

Sourcing
The Group's main raw materials are cement, sand, aggregates, pigments, fuel oil and utilities. We use the best materials we can source.

Related risks
- Macro-economic and political
- Security of raw material supply
- Cyber security risks
- Environmental
- Ethical
- Climate change

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

Related risks
- Competitive activity
- Threat from new technologies and business models
- IT infrastructure
- Legal and regulatory

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

Related risks
- Macro-economic and political
- Road infrastructure
- Cost inflation
- Environmental
- Climate change

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

Related risks
- Macro-economic and political
- Weather
- Cyber security risks
- Competitor activity
- Legal and regulatory

The Marshalls Way

Read more about The Marshalls Way on page 11

Strategic objectives:

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

Outcomes

Shareholders
Progressive dividend policy, targeting 2 times dividend cover supported by non-recurring and discretionary dividends

Dividend per share

18.35p

Customers
Industry leading customer service – innovative new products, quality, availability and "on-time" delivery

Customer service index

98%

Employees
Promotion of professional development, career opportunities and competitive benefit packages

Active apprenticeships in 2019

50

Suppliers
Global supply chain, long-term and mutually beneficial partnerships and ethical trading

Suppliers trained on anti-bribery and modern slavery

70%

Communities and environment
Positive impact, with direct investment in the community and Fair Tax Mark

Charitable and community donations

£168k

Government and regulatory bodies
Reinvestment in R&D and capital expenditure to drive sustainable growth

R&D expenditure

£5.5m

What makes us different?

Sustainability
- Commitment to producing new quality products that are better than any existing market offering
- Commitment to achieving the highest standards of environmental performance

Innovation
- Benchmark for excellence, widely regarded as a leader in its field
- Marshalls is one of Britain's strongest Superbrands
- Development of a digital strategy

Customer service
- Strong Manufacturing, Innovation and Development team
- Skilled engineers and technicians
- Broad range of products

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

Capital structure
- Strong and flexible capital structure
- Clear capital allocation policy

Dynamic business model
- Our business model is constantly developing through collaboration with customers and feedback from stakeholders. Our customer-focused investment in digital technology is transforming the customer experience and advancing the business model

Priorities for capital on page 34

The Marshalls Way

Read more about The Marshalls Way on page 11

Stakeholder Engagement

Strong relationships across all stakeholder groups

Shareholders

Link to strategy

- We generate value for shareholders by delivering sustainable growth
- We maintain a progressive dividend policy - targeting 2 times dividend cover over the business cycle
- We are transparent and seek to give a clear, consistent message across all communication channels
- We emphasise personal contact and individual dialogue
- We work with PR consultants (MHP Communications) to provide ongoing communication support

Why we engage

- To ensure that our strategy is aligned with the interests of shareholders
- To explain how we aim to deliver sustainable growth and maximise the growth potential of the business
- To maintain a strong and sustainable dividend policy
- To increase the share price and total shareholder return

How we engage

- AGM, Annual Report, Trading Updates and presentations
- Regular phone calls, face to face meetings, site visits and investor roadshows
- Investor relations website – which has been upgraded in 2020

Customers

Link to strategy

- We seek to exceed the expectations of customers
- We target very high levels of customer service
- We build customer service and health and safety performance into management and employee reward schemes
- We seek to grow the business by providing an outstanding customer experience
- We track all metrics and strive to obtain a world-class net promoter score

Why we engage

- To develop a fully customer-centric culture
- To maintain very high quality, availability and delivery metrics
- To develop customer-focused solutions
- To become the supplier of choice
- To drive improvement and reduce complaints

How we engage

- Dedicated "customer experience" team
- Service-level agreements and quality standards
- New websites and digital solutions focused on the customer
- Customer surveys, customer visits and a commitment to deliver on feedback
- Customer experience awareness campaign

Employees

Link to strategy

- We have 2,816 staff in the Group across all locations
- We have highly experienced and motivated employees
- We are a "Real Living Wage" employer with pay positioned at the top end of the industry
- We develop and reward our employees both financially and through professional development
- We encourage share ownership with around one-third of employees owning shares
- We have a full employee experience strategy

Why we engage

- To ensure that all employees are valued and have a "voice"
- To ensure we maintain a skilled and technically competent workforce
- To ensure promotion of staff development and personal growth
- To ensure ongoing focus on health and safety
- To encourage equal opportunities and a more diverse workforce

How we engage

- Employee Voice Group launched – representation across all business areas and levels
- Annual Director "communication roadshow" programme of site visits, staff presentations and workplace dialogue
- Focus on development training and succession planning
- People and culture strategy to unlock potential

Suppliers

Link to strategy

- We have an absolute commitment to ethical and sustainable procurement practice published in the Marshalls Code of Conduct
- We balance economic requirements with environmental, social and ethical considerations over the whole lifecycle
- We have a global supply chain and maintain long-term partnerships
- We continue to focus on human rights and modern slavery and improve compliance procedures

Why we engage

- To ensure use of the best quality raw materials and resources we can source
- To maintain strong relationships to ensure high supplier standards
- To ensure that our materials are sustainable and ethically sourced
- To ensure our human rights due diligence is robust, monitored and extremely dynamic

How we engage

- Effective, regular communication – underpinned by Code of Conduct
- Formal tenders and fair terms
- Supply chain risk mapping processes and regular audits
- ETI Base Code social and ethical audits in India, China and Vietnam
- Strategic partnerships with NGOs, ethical regulators and charities, e.g. our "Hope for Justice" strategic partnership

"We do the right things, for the...

Strategic objectives:

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

Communities and environment

Link to strategy

- We do business responsibly - The Marshalls Way
- We ensure the Group maintains strong ethical and corporate responsibility principles
- We value our brand and a reputation built on transparency and proven sustainability expertise
- We have strong environmental objectives and targets – driven by our strategic commitment to sustainability
- We are strongly committed to human rights

Why we engage

- Responsible business provides the foundations for sustainable growth
- To recognise our role in society
- To ensure that our strategic operations address economic, social and environmental aspects
- To maintain adherence to all legislative and ISO requirements for environmental and energy management

How we engage

- Continue to support the UN Global Compact's commitment to sustainable development
- We work with the Carbon Trust to analyse our business footprint and develop improvement strategies
- Regular dialogue with local community groups
- £168,000 raised for charitable and community causes in 2019

Government and regulatory bodies

Link to strategy

- We operate within a framework for social and environmental policy set by Government and regulators
- We ensure that we do business responsibly (The Marshalls Way)
- We conduct business in accordance with the principles set out in the Bribery Act 2010
- We are a constituent of the FTSE4Good index
- We maintain our Fair Tax Mark status
- We undertake regulatory compliance, operational, ethical and environmental audits

Why we engage

- To ensure the highest standards of corporate governance
- To ensure the Group's ongoing monitoring, training and compliance procedures meet best practice
- To ensure that we pay the right amount of tax at the right time
- To ensure that our business practices provide a solid foundation for sustainable growth

How we engage

- Regular dialogue with Government, regulators and industry groups
- Active membership of the CPA and Mineral Products Association ("MPA")
- Effective and clear policies against bribery and the elimination of modern slavery
- Reinforce compliance with regulations (e.g. GDPR and anti-bribery) with regular ongoing training for staff and business partners

Statement by the Directors in relation to their statutory duty in accordance with S172(1) Companies Act 2006

The Board of Directors of Marshalls plc (the "Company") consider that they, both individually and collectively, have acted in a way that would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in S172(1)(a-f) of the Act) in the decisions they have taken during the year ended 31 December 2019. In making this statement the Directors considered the longer-term consideration of stakeholders and the environment and have taken into account the following:

a) the likely consequences of any decisions in the long term;

b) the interests of the Company's employees;

c) the need to foster the Company's business relationships with suppliers, customers and others;

d) the impact of the Company's operations on the community and the environment;

e) the desirability of the Company maintaining a reputation for high standards of business conduct; and

f) the need to act fairly as between members of the Company.

The Directors fulfil their duty by ensuring that there is a strong governance structure and process running through all aspects of the Group's operations. The new 5 year Strategy was carefully considered by the Board in conjunction with the Group's executive management team. Full consideration was given to the Group's capital structure and capital allocation policy and its resilience to existing and emerging risks (pages 24 to 29). The Group's culture has been a particular focus of the Board (page 11) and is embodied in The Marshalls Way of doing business. The Group's strategy and business model are underpinned by the employees and all members of the Board undertake regular site visits and participate in employee workshops to deliver key engagement and development programmes. This area of focus is led by Janet Ashdown as the designated Non-Executive Director for workforce engagement (page 37). The Group engages with its key stakeholders in a variety of ways, explained in more detail in the Strategic Report (pages 18 and 19) and the Corporate Governance section on pages 44 to 49. The Group's focus on sustainability and ESG issues is particularly relevant to our stakeholders and these are summarised in detail on pages 36 to 41. The Board is kept informed of all relevant issues by means of a number of written reports against agreed KPIs.

...right reasons, in the right way – safely."

Strategy

Delivering sustainable growth

Strategic pillars	Our objectives	What we have achieved
Shareholder value To deliver sustainable shareholder value by improving the long-term operating performance of the business. ROCE of **23.7%** pre-IFRS 16 basis (2018: 21.9%)	• To make strategic investments for organic growth and acquisitions. • To strengthen the Marshalls brand by developing systems-based solutions. • To have a progressive dividend policy supported by supplementary dividends, as appropriate.	• Growth in EBITDA of 12 per cent to £90.1 million on a pre-IFRS 16 basis (£103.9 million on a reported basis). • Market share gains. • Dividend growth of 15 per cent. • Supplementary dividend.
Sustainable profitability To maintain a strong market position and grow the business' profitability in all of the Group's end markets. EPS growth of **12%**	• To outperform the market. • To deliver new and innovative product solutions. • To improve operational efficiency of our manufacturing and logistics network. • To drive through sustainable cost reductions.	• 12 per cent growth in operating profit (pre-IFRS 16 basis) driven by sustainable efficiency improvements. • Increase in operating profit percentage to 13.4 per cent (2018: 13.2 per cent). • Sales of new products in the core business now represent 13 per cent of total revenue. • Continuing to exceed CPA growth forecasts.
Relationship building To develop relationships with key stakeholders, customers and installers. Registered installer teams **1,900 approx.**	• Sustainable and ethical materials supply – to enable manufacturing flexibility. • To focus on customer satisfaction. • To promote integrated product solutions. • To focus on installer training, marketing and sales support.	• Dedicated "customer experience" team with strengthened relationships. • 98 per cent customer service KPI. • New Commercial and Domestic websites. • 1,900 registered installer teams.
Organic expansion To invest in organic expansion in existing and related markets and product categories to expand the business. Capital investment **£22.9m** (2018: £29.2m)	• To target growth areas such as New Build Housing, Road, Rail and Water Management. • To invest in capital expenditure for organic growth. • To increase sustainable profitability in the emerging businesses. • To increase new product development.	• Revenue growth of 10 per cent to £541.8 million. • Significant growth in key focus areas whilst maintaining operational flexibility. • Strong growth in New Build Housing revenue. • Self help capital investment of £39.6 million over the last 4 years.
Brand development To strengthen and extend the Marshalls brand by focusing on innovation, service and new product development. R&D investment **£5.5m** (2018: £4.9m)	• To focus on The Marshalls Way. • Customer satisfaction – to be the supplier of choice. • To focus on innovation, customer service and product quality. • To maintain the highest health and safety standards.	• "Superbrand" status. • Continued development of Marshalls brand. • Developed product range. • Introduced 87 new product ranges to market in the current innovation cycle. • Award accreditation, e.g. Health and Safety Award from the Mineral Products Association.
Effective capital structure and control framework To ensure that the capital structure remains aligned with the Group's corporate growth objectives. Net debt:EBITDA (2018: 0.5 times) Reported basis **0.6 times** Pre-IFRS 16 **0.2 times**	• To maintain a flexible capital structure that recognises cyclical risk, focusing on security, efficiency and liquidity. • To deliver a capital allocation strategy that is fully aligned with this capital structure.	• Strong balance sheet with low gearing (20.3 per cent (6.3 per cent pre-IFRS 16)). • Efficient portfolio of bank facilities with extended maturities and realigned headroom. • Continued focus on working capital management and efficient inventory control.

5 year Strategy

Our new 5 year Strategy lays the foundation for achieving our strategic goal of becoming the UK's leading manufacturer of products for the Built Environment. At the heart of the strategy are 8 priority areas for investment and business focus. We believe that these areas provide significant growth potential for the Group over the next 5 years.

What we have achieved

Key performance indicators on pages 22 and 23

Our future targets

Risks on pages 24 to 29

Future priorities	Key 5-year strategic priorities
• To grow ROCE and EBITDA. • To deliver long-term sustainable shareholder value. • Digital transformation. • To promote strong ethical, environmental and corporate social responsibility principles.	**Brand preference for product specification** We have superior product knowledge, quality and performance. Read the Case Study on page 12 **Objective** To build relationships and make sure our products are specified by developers, builders and architects.
• To focus on new product development to drive growth. • Improve operational efficiency across the manufacturing network. • Logistics excellence.	**Digital transformation** We are continuing to invest in digital and forward thinking technology. Read the Case Study on page 30 **Objective** To provide an end-to-end digital offering and to pioneer the digital standard for the industry.
• To improve communication and stakeholder engagement. • To focus on the customer. • To invest in digital technology. • Sustainable materials supply.	**New product development** We deliver market leading product innovation. Read the Case Study on page 13 **Objective** To create new, innovative products that will drive the market forward.
• To optimise our national network of manufacturing sites. • To grow our emerging businesses and increase their market share. • To develop our global supply chain.	**Logistics excellence** We put customer wants and needs first with direct, informed and professional deliveries. **Objective** To deliver logistics excellence with greener vehicles and new technology across our full fleet.
• To maintain the Group's market leading position. • Responsible business and The Marshalls Way. • ESG principles and responsible business. • To increase brand preference to drive product specification.	**Sustainable materials supply** We source and supply sustainable materials, products and solutions. **Objective** To do business responsibly and ethically, to address the risk of climate change and protect the environment.
• To operate tight control over business, operational and financial procedures. • To target a net debt to EBITDA ratio of between 0 and 1 times over the business cycle.	**Customer centricity** We balance innovation and tradition and provide an easy-to-use service in a complex and competitive market. **Objective** To deliver a market leading customer service and exceed customer expectations.
	Operational excellence We invest in our manufacturing facilities and industrial network and use the best tools, processes and systems. **Objective** To deliver operational excellence by continuously improving how we work and deliver new ways of thinking.
	Growth in the emerging businesses We make selective acquisitions to complement our business and help us advance into new and untapped areas. **Objective** To grow our emerging businesses to help us expand into key growth areas.

Key Performance Indicators

Measuring our performance

The Group's KPIs monitor progress towards the achievement of its objectives. All of the Group's strategic KPIs have moved forward strongly during 2019.

Revenue (£'m)

£541.8m
+10%

2019	541.8
2018	491.0
2017	430.2
2016	396.9
2015	386.2

Why is this KPI important?
Delivering growth is key to the Group's strategy. The aim is to outperform the market and grow market share.

Performance
Group revenue has increased by 10 per cent in 2019. Growth in Public Sector and Commercial revenue was particularly strong at 15 per cent.

Link to strategy

Principal risks
- Macro-economic and political
- Customers
- Increased range of digital change

Risk mitigation
- Close monitoring of trends and lead indicators
- Diversity of business
- Customer centricity

Link to remuneration
LTIP

Stakeholder linkage
Customers
Suppliers
Employees
Communities

Operating profit (£'m)

Reported basis	Pre-IFRS 16
£73.7m	**£72.6m**
+14%	+12%

2019	72.6
2018	64.8
2017	53.4
2016	47.6
2015	37.5

Why is this KPI important?
Sustainable improvement in profitability is a strategic priority.

Performance
Operating profit has increased £72.6 million (pre-IFRS 16) in 2019 with operating margin increasing to 13.4 per cent (2018: 13.2 per cent).

Link to strategy

Principal risks
- Cyber security risks
- Competitor activity
- Security of raw material supply
- Climate change

Risk mitigation
- Innovation and new product development
- Focus on cyber security controls
- Proactive supply chain management

Link to remuneration
AI

Stakeholder linkage
Shareholders
Employees

EPS (p)

Reported basis	Pre-IFRS 16
29.36p	**29.48p**
+12%	+12%

2019	29.48
2018	26.29
2017	21.52
2016	18.95
2015	14.32

Why is this KPI important?
EPS growth is a strategic target.

Performance
Group EPS has increased by 12 per cent in 2019 to 29.36 pence (29.48 pence on a pre-IFRS 16 basis).

Link to strategy

Principal risk
- Cost inflation and strength of supply chain
- Competitor activity
- Brand leadership

Risk mitigation
- Supply chain management
- Logistics excellence

Link to remuneration
LTIP

Stakeholder linkage
Shareholders
Employees

Return on capital employed (%)

Reported basis	Pre-IFRS 16
21.4%	**23.7%**
	– up 180 basis points

2019	23.7
2018	23.3
2017	24.8
2016	23.0
2015	19.0

Why is this KPI important?
ROCE is an important indicator of sustainable shareholder value.

Performance
Group ROCE for 2019 is 21.4 per cent (23.7 per cent before the impact of IFRS 16). ROCE is defined as EBITA / shareholders' funds plus cash / net debt.

Link to strategy

Principal risk
- Threat from new technologies and business models
- Increased pace of digital change
- Capital structure

Risk mitigation
- Digital transformation
- Operational excellence
- Flexible capital structure
- Capital allocation policy

Link to remuneration
AI

Stakeholder linkage
Shareholders
Employees

Note:
1. The 2019 figures in the graphs use the pre-IFRS 16 figures.

Links to remuneration:

- LTIP Long-term Incentive Plan
- AI Annual incentive award

Strategic objectives:

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

Net debt (£'m)

Reported basis **£60.0m** Pre-IFRS 16 **£18.7m**

Year	
2019	(18.7)
2018	(37.4)
2017	(24.3)
2016	5.4
2015	(11.5)

Why is this KPI important?

Marshalls continues to support an appropriate capital structure. The strategic target is for the ratio of net debt to EBITDA to be between 0 and 1 times over the business cycle.

Performance

Net debt was £60.0 million at 31 December 2019 (£18.7 million on pre-IFRS 16 basis). Gearing remains low at 20.3 per cent (6.3 per cent on a pre-IFRS 16 basis).

Link to strategy

Principal risk

- Funding strategy
- Overpaying for acquisitions
- Cost inflation

Risk mitigation

- Flexible capital structure
- Conservative financial profile

Link to remuneration

LTIP

Stakeholder linkage

Shareholders
Employees
Customers
Suppliers

Dividend per share (recommended, p)

14.35p

+20%

Year	
2019	14.35
2018	12.00
2017	10.20
2016	8.70
2015	7.00

Why is this KPI important?

A progressive dividend policy remains a key objective. The strategy is to maintain up to 2 times cover over the business cycle.

Performance

The ordinary dividend per share increased by 20 per cent per share to 14.35 pence. On an IFRS basis, the dividends declared in the year ended 31 December 2019 are 16.7 pence, an increase of 13 per cent.

Link to strategy

Principal risk

- Macro-economic environment
- Reduction in revenue and profitability

Risk mitigation

- Clear corporate strategy
- Capital allocation policy

Link to remuneration

LTIP

Stakeholder linkage

Shareholders

Customer service index (%)

98%

Year	
2019	98
2018	98
2017	98
2016	98
2015	98

Why is this KPI important?

Customer centricity is a key strategic priority. Customer service lies at the heart of the Marshalls brand.

Performance

The combined customer service measure continued to be in excess of 98 per cent throughout 2019.

Link to strategy

Principal risk

- Quality, service and reliability
- Brand reputation

Risk mitigation

- Customer centricity strategy
- Digital trading

Link to remuneration

AI LTIP

Stakeholder linkage

Customers
Communities
Environment

Health and safety (reduction in working days lost since 2016, %)

14%

Year	
2019	14
2018	17
2017	46
2016	20
2015	43

Why is this KPI important?

Marshalls is committed to meeting the highest health and safety standards.

Performance

In 2019 there was a 14 per cent reduction in days lost from workplace incidents compared with the target benchmark.

Link to strategy

Principal risk

- Consistency of standards
- Regulatory controls
- Investment in operation network

Risk mitigation

- Embedded culture – The Marshalls Way
- Compliance procedures and policies
- Employee training

Link to remuneration

AI LTIP

Stakeholder linkage

Employees
Communities
Environment

Risk Management and Principal Risks

Managing risk to deliver strategic objectives

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

Achievements in 2019

The Group's risk function has placed particular emphasis on the following areas during the year:

- Cyber risk continues to increase despite the Group's further extension of mitigation controls. It has remained a major focus area for risk assessment. Additional internal audit projects and cyber security reviews have been undertaken and the Group has further increased its investment in employee awareness training. Further improvements have been made to mitigate risk, improve IT security and safeguard business continuity.
- KPMG completed a number of targeted internal audit projects during 2019 including reviews of the Group's Code of Conduct and related procedures, supplier rebate controls and logistics and fleet management.
- A detailed annual review of the Group's capital structure has been undertaken to ensure it remains aligned with corporate growth objectives and takes full account of continuing Brexit uncertainty and ongoing volatility and tension in world markets. Scenario planning is undertaken to ensure the Group has appropriate, embedded business resilience. The Viability Statement on page 25 and 26 includes further detail. We maintain a conservative capital structure with a strong balance sheet and comfortable headroom against bank facilities provides significant mitigation against potential market risk.

Priorities for 2020

The priorities for the Group's risk function in 2020 include the following areas:

- The potential impact of extended economic and political uncertainty continues to be a risk. During 2020, proactive supply chain management and contingency planning will continue to be a priority. Most recently, this contingency planning is being widened to cover the potential impact of a spread of coronavirus.
- The rapid pace of digital change in the market continues and there is an increasing risk that, despite significant additional focus made by the Group in this area in recent years, new emerging technology could lead to changes in the external marketplace. The Group has a clearly articulated strategic plan and continues to monitor competitive threats.
- Health and safety remains a major focus area and 2020 will see additional governance and control reviews.
- The completion of a number of targeted projects will again be a major focus for KPMG. In 2020, projects covering cyber risk, business continuity, disaster recovery, commercial tendering, recruitment procedures and controls and the integration of Edenhall are planned.
- Addressing the risk of climate change and the protection of the environment continues to demand increased attention. Our ESG agenda is a priority and the generation of detailed plans and comprehensive policies is a key focus.

Approach to risk management

Risk management is the responsibility of the Board and is a key factor in the delivery of the Group's strategic objectives. The Board establishes the culture of effective risk management and is responsible for maintaining appropriate systems and controls. The Board sets the risk appetite and determines the policies and procedures that are put in place to mitigate exposure to risks. The Group's risk review process covers emerging risks and incorporates scenario planning and stress testing. The implications of an increase in the impact of the coronavirus are currently being assessed and contingency planning is being undertaken.

Process

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

The Group Risk Register is reviewed and updated by the full executive management team 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. KPMG, as the Group's internal auditor, attended the most recent risk review meeting. The conclusion of KPMG is that the process continues to be a robust mechanism for monitoring and controlling the Group's principal risks. All risks are aligned with the Group's strategic objectives and each risk is analysed for impact and probability to determine exposure and impact to the business and the determination of a "gross risk score" enables risk exposure to be prioritised.

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

In addition, the Group has established a formal framework for the ongoing assessment of operational, financial and IT-based controls. The overriding objective is to gain assurance that the control framework is complete and that the individual controls are operating effectively. Additional independent verification checking of key controls and reconciliations are undertaken on a rolling basis. Such testing includes key controls over access to, and changing permissions on, base data and metadata.

Risk appetite

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

> **There are well-established procedures to identify, monitor and manage risk, and within the internal control framework, policies and procedures are reviewed on an ongoing basis.**

Viability Statement

After considering the principal risks on pages 26 to 29, the Directors have assessed the prospects of the Group over a longer period than the period of at least 12 months required by the "going concern" basis of accounting. The Directors consider that the Group's risk management process satisfies the requirements of provision 31 of the UK Corporate Governance Code.

The Board considers annually, and on a rolling basis, a strategic plan, which is assessed with reference to the Group's current position and prospects, the strategic objectives and the operation of the procedures and policies to manage the principal risks that might threaten the business model, future performance and target capital structure. In making this assessment the Board considers emerging risks and longer-term risks and opportunities. The aim is to ensure that the business model is continually reviewed to ensure it is sustainable over the long term. Security, flexibility and efficiency continue to be the guiding principles that underpin the Group's capital structure objectives. The Group's funding strategy is to ensure that headroom remains at comfortable levels under all planning scenarios. The objective continues to be to have a range of competitively priced funding lines in place, at all times, with different maturity dates. An additional bank revolving credit facility of £35 million was introduced in August 2019 to replace a maturing facility.

The Group's new 5 year Strategy confirms the objectives and priorities over this 5-year period and has addressed appropriate risks and opportunities. For the purposes of the Viability Statement, however, the Board continues to believe that 3 years is an appropriate period of assessment and considers that it has reasonable visibility of the market over a 3-year period to 31 December 2022. This period is consistent with available CPA forecasts and is aligned with the Group's corporate planning process. The Group's strategic plan includes an integrated model that incorporates the Income Statement, balance sheet and cash flow projections. Key KPIs and financial ratios are reviewed along with the ongoing appropriateness of all assumptions used. Scenario planning is undertaken along with stress testing against downside sensitivities. The Board has considered a number of downside scenario combinations. These include disaster recovery scenarios to ensure that mitigation and business continuity planning is effective.

Framework

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

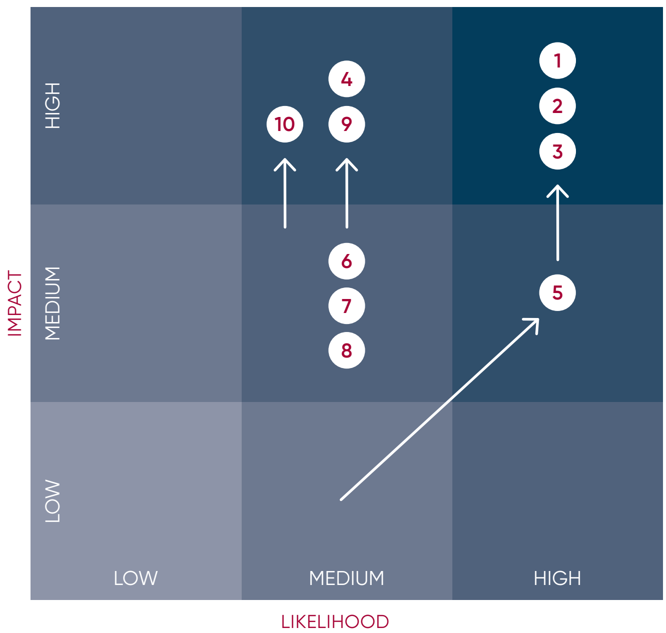
The Audit Committee:
- has delegated responsibility from the Board to oversee risk management and internal controls;
- reviews the effectiveness of the Group's risk management and internal control procedures; and
- monitors the effectiveness of the internal audit function and the independence of the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

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

Internal audit:
- independently reviews the effectiveness of internal control procedures;
- reports on effectiveness of management actions; and
- provides assurance to the Audit Committee.

Operational managers:
- are responsible for the identification of operational and strategic risks;
- are responsible for the ownership and control of specific risks;
- are responsible for establishing and managing the implementation of appropriate action plans; and
- are responsible for the impact of controls (net basis).

Risk heatmap (net risk scores)



1 Macro-economic and political
2 Cyber security risks
3 Security of raw material supply
4 Climate change
5 Increased pace of digital change
6 Customers
7 Competitor activity
8 Threat from new technologies and business models
9 Corporate, legal and regulatory
10 Health and safety

Risk Management and Principal Risks *continued*

Viability Statement *continued*

The stress testing reflects the principal risks that could conceivably threaten the Group's ability to continue operating as a going concern and focuses on scenarios that might give rise to sales volume reductions, deteriorating operating margins and increases in interest rates. The macro-economic and political background remains the Group's key risk area and all of the Group's other principal risks are covered within the same downside stress tests.

The stress testing applied in 2019 has taken full account of continuing Brexit uncertainty and an increase in market risk due to political and economic uncertainty. The stress testing undertaken consequently reflects a very cautious economic outlook. Scenario modelling remains a key part of the Group's detailed approach to capital structure and forecasting. A significant stress test has been applied to reflect a dramatic economic downturn and to replicate the financial impact of the last recession in 2008. This has assumed significantly reduced sales volumes giving rise to a 33 per cent decrease in revenue over the next 3 years. None of the individual sensitivities applied impact the Directors' assessment of viability. Even under the deep stress test all bank covenants are met and the gearing and net debt / EBITDA metrics remain sustainable. The Group would undertake significant mitigation measures in a deep downturn and this would create additional contingency.

In undertaking its review, the Board has considered the appropriateness of any key assumptions, taking into account the external environments and the Group's strategy and risks. Based on this assessment, and taking account of the Group's principal risks and uncertainties, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the next 3 years.

The result of the recent election, the parliamentary approval of the EU Withdrawal Bill and the United Kingdom's subsequent exit from the EU on 31 January 2020 have removed key elements of uncertainty. However, further delays in the transition process or issues surrounding the negotiation of trade agreements could trigger renewed weakness in Sterling, a reduction in consumer confidence and a further slowdown in the UK economy. Marshalls continues to have strong market positions and a strategy of targeting those market areas where growth prospects are greatest. The potential impact of wider economic and political uncertainties has been considered in the assessment of risk 1 below. This assessment has included significant stress testing of financial models and risk mitigation measures within the Group's supply chain. The Group has developed a detailed Brexit plan to mitigate the risk of raw material shortages.

Principal risks and uncertainties

The Directors have undertaken a robust, systematic assessment of the Group's emerging and principal risks. These have been considered within the timeframe of 3 years, which aligns with our Viability Statement above. The risk process has included extended reporting during 2019 to facilitate greater focus on emerging risks and risk outlook. The reporting includes more detailed assessments of proximity (how far away in time the risk will occur) and velocity (the time that elapses between an event occurring and the point at which the effects are felt).

There have been no changes to the principal risks and uncertainties compared to prior years.

Impact on business model:

Sourcing Manufacturing Distribution Customers

Strategic objectives:

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

Macro-economic and political

Impact on business model

Link to strategy

Nature of risk

- The Group is dependent on the level of activity in its end markets. Accordingly, it is susceptible to economic downturn, the impact of Government policy, interest rates and any political and economic uncertainty in relation to the ongoing Brexit transition process.

Potential impact

- The potential impact of further delays in the Brexit transition process or wider global macro-economic tension and uncertainty could lead to lower activity levels which could reduce sales and production volumes. This could have an adverse effect on the Group's financial results. The impact of exchange rate fluctuations and increased interest rates could also have an adverse impact on raw material costs.

Key risk indicators

- Delays in the awarding of and completion of contracts.
- Reductions in consumer confidence and order pipeline.

Mitigating factors

- The Group closely monitors trends and lead indicators, invests in market research and is an active member of the CPA.
- The Group benefits from the diversity of its business and end markets. The proactive development of the product range continues to offer protection.
- The Group has developed detailed plans to mitigate the risk of raw material shortages.
- The Group undertakes scenario planning to support improved business resilience.
- The Group continues to target those market areas where growth prospects are greatest, e.g. New Build Housing, Road, Rail and Water Management.
- The Group focuses on its supplier relationships, flexible contracts and the use of hedging instruments.

Change in risk in the year

- The UK's exit from the EU on 31 January 2020 has removed key elements of uncertainty, although further delays in the transition process could generate renewed uncertainty. There continues to be volatility in world markets and global economic uncertainty continues to be a risk.

Cyber security risks

Impact on business model

Link to strategy

Nature of risk
- Inadequate controls and procedures over the protection of intellectual property, sensitive employee information and market influencing data. The failure to improve controls against cyber security risk quickly enough, given the rapid pace of change and the continuing introduction of new threats. Increasingly, all business are becoming more IT dependent.

Potential impact
- Risk of data loss causing financial and reputational risk.

Key risk indicators
- Emergence of new cyber security risks.
- Increased examples of data loss in the wider market.

Mitigating factors
- Use of IT security policies.
- The undertaking of regular cyber security risk audits by specialists and the quick introduction of mitigation controls and other recommended procedure updates.
- Sensitive data is currently restricted to selected senior and experienced employees who are used to handling such data.
- Appropriate tools and training procedures are in place to protect sensitive data when stored and transmitted between parties (e.g. encryption of hard drives, restricted USB devices, secure data transmission mechanisms and third party security audits).
- A continuous programme of awareness training for staff.

Change in risk in the year
- This remains a high profile area and considerable focus is being given to promoting awareness of IT security policies. The net risk is being maintained due to the continued extension of mitigation controls. The risk is fast growing and indiscriminate and the perception is that the gross risk of data loss through new (or as yet unseen) security threats continues to increase.

Security of raw material supply / raw material shortages

Impact on business model

Link to strategy

Nature of risk
- Brexit transition uncertainty continues to bring a risk to the security of raw material supply and the risk of shortages in some areas. Changes in the market for certain raw materials have created an increased reliance on imports. The Group is susceptible to significant increases in the price of raw materials, utilities, fuel oil and haulage costs and decreases in vehicle availability.

Potential impact
- The increased costs could reduce margins and may be further impacted in the event of imbalances in the mix of regional activity. The risk of market demand exceeding raw material supply could lead to inefficient production, which could reduce margins.

Key risk indicators
- Temporary shortages and exchange rate cost inflation.
- Decreases in vehicle availability and labour / driver shortages.

Mitigating factors
- The Group benefits from the diversity of its business and end markets.
- We are collaborating with all EU-based Tier 1 and Tier 2 suppliers to ensure any supply risks from the Brexit transition process are minimised.
- A focus on governance and financial controls including a rolling "material risk" review process.
- The digitisation of the supply chain through the implementation of a best-in-class Supply Relationship Management System.
- The Group focuses on its supplier relationships, flexible contracts and the use of hedging instruments.
- The Group utilises sales pricing and purchasing policies designed to mitigate the risks.
- The Group uses specialist delivery vehicles.

Change in risk in the year
- The risk of temporary shortages is mitigated by proactive supply chain management and the use of alternative suppliers. However, cost inflation remains a risk as demand for raw materials increases against a backdrop of continuing economic uncertainty. All importers are faced with the same issues.

Climate change (including the impact of weather events)

Impact on business model

Link to strategy

Nature of risk
- The Group is exposed to the impact of climate change giving rise to unpredictable and extreme weather events.
- The longer-term implications of climate change give rise to the transition risk to address the challenges quickly enough.

Potential impact
- Adverse working conditions could give rise to disruption and delays that might reduce short-term activity levels. This could reduce sales and production volumes and therefore have an adverse effect on the Group's financial results.
- The cost impact of the "Environmental Protocol", and mitigation programmes could lead to increasingly expensive processes.
- Financial risk caused by adverse impact on margins and cash flows as well as sales and production volumes.

Key risk indicators
- Prolonged periods of bad weather (e.g. snow, ice and floods) which make ground working difficult or impossible.
- Changing public perceptions of the longer-term implications of climate change.

Mitigating factors
- The Group utilises centralised specialist functions to support mitigation plans and the management of relationships on commercial contracts. We are committed to water harvesting and recycling schemes and have an environmental target of not using any mains schemes.
- The development of resilience strategies for climate change is a key element of the Group's Climate Change Policy.
- The Group has a continuing focus on new product development, including landscape water management.
- The development of the Group's Water Management business is a significant opportunity. The acquisition of CPM has been a significant step in providing a full water management capability.

Change in risk in the year
- Weather conditions continue to be closely monitored but are beyond the Group's control. The Group is committed to the Science Based Targets initiative.
- Significant increase in public awareness of climate change and media coverage.

Risk Management and Principal Risks *continued*

Impact on business model:

Sourcing Manufacturing Distribution Customers

Strategic objectives:

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

The increased pace of digital change in the market

Impact on business model — Link to strategy

Nature of risk
- The rapid pace of digital change in the market continues and there is an increasing risk that new emerging technology could lead to changes in the external marketplace.

Potential impact
- Despite significant additional focus made by the Group in this area in recent years, there remains a risk that a new third party could use emerging digital technology to enter the market and transition more quickly and effectively.

Key risk indicators
- The emergence of new digital third parties, possibly from outside the sector, and the more widespread availability of artificial intelligence technology.

Mitigating factors
- The Group's digital strategy has been progressing well for several years.
- The Group is committed to further investment in this area; the digital strategy is a key part of the Group's new 5 year Strategy.
- The introduction of new trading websites covering both Public Sector and Commercial and UK Domestic.
- The ongoing monitoring of competitive threats.

Change in risk in the year
- The pace of digital change in the market continues to increase and the risk is increasing. This is now seen as a major risk by the market.

Customers

Impact on business model — Link to strategy

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

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

Key risk indicators
- Changes to market structure or trading relationships.
- New customer strategies.

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

Change in risk in the year
- Although the underlying risk continues, the effective management of key relationships and the ongoing diversification of the business continue to mitigate the risk.

Competitor activity

Impact on business model — Link to strategy

Nature of risk
- The Group has a number of existing competitors which compete on range, price, quality and service. Potential new low cost competitors may be attracted into the market through increased demand for imported natural stone products.

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

Key risk indicators
- Threat from new competitors and new technologies.
- Less demand for traditional products and the increased emergence of new digital business models and product solutions.

Mitigating factors
- The Group has unique selling points that differentiate the Marshalls branded offer.
- The Group focuses on quality, service, reliability and ethical standards that differentiate Marshalls from competitor products.
- The Group has a continuing focus on new product development.
- The continued development of the Group's digital strategy and its focus for customers and all stakeholders.

Change in risk in the year
- The more uncertain market environment has not led to any significant changes in competitive pressure.

Threat from new technologies and new business models

Impact on business model

Link to strategy

Nature of risk
- Reduction in demand for traditional products. Risk of new competitors and new substitute products appearing. Failure to react to market developments, including digital and technological advances.

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

Key risk indicators
- Less demand for traditional products and routes to market.
- Emergence of new competitors and new digital business models.

Mitigating factors
- Good market intelligence.
- Flexible business strategy able to embrace new technologies.
- Significant focus on research and development and new products.
- Development of the Group's e-platform and developing digital strategy.

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

Corporate, legal and regulatory

Impact on business model

Link to strategy

Nature of risk
- Inadvertent failure to comply with elements of a significantly increased governance, legislative and regulatory business environment. The Group may be adversely affected by an unexpected reputational event, e.g. an issue in its ethical supply chain.

Potential impact
- Significant increases in the penalty regime across all areas of business (e.g. competition law, the Bribery Act and GDPR) could lead to significant fines in the event of a breach. An environmental incident could lead to a disruption to production and the supply of products for customers. Such incidents could lead to prosecutions and increased costs and have a negative impact on the Group's reputation.

Key risk indicators
- Increased regulatory and compliance requirements.
- Integration requirements for new acquisitions.
- Significant increases in the penalty regime for environmental incidents.

Mitigating factors
- Centralised legal and other specialist functions, the use of specialist advisers and ongoing monitoring and training.
- The Group has a formal Group sustainability strategy focusing on impact reduction.
- The Group employs compliance procedures, policies, ISO standards and independent audit processes which seek to ensure that local, national and international regulatory and compliance procedures are fully complied with.
- The Group uses professional specialists covering carbon reduction, water management and biodiversity.

Change in risk in the year
- The significant increase in governance and regulation continues to increase risk in this area. The Group continues to improve compliance procedures within all areas of the business. The potential impact of the Bribery Act continues to be a high profile risk area. It is receiving additional management focus.

Health and safety

Impact on business model

Link to strategy

Nature of risk
- Unexpected health and safety incident, possibly caused by human error or the actions of a subcontractor.

Potential impact
- Risk of harm to employee or subcontractor.
- Significant increases in penalty regime could lead to significant fines and prosecution.
- A major incident could lead to a disruption to production and a negative impact on the Group's reputation.

Key risk indicators
- Integration requirements for new acquisitions.
- Significant increases in the penalty regime.

Mitigating factors
- Centralised specialist functions.
- Comprehensive 5-year health and safety strategy.
- Ongoing monitoring, training and health and safety audits.
- All senior managers receive the Marshalls Health and Safety and Environmental stage 3 training.
- The integration of CPM and Edenhall into the Marshalls Health and Safety Management System.

Change in risk in the year
- The significant increase in regulation.
- Health and safety continues to be a high profile risk area at the heart of The Marshalls Way.

Case Study
Strategic priority

Digital transformation

Marshalls' goal is to transform the business digitally throughout the value chain for all our internal and external stakeholders. Our aim is to drive out costs, increase efficiency and quality and improve the customer experience leading to a transformed workplace.

Traditional business

Stakeholders
Customers, suppliers, employees, shareholders

Demand chain

Strategic pillars
Brand leadership, customer centricity, operational excellence, logistics excellence, emerging businesses

Supply chain

Digital business

2018

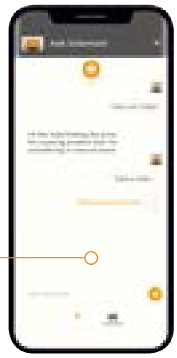
New Commercial website

- Providing inspirational imagery and enhanced technical information to help gain and protect product specification throughout a project lifecycle.

2019

New Domestic website

- Providing inspirational imagery and content to improve the end-to-end customer journey, whilst supporting merchant and installer partners.



Chatbot

- Using natural language processing systems to answer automatically customer enquiries and requests at all times of the day.

2020

Group website

- Migration of a series of Group websites (e.g. Careers and Investor Relations) to a new platform, helping to address the changing needs of multiple stakeholders.

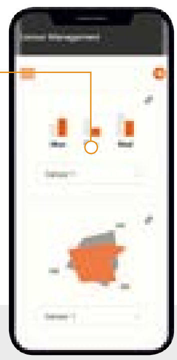
Visualisation

- Creating immersive, interactive Commercial and Domestic customer experiences using a combination of both virtual reality and augmented reality technologies.

Digital trading

- Selling via both traditional and online channels, simplifying existing processes where necessary to create a cohesive, frictionless user experience for all customer types.

2021



Digital planning

- Creation of artificial intelligence algorithms that leverage both internal and external data sources to transition existing forecasting and production processes.

SMART manufacturing

- Utilising internet connected machinery to capture and analyse data which will identify opportunities to automate and improve the manufacturing process.

Financial Review

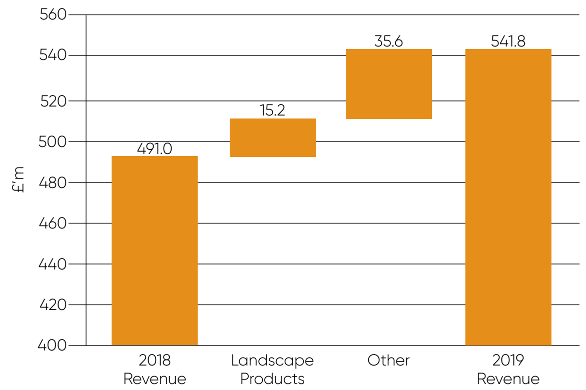
Marshalls has delivered the 2020 Strategy successfully

> The consistently high ROCE reflects the tight control and management of inventory and monetary working capital.

Summary

- Operating profit up 12% to £72.6 million (on a pre-IFRS 16 basis) and £73.7 million on a reported basis
- EBITDA up 12% to £90.1 million (on a pre-IFRS 16 basis) and £103.9 million on a reported basis
- Successful integration of Edenhall
- ROCE of 21.4% (23.7% on a pre-IFRS 16 basis)
- Strong operating cash flow at 96% of EBITDA (pre-IFRS 16 basis)
- Significant facility headroom for investment
- Increase in final ordinary dividend of 21%
- Additional supplementary dividend of 4.00 pence per share

Revenue variance analysis
2018 / 2019



Trading summary

Revenue

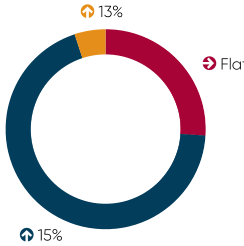
Group revenue for the year ended 31 December 2019 was up 10 per cent at £541.8 million (2018: £491.0 million). Excluding the impact of Edenhall, which was acquired in December 2018, revenue was up 3 per cent. The Domestic market was softer in the second half. However, continued execution of the 2020 Strategy more than compensated by improving gross margins.

Analysis of sales by end market	2019 £'m	2018 £'m	Change %
UK Domestic	**143.7**	143.5	–
Public Sector and Commercial	**371.2**	323.6	15
International	**26.9**	23.9	13
	541.8	491.0	10
	%	%	
UK Domestic	**26**	29	
Public Sector and Commercial	**69**	66	
International	**5**	5	

Financial Review *continued*

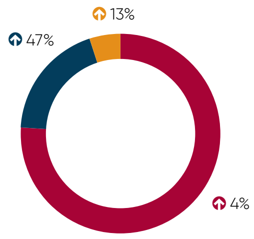
Revenue by end market (%)

Domestic	26%
Public Sector and Commercial	69%
International	5%



Revenue by area (%)

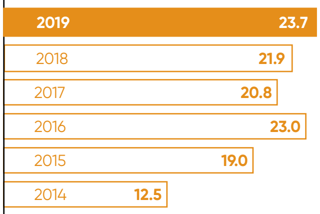
Landscape Products	76%
Emerging UK Businesses	19%
International	5%



Return on capital employed (%)

Reported basis **21.4%**

Pre-IFRS 16 **23.7%** **– up 180 basis points**



Public Sector and Commercial

Sales in the Public Sector and Commercial end market include a full year contribution from Edenhall and were up 15 per cent compared with 2018. The performance of Edenhall has been strong and the integration plan is now complete. Public Sector and Commercial revenue represented 69 per cent of Group sales.

Marshalls' strategy continues to deliver sustainable integrated solutions to customers, architects and contractors. The Group's technical and sales teams remain particularly focused on those market areas where future demand is considered to be greatest including New Build Housing, Road, Rail and Water Management. The Group continues to outperform the market in these areas.

Our updated and refreshed Design Space office in Central London showcases the Group's brand leading capabilities and technical and design solutions. During the year we have also opened a new Marshalls Design Space in the heart of Birmingham supporting the major redevelopment in the city. The objective of these facilities is to showcase new concepts and designs with architects using digital technology to facilitate the selection and specification of our ranges. The objective is to create a brand preference in order to secure product specification.

Domestic

Revenue in the Domestic end market was flat, although these results were ahead of the overall Domestic market in 2019. Sales to the UK Domestic end market now represent approximately 26 per cent of Group sales.

Installer order books at the end of February 2020 were 9.7 weeks (February 2019: 10.0 weeks), compared with 10.9 weeks at the end of October 2019. The Group's industry leading standards remained high in 2019 with a combined customer service measure of 98 per cent (2018: 98 per cent) and market leading geographical coverage.

The Group's strategy continues to be to drive more sales through quality installers. The Marshalls Register of approved domestic installers comprises approximately 1,900 teams. The objectives continue to be to develop the customer experience by digitalisation and a commitment to innovation. The Group continues to receive good feedback for its consistently high standard of quality, excellent customer service and marketing support.

International

Sales to International markets increased by 13 per cent and represents approximately 5 per cent of Group sales. The Group's international focus is centred on the US, Western European and Middle East markets and we continue to develop our global supply chains.

Integration of Edenhall

A detailed integration plan was instigated upon the acquisition of the business in December 2018. This is now operationally complete and covered all areas of the business and required close engagement between Marshalls and Edenhall's operational management team. The governance around the integration has been effective and feedback from key stakeholders involved in the project has been positive. Systems were fully integrated in the final quarter of 2019.

Recent growth has been supported by an expansion in production capabilities following the completion of a new £6 million factory in South Wales. This was fully commissioned in 2019 and has the capacity to deliver 100 million brick equivalents per annum.

Operating profit

Reported operating profit increased to £73.7 million (2018: £64.8 million). The impact of IFRS 16, which has been applied since 1 January 2019, has been to increase operating profit by £1.1 million. Post-IFRS 16 EBITDA was £103.9 million, as a consequence of an additional £12.9 million depreciation in relation to right-of-use assets. On a pre-IFRS 16 basis, EBITDA improved to £90.1 million (2018: £80.8 million), an increase of 12 per cent.

Continuing operations	Pre-IFRS 16 2019 £'m	As reported 2019 £'m	2018 £'m	Pre-IFRS 16 increase %	As reported increase %
EBITDA	**90.1**	**103.9**	80.8	12	29
Depreciation / amortisation	**(17.5)**	**(30.2)**	(16.0)		
Operating profit	**72.6**	**73.7**	64.8	12	14

Basic earnings per share on a reported basis was 29.36 pence (2018: 26.29 pence) per share, which represented an increase of 12 per cent.

Profit margins

Margin analysis	Revenue £'m	Reported operating profit £'m	Margin impact %
2018	491.0	64.8	13.2
Landscape Products	15.2	2.5	0.1
Other	35.6	5.3	0.1
2019 – pre-IFRS 16	**541.8**	**72.6**	**13.4**
2019 – as reported	**541.8**	**73.7**	**13.6**

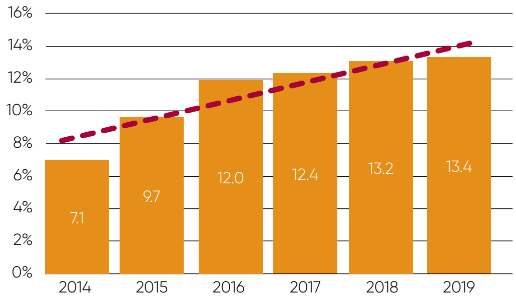
The Group has continued to implement its 2020 Strategy and as a result the operating margin has increased to 13.4 per cent (2018: 13.2 per cent).

The table illustrates the impact of operational gearing in the core business and shows that growth has continued to be ahead of CPA forecasts. The Group's Landscape Products business is a reportable segment servicing both the UK Public Sector and Commercial and UK Domestic end markets. Revenue increased by £15.2 million and operating profit grew by £2.5 million in the Landscape Products business.

Those businesses that are not large enough to comprise separate operating segments include Marshalls Landscape Protection and Mineral Products and they continue to be a key strategic focus and a positive driver for growth.

The chart below illustrates that the Group's operating margin improved from 7.1 per cent in 2014 to 13.4 per cent in 2019.

Operating profit (%)



Net debt

On a pre-IFRS 16 basis, net debt has reduced to £18.7 million at 31 December 2019 (2018: £37.4 million). Reported net debt was £60.0 million at 31 December 2019. The Group increased both capital expenditure and dividends, yet tight control of working capital has led to a reduction in net debt.

The ratio of net debt to EBITDA was 0.6 times at 31 December 2019 on a reported basis, and 0.2 times on a pre-IFRS 16 basis. Both are comfortably within our target range, of between 0 to 1 times, and well below covenant levels.

Cash generation

Cash generation remains strong, and reported net cash flows from operating activities were £88.1 million. On a pre-IFRS 16 basis net cash flows from operating activities were £75.7 million (2018: £63.3 million). The Group continues to focus on robust capital disciplines, with strong cash management continuing to be a high priority area. The Group operates tight control over business, operational and financial procedures, and continues to focus on inventory levels and the close control of credit management procedures. We report our supplier payment performance statistics on the Government portal and these continue to be within best practice guidelines. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts. The Group does not engage in debt factoring.

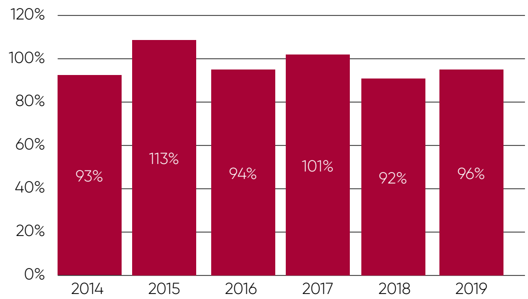
Group cash flow	**2019 £'m**	2018 £'m
Net cash from operating activities	**75.7**	63.3
Net cash from investing activities	**(22.4)**	(39.4)
Net cash from financing activities	**(34.5)**	(36.9)
Movement in net debt in the year	**18.8**	(13.0)
Foreign exchange	**(0.1)**	(0.1)
IFRS 16 lease liabilities	**(41.3)**	–
Net debt at beginning of year	**(37.4)**	(24.3)
Net debt at end of year	**(60.0)**	(37.4)

Cash outflow on capital expenditure in the year was £22.9 million (2018: £29.2 million). This included self help growth expenditure of £9.0 million and the replacement of existing assets, business improvements and new process technology. Dividend payments in the year were £33.2 million (2018: £29.2 million).

Analysis of cash utilisation	**Pre-IFRS 16 2019 £'m**	2018 £'m	Last 3 years £'m
Net cash from operating activities	**75.7**	63.3	196.3
Capital expenditure	**(22.9)**	(29.2)	(72.8)
Proceeds from sale of property assets	**0.5**	1.6	6.0
Share issues	**0.2**	0.6	0.8
Payments to acquire own shares	**(1.5)**	–	(2.6)
Share-based payments	**–**	(3.7)	(3.7)
Acquisition of subsidiary undertakings	**–**	(16.4)	(60.9)
Dividends	**(33.2)**	(29.2)	(86.5)
Movement in net debt	**18.8**	(13.0)	(23.4)

The chart above also provides a medium-term 3-year analysis of the cash generation capacity of the Group and how cash has been invested to grow the business and also to show the cash returned to shareholders. Cash generated from operating activities was £196.3 million. The Group has invested £72.8 million back into the business to generate growth, improve productivity and provide industry leading manufacturing facilities. The Group has also invested £60.9 million in the targeted acquisitions of CPM and Edenhall. Dividends to shareholders over the last 3 years have totalled £86.5 million, which equates to 44 per cent of net cash generated from operating activities.

OCF:EBITDA (%)



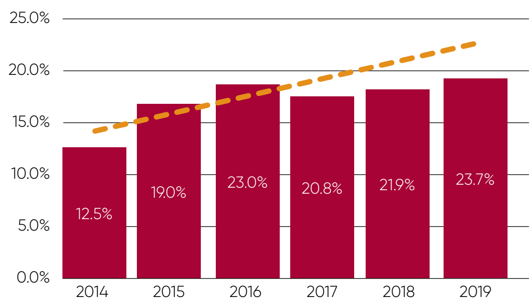
We are continuing to maintain OCF at around 100 per cent of EBITDA over the duration of our 5 year Strategy. As a function of both the enhanced EPS and tight working capital management, our ROCE has remained strong.

Return on capital employed ("ROCE")

ROCE was 21.4 per cent (2018: 21.9 per cent), on a reported basis, at 31 December 2019. Capital employed has increased by 17.0 per cent to £355.7 million (2018: £304.1 million) following the acquisition of Edenhall. The consistently high ROCE reflects the Group's tight control and management of inventory and monetary working capital. ROCE was 23.7 per cent on a pre-IFRS 16 basis (2018: 21.9 per cent).

Return on capital employed – pre-IFRS 16 basis

CAGR of 14% over 5 years



Impact of IFRS 16

In adopting IFRS 16 from 1 January 2019, the Group has applied the modified retrospective transition approach and not restated comparative amounts for the year ended 31 December 2018. Right-of-use assets of £45.0 million and lease liabilities of £46.5 million were recognised as at 1 January 2019. A transition adjustment of £1.8 million has been taken to retained earnings.

In terms of the Income Statement, the application of IFRS 16 resulted in a decrease in other operating expenses of £14.0 million and an increase in depreciation of £12.9 million for the year ended 31 December 2019. The interest expense increased by £1.3 million due to additional IFRS 16 lease interest. Consequently, on a reported basis, there has been an increase in operating profit of £1.1 million and a reduction in profit before tax of £0.2 million. Reported EBITDA of £103.9 million compares with £90.1 million on a pre-IFRS 16 basis. Bank covenants remain on frozen GAAP.

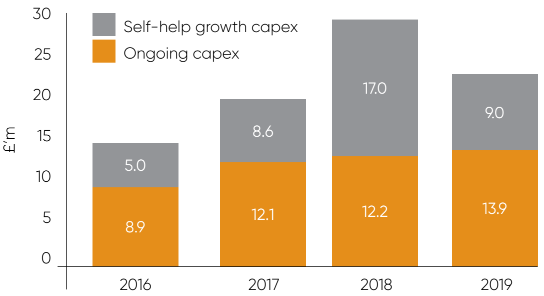
Financial Review *continued*

Continued development of the Group's growth strategy

During 2019, capital investment in property, plant and equipment (including software) totalled £22.9 million (2018: £29.2 million). This compares with pre-IFRS 16 depreciation of £17.3 million (2018: £16.0 million).

Self help expenditure is additional to ongoing spend and must be "value added" providing significant improvement in yields and efficiency. Self help capital expenditure was £9.0 million in 2019 (2018: £17.0 million). This includes projects to deliver new, innovative products and to drive through sustainable cost reductions and improvements in operational efficiency. Digital investment has been £9 million over the last 3 years. We continue to have a strong pipeline of such projects and capital expenditure of £20 million is planned for 2020.

Capital expenditure
Last 4 years



Our ESG agenda supports capital projects which improve operational efficiency and better utilisation of resources and raw materials. The investment in our new stone processing sawmills is a good example of this and our procurement process is focused on sourcing ethical and sustainable materials. We are committed to reducing the environmental impact of our products, reducing packaging and the recycling of water at our sites.

Research and development expenditure in the year ended 31 December 2019 amounted to £5.5 million (2018: £4.9 million). Investment in research and development covers a number of areas including the development of the Group's project engineering and manufacturing capabilities, concrete and other materials technology innovations and extending the new product pipeline. Revenue from new products in 2019 in the core Landscape Products business represented 13 per cent of total sales.

Further investment continues to be made to develop our wide-ranging digital strategy, encompassing digital trading, digital marketing and digital business. More details are provided on page 30.

Net financial expenses

Net financial expenses were £3.8 million (2018: £1.9 million), including £1.3 million of additional IFRS 16 lease interest. On a reported basis interest was covered 19.2 times and, on a pre-IFRS 16 basis, interest was covered 29.2 times (2018: 34.1 times). Interest charges on bank loans totalled £1.9 million (2018: £1.4 million) and, including scheme administration costs, there was an IAS 19 notional interest charge of £0.6 million (2018: £0.5 million) in relation to the Group's Pension Scheme. The IAS 19 notional interest includes interest on obligations under the defined benefit section of the Marshalls plc Pension Scheme, net of the expected return on Scheme assets.

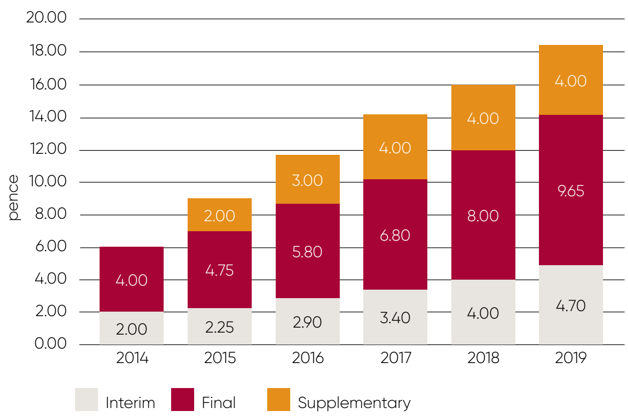
Taxation

The effective tax rate was 17.1 per cent (2018: 18.0 per cent). The Group has paid £9.0 million (2018: £9.9 million) of corporation tax during the year. Deferred tax of £0.5 million in relation to the actuarial gain arising on the defined benefit Pension Scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

For the 6th year running, Marshalls has been awarded the Fair Tax Mark, which recognises social responsibility and transparency in a company's tax affairs. The Group's tax approach has long been closely aligned with the Fair Tax Mark's objectives and this is supported by the Group's tax strategy and fully transparent tax disclosures. Taking into account not only corporation tax but also PAYE and NI paid on our employee wages, aggregate levy, VAT, fuel duty and business rates, Marshalls has funded total taxation to the UK economy of £93.6 million.

Dividends

The recommended supplementary dividend of 4.00 pence (2018: 4.00 pence) per share is discretionary and non-recurring. The level of recommended supplementary dividend recognises external market uncertainty and an appropriate degree of caution and stewardship. It also reflects that the business has sufficient capital both to finance increased investment and to maintain an appropriate supplementary dividend. When added to the normal full year dividend of 14.35 pence, this gives a total dividend for the year of 18.35 pence, which represents an increase against the prior year of 15 per cent. The incremental cash outflow in 2019 in relation to the supplementary dividend has been £7.9 million and will be approximately £7.9 million in 2020.



Priorities for capital

Organic growth
Capital investment in growth projects. Plan £20m in 2020.

R&D and NPD
Increase research and development and new product development.

Ordinary dividends
Maintain dividend cover of 2 times earnings over the business cycle.

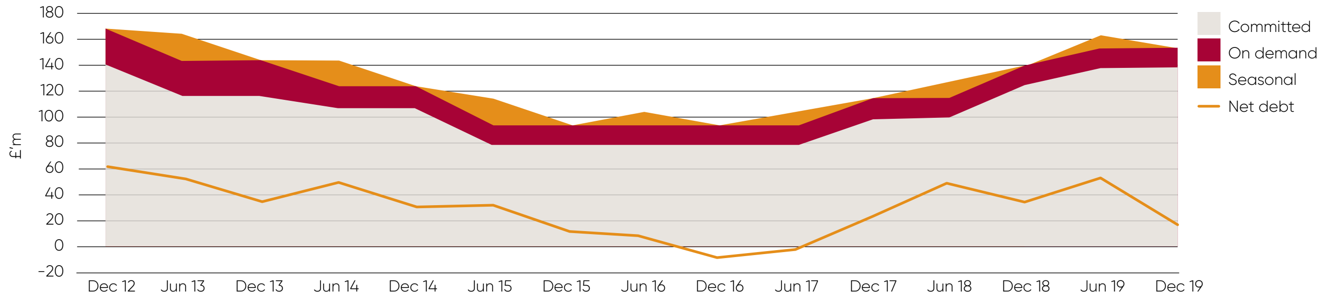
Selective acquisitions
Target selective bolt-on acquisition opportunities in New Build Housing, Water Management, Landscape Protection and Minerals.

Supplementary dividends
Supplementary dividends when appropriate. Discretionary and non-recurring.

Delivery over the last 3 years

	2016	2017	2018	2019
Organic growth	✓	✓	✓	✓
R&D and NPD	✓	✓	✓	✓
Ordinary dividends	✓	✓	✓	✓
Selective acquisitions		✓	✓	
Supplementary dividends	✓	✓	✓	✓

Banking facility headroom



Balance sheet

Net assets at 31 December 2019 were £295.8 million (2018: £266.7 million). The Group has a strong balance sheet with a good range of medium-term bank facilities available to fund investment initiatives to generate growth.

Group balance sheet	2019 £'m	2018 £'m
Non-current assets	**350.0**	302.8
Current assets	**212.5**	210.7
Current liabilities	**(162.3)**	(141.2)
Non-current liabilities	**(104.4)**	(105.6)
Net assets	**295.8**	266.7
Net debt	**(60.0)**	(37.4)

Working capital management

The Group continues to prioritise the close control of inventory and the effective management of working capital. 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. We do not engage in debt factoring. The Group complies with prompt payment guidelines and best practice and abides by a clearly defined payment policy which has been agreed with all major suppliers.

Pension

The balance sheet value of the Group's defined benefit Pension Scheme was a surplus of £15.7 million (2018: £13.5 million). The amount has been determined by the Scheme actuary. The fair value of the Scheme assets at 31 December 2019 was £368.8 million (2018: £343.7 million) and the present value of the Scheme liabilities is £353.1 million (2018: £330.2 million).

These changes have resulted in an actuarial gain, net of deferred taxation, of £2.4 million (2018: £8.3 million actuarial gain) and this has been recorded in the Consolidated Statement of Comprehensive Income. Following the completion of the 2018 triennial actuarial valuation during the year, the Company has agreed with the Trustee that no cash contributions are now payable under the funding and recovery plan.

Capital allocation

The Group's capital allocation strategy is to maintain a strong balance sheet and flexible capital structure that recognises cyclical risk, while focusing on security, efficiency and liquidity.

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

Borrowing facilities

The Group continues its policy of having a range of committed bank facilities in place with a positive spread of medium-term maturities that now extends to 2024. The Group's committed facilities are all revolving credit facilities with interest charged at a variable rate based on LIBOR. The facilities include a seasonal working capital facility of £10.0 million which is available between 1 February and 31 August each year. On 6 August 2019, the Group renewed its short-term working capital facilities of £25.0 million and took out an additional of £35.0 million with a 2023 facility. This has increased the capacity within our banking facilities to fund organic investment and selective "bolt-on" acquisitions.

The total bank borrowing facilities at 31 December 2019 amounted to £155.0 million (2018: £140.0 million), of which £83.7 million (2018: £60.5 million) remained unutilised. Interest cover and net debt to EBITDA covenants in the facilities were comfortably met at the year end. The bank facilities are unsecured save for inter-company guarantees between the Group and its subsidiary undertakings in favour of the facility banks.

Expiry date	Facility £'m	Cumulative facility £'m
Committed facilities		
Q1 2024	25	25
Q3 2023	55	80
Q3 2022	20	100
Q3 2021	20	120
Q3 2020	20	140
On-demand facilities		
Available all year	15	155
Seasonal (February to August inclusive)	10	165

Conclusion

Marshalls has delivered the 2020 Strategy successfully. This has been fuelled by profit growth accompanied by strong cash flow management, which has led to a continuous improvement in ROCE. The Group will retain the same capital discipline over the period of the new 5 year Strategy.

Jack Clarke
Group Finance Director

Sustainability

Sustainability is at the heart of all we do

Introduction

Operating in the most ethical and sustainable way is a commitment we make to our customers, partners and stakeholders and the communities where we operate.

Strategy

Our sustainability strategy is built on our vision of creating better spaces and futures for everyone. It is embedded into our business model and aligned with the Group's new 5 year Strategy.

Read our strategy on pages 20 and 21

Read about FTSE4Good on page 38

Culture and The Marshalls Way

The Marshalls Way means doing the right things, for the right reasons, in the right way.

Diversity and inclusion

We have policies in place to improve the gender balance and to address the age profile and under-representation of ethnic minorities in our workforce.

Governance

The Board oversees the Group's governance framework which supports the principles of environmental sustainability, strong ethical values and a culture of doing business responsibly.

Read about our culture on pages 44 to 49

Read about The Marshalls Way on page 11

UN Sustainable Development Goals

Marshalls supports the UN Sustainable Development Goals ("SDGs") to create a fair and sustainable world by 2030.

Non-financial information statement

As required by the Companies Act 2006, the table below sets out where the key contents requirements of the non-financial statement can be found within this document (or required by Sections 414CA and 414CB of the Companies Act 2006).

Reporting requirements	Relevant policies	Section within Annual Report
Environmental matters	• Environmental Policy Statement* • Climate Change Policy* • Timber and Paper Policy	• Sustainability strategy (pages 38 and 39) • Sustainability commitments relating to the environment (page 40)
Employees	• Code of Conduct* • Health and Safety Policy* • Serious Concerns Policy* • Diversity and Inclusion Policy* • Drug and Alcohol Policy	• Headcount (page 16) • People engagement (page 37) • Board diversity (pages 42 and 43) • Gender diversity (page 82) • Stakeholder engagement (pages 18 and 19)
Social and community matters	• Code of Conduct* • Social Community Investment Policy • Corporate Responsibility Policy* • Tax Policy*	• Responsible business (page 41) • Charitable donations (page 41) • Health and safety (page 41)
Human rights	• Human Rights Policy* • Modern Slavery and Anti-Human Trafficking Policy • Children's Rights Policy	• Stakeholder engagement (pages 42 and 43)
Anti-bribery and corruption	• Anti-Bribery Code*	• Governance and compliance (pages 42 to 49)
Principal risks		• Description of risk process (page 24) • Risk framework (page 25 to 26) • Principal risks and uncertainties (page 26 to 29)
Business model		• Our business model (pages 16 and 17)
Non-financial KPIs		• Key performance indicators (pages 22 and 23) • Strategy (pages 20 and 21)

Full versions of the policies referred to above form part of the Group's Policy Framework that supports Marshalls' Code of Conduct. These can be found on the Group's investor relations website: www.marshalls.co.uk/about-us/policies.

* Key policies referred to in this Annual Report.

People and talent development

The development of our people underpins our 5 year Strategy. We know our people make us who we are.

Defining the culture

Based on a thorough cultural audit, we developed our people and culture strategy which encourages proactive 2-way communication and collaborative working and enables us to embrace the full potential within our business.

The Marshalls Way means working together as one team, guided by strong principles, to operate in the most ethical and sustainable ways.

We are committed to our modern employee engagement measurement strategy and we have now launched the Employee Voice Group comprising representatives from across all business areas and levels.

The effort and drive we are embarking upon will ensure diversity is threaded through all our people processes.

Active apprentices
50

Trained mental health first aiders
60

Engagement Champions
25

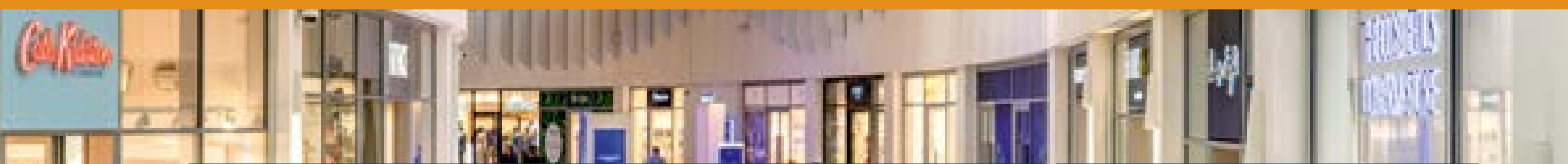
Janet Ashdown – our designated Non-Executive Director for workforce engagement

"It is an honour to lead people engagement on behalf of the Board and get directly involved with the talent at Marshalls. The energy and commitment from members of the Employee Voice Group ("EVG") who represent all business areas has been exceptional. The EVG has provided feedback and contributed to key initiatives like The Marshalls Way and the reward strategy, and its members have signed up to be our Engagement Champions going forward."

The competency framework that supports The Marshalls Way will set the tone for further investment into our people at Marshalls.

View our Board on pages 42 and 43

Employee experience



People development

- Apprenticeships in various fields and at varied levels
- The Marshalls Learning Zone
- Professional and functional skills development

Leadership development

- Implementation of people and culture strategy
- Emerging Leaders programme
- Essentials of Management programme

Diversity and inclusion

- Comprehensive Diversity and Inclusion Policy
- Social mobility pledge signatories
- Marshalls Women's Talent Network
- Becoming members of the UN Global Compact on Diversity and Inclusion

Engagement

- Engagement Champions
- Engagement strategy to facilitate feedback and outcomes
- Full employee feedback programme for 2020

Reward

- Fair and equitable reward and recognition policies and procedures
- Equal pay reviews
- Regular benchmarking and market analysis

Talent management

- New careers website launched
- Talent identification and succession planning
- Work placement scheme with local colleges

Sustainability *continued*

Sustainability pillars

The Group's sustainability pillars listed below are aligned with the key FTSE4Good criteria. They sit alongside the Group's strategic objectives set out on pages 20 and 21 and ensure that the Group's priorities and actions take full account of the longer-term sustainability priorities.

Sustainability pillars	Sustainability
Human rights	
Human rights and community Read more about our Human Rights Policy www.marshalls.co.uk/about-us/policies	• To support and uphold the UNGC 10 Principles and UN Guiding Principles on Business and Human Rights. • To develop and implement modern slavery remediation processes in supply chains. • To continue to engage with the International Labour Organization's International Programme on the Elimination of Child Labour.
Labour	
Labour standards Read more about our Code of Conduct www.marshalls.co.uk/sustainability/document-library	• To engage actively in the Bright Future programme and commit to the SaferJobs initiative. • To deliver our Ethical Trading Initiative Strategic Plan 2018–2020. • To maintain our Real Living Wage accreditation.
Environment	
Climate change Read more about our Climate Change Policy www.marshalls.co.uk/about-us/policies	• To commit to the Science Based Targets initiative and to set targets to reduce greenhouse gas emissions in line with the Paris Agreement.
Pollution and resources Read more about our Environmental Policy www.marshalls.co.uk/about-us/policies	• To reduce packaging by 2 per cent per annum, over a 3-year rolling cycle. • To reduce by 3 per cent the total waste to landfill per tonne of production. • To pilot waste reduction initiatives at site level to maximise recycling opportunities and reduce environmental impacts of waste.
Water use	• To commit to water harvesting and recycling. • To prioritise areas of stress and abundance in effective water stewardship. • To roll out the installation of water automatic meter reading to improve data accuracy.
Anti-corruption	
Anti-corruption Read more about our Anti-Bribery Code www.marshalls.co.uk/about-us/policies	• To continue to work with suppliers on our Code of Conduct. • To continue to uphold our Anti-Bribery Code.
Responsible business	
Responsible business Read more about our Corporate Responsibility Policy www.marshalls.co.uk/about-us/policies	• To continue to support the UN's Sustainable Development Goals. • To maintain Fair Tax accreditation. • To promote the Safecall whistleblowing process. • To have clear policies in place to improve diversity.
Corporate governance	• To ensure the governance framework promotes social and environmental sustainability. • To focus on people and culture through effective communications.
Health and safety Read more about our Health and Safety Policy www.marshalls.co.uk/about-us/policies	• To meet the highest standards of health and safety. • To achieve an accident rate lower than the target previous 3-year average. • To embed good practice into the Group's culture and to focus on comprehensive training programmes.

The Marshalls Way

Stakeholder focus

Shareholders

How we engage
- ESG reporting mechanisms
- New investor relations website to communicate sustainability credentials

Focus areas
- ESG reporting framework
- Investor relationship and engagement programme

Customers

How we engage
- Sustainability website
- Carbon calculator
- Permeable paving solutions

Focus areas
- Ethical risk index
- Social value
- Placemaking

Employees

How we engage
- Employee Voice Group
- Employee feedback programme
- Active internal communications

Focus areas
- Real Living Wage re-accreditation
- Social Mobility Pledge partnership programme in schools
- Talent management

Suppliers

How we engage
- Code of Conduct
- International supply chain engagement
- Working with suppliers on scope 3 emissions reporting

Focus areas
- Sustainable sourcing
- Modern slavery risk mapping and product ethical risk index

Communities and environment

How we engage
- Counter terror solutions
- Carbon Disclosure Project
- Science-based targets

Focus areas
- Sustainable Development Goals
- Science-based target driven carbon reductions
- Use of weather data to inform drainage product innovation

Government and regulatory bodies

How we engage
- UN Global Compact
- Awards, recognition and accreditation

Focus areas
- Fair Tax Mark re-accreditation
- Governance

Highlights

- Business and human rights communications to 350 employees directly involved in supply chain management.
- Modern slavery risk mapping for all business operations and supply chain.
- A number of pieces of direct intelligence to UK law enforcement as a result of modern slavery training.

- Launch of the Employee Voice Group and Marshalls Women's Talent Network.
- Social Mobility Pledge and updated Code of Conduct.
- Real Living Wage Employers Accreditation.

- Carbon Disclosure Project score of B, which means our actions are associated with good environmental management.
- A FTSE4Good score of 3.5 out of 5, where 3 is good practice and 5 is leading.

- Working with partners and trade associations to develop initiatives to reduce environmental impact of our products.
- Achieved BRE Responsible Sourcing Standard BES6001 and Ethical Labour Sourcing Standards BES6002.

- Signatory to UNGC CEO Water Mandate.
- Continued commitment to providing customers with permeable paving solutions.

- Supplier Code of Conduct giving clear anti-corruption and anti-bribery information using new IT-based platform.

- Launch of new Diversity and Inclusion Policy.
- Promoted the UN Global Compact's commitment to sustainable development.
- Raised £168,000 for charitable and community causes in 2019.
- Launch of Safecall external whistleblowing reporting line to support our whistleblowing procedures.

- Increased employee and stakeholder engagement.
- Continued to meet the standards of the UK Corporate Governance Code.

- Health, safety and environmental stage 3 training programme for all senior managers.
- Health, safety and environmental stage 1 training programme for 50 per cent of all non-supervisory employees.
- Development and implementation of continuous improvement feedback procedures across all management teams in the business.

The Marshalls Way

Sustainability *continued*

The environment

Introduction

- Marshalls is committed to achieving the highest standards of environmental performance, protecting the environment, preventing pollution from our operation, and identifying, understanding and minimising our significant environmental impacts.
- Marshalls assesses the environmental aspects, impacts, risks and opportunities of its activities in setting appropriate environmental objectives and targets.
- As part of the Group's climate change strategy and commitment to science-based targets, Marshalls' priorities include supporting the Task Force on Climate Related Financial Disclosures ("TCFD") in line with the UK Government's expectation that listed companies should make disclosures in line with the TCFD recommendations by 2022.
- More information can be found on the Group's website: https://marshalls.co.uk/sustainability.

Science-based targets

- Marshalls committed to setting a science-based target with the Science Based Targets initiative ("SBTi") in September 2018.
- We have been working with the Carbon Trust to analyse our business footprint in order to develop appropriate targets.
- Our targets have been submitted to the SBTi and we are awaiting approval.

Environmental stewardship

- The Group's Finance Director, Jack Clarke, is the Director responsible for the environmental performance of the Group.
- The Group's environmental policies are approved by the Board and reviewed at least annually.
- Marshalls voluntarily reports publicly on its progress to initiatives such as FTSE4Good and the Carbon Disclosure Project ("CDP").
- Marshalls operates to an established environmental management system to ensure that all its operations meet or exceed the requirements of legislation and applicable best practice as an integral part of our business strategy.
- Marshalls' environmental policies can be found on the Group's website: https://marshalls.co.uk/sustainability/document-library.

Carbon emissions – disclosure

Marshalls recognises that sound energy management is vital to the future of our business and it must be fully integrated into our management and operational procedures so that it is an everyday part of what we all do. Marshalls commits to ensuring that appropriate energy management systems are developed and maintained, and that sufficient resources are made available to achieve the objectives of our Energy and Climate Change Policy in a sustainable manner and in line with continual improvement principles.

Marshalls' Energy and Climate Change Policy confirms the Group's commitment to reducing the energy and carbon impact of its business. Our target is to reduce Group absolute CO_2e emissions in line with the UK Government's targets (37 per cent by 2020 and 80 per cent by 2050 from a 1990 baseline).

Marshalls continues to report its global scope 1 and 2 GHG emissions in tonnes of carbon dioxide equivalent according to the UK Government's Carbon Reduction Commitment ("CRC") Energy Efficiency Scheme. In 2020, however, the introduction of the Streamlined Energy and Carbon Reporting ("SECR") framework will require Marshalls to also report underlying global energy use as well as the split between UK and offshore energy use in other countries.

Marshalls is certified to the Carbon Trust Standard and will seek re-certification in 2021. The Group's approach to the Energy Savings Opportunity Scheme ("ESOS") legislation was to define its energy management in compliance with the international standard for energy management, ISO 50001, gaining re-accreditation in 2019. The Group continues to voluntarily disclose data to the Carbon Disclosure Project ("CDP"), receiving a B rating for its 2019 submission. This disclosure includes the wider carbon management performance over time and also provides an insight for shareholders regarding the Group's energy, carbon and climate change impact management programme.

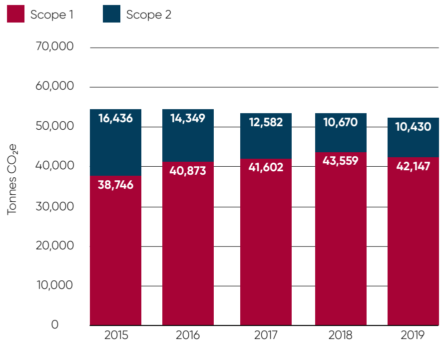
Marshalls has a mandatory duty to report its annual greenhouse gas ("GHG") emissions under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Marshalls uses The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and the June 2018 Department for Business, Energy and Industrial Strategy ("BEIS") published CO_2e conversion factors to measure its GHG emissions.

The chart below (top) illustrates the Group's UK absolute CO_2e emissions in tonnes, including transport activities, and energy use in kilowatt hours, between 2015 and 2019.

The chart below (bottom) illustrates the Group's CO_2e intensity emissions as a proportion of production output, including transport activities between 2015 and 2019.

This section of the Annual Report has been audited by a qualified verifier on behalf of BSI. On the basis of the work undertaken this carbon statement is considered to be a fair reflection of the Group's performance during 2019 and contains no misleading information.

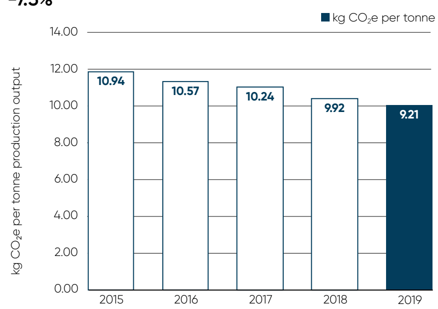
Scope 1 and 2 emissions (tonnes CO_2e)



Relative CO_2e per tonne production scopes 1 and 2

9.20kg CO_2e / t

-7.3%



Responsible business

Introduction

- Underpinned by The Marshalls Way of doing business, we do the right things, for the rights reasons, in the right way – by being transparent in our dealings, whether they be financial, social or environmental, we seek to inspire trust with all our stakeholders.
- The Marshalls Code of Conduct sets out the standards that we expect from our employees and all our stakeholders.
- Doing business responsibly provides the foundations for sustainable growth.

Human rights

- We support the Universal Declaration of Human Rights, the United Nations Global Compact and the Ethical Trading Initiative.
- We undertake modern slavery risk mapping for all business operations and the development of remediation processes in supply chains is a key priority.
- We partner with Bright Future to provide a pathway to employment for survivors of modern slavery.

Labour rights

- Supported by our Ethical Trading Initiative Strategic Plan (2018–2020), we aim to embed and integrate ethical trade into all business practices.
- We are a Real Living Wage employer.
- We have signed the Social Mobility Pledge to show commitment to a diverse and inclusive workforce.

Community

- £168,000 earned for charitable and community causes in 2019.
- We are committed to our ongoing apprenticeship programme, with 50 currently active across the Group.

Fair tax

- We maintain our Fair Tax Mark accreditation.
- We contributed tax of £93.6 million to the UK economy in 2019.

Read about The Marshalls Way on page 11

Read about our culture and governance on pages 44 to 49

Health and safety

The Group's Finance Director, Jack Clarke, is the Director responsible for the health and safety performance of the Group. The Group's Health and Safety Policy is approved by the Board and reviewed at least annually. Marshalls is committed to meeting the highest safety standards of health and safety to ensure the safety, health and wellbeing of its employees, visitors and contractors. The Board is fully committed to the continuous development and improvement of the business's safety processes and the importance of engaging and developing a competent workforce.

The achievement of annual health and safety improvement targets is directly linked to the remuneration of the Executive Directors and senior management, as explained in the Remuneration Report on pages 55 to 86.

The headline target for 2019 was to maintain days lost resulting from workplace incidents at a figure no higher than the 2015 actual result (excluding the impact of acquisitions within a period of 3 years from purchase).

The table below shows the KPIs used by the Group to monitor performance, and progress against those KPIs over the last 5 years.

Accident frequency and severity rates (per 1 million hours worked) 2014–2019 Marshalls UK

	2014	2015	2016	2017	2018	2019
All accidents	59.1	48.8	49.2	43.4	50.5	**41.4**
All lost time accidents	7.2	5.1	5.6	4.1	3.2	**2.9**
All RIDDORs	3.3	1.6	2.3	1.4	2.9	**0.9**
All days lost	80.7	45.8	38.0	24.6	38.1	**32.8**
Average UK headcount	2,132	2,237	2,253	2,307	2,302	**2,348**

Note: The data for CPM and Edenhall is not included for 2018 and 2019 as they are still within the integration period of 3 years from purchase.

The actual results achieved against the 2016 target were:

- 13.7 per cent reduction in days lost resulting from all accidents frequency rate;
- 15.9 per cent reduction in all incident frequency rate;
- 48.2 per cent reduction in lost time incidents ("LTIs") frequency rate; and
- 60.9 per cent reduction in incidents reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR").

The primary target for 2020 will be to achieve an accident rate lower than the previous 3-year average (average of 2017, 2018 and 2019, excluding acquisitions).

In 2019, the 5-year Health and Safety Strategy which was agreed in 2017 was reviewed to align with the business strategy with set objectives. This strategy clearly demonstrates the commitment of the business to take the safety and wellbeing of its employees to the highest level.

In 2019, the business successfully gained ISO 45001 across the UK businesses, being the first in the building products industry to achieve this health and safety standard. Other achievements are listed below:

- a programme whereby all senior managers within the business will complete the Marshalls Health, Safety and Environmental stage 3 training programme;
- 50 per cent of all non-supervisory employees will attend and successfully pass the Marshalls Health, Safety and Environmental stage 1 training programme;
- the integration of PD Edenhall into the Marshalls Health and Safety Management System;
- the introduction and implementation of management observations to all management teams across the business;
- fully implemented a mental health programme across the business, which included training for management teams and trained mental health first aiders being deployed across the business backed up by an external support network; and
- the development and implementation of a digital Marshalls SHEQ concerns app (safety, health, environmental quality).

2019 also saw Marshalls win a coveted health and safety award from the industry body, the Minerals Product Association Awards, for health and safety initiatives.

In 2020, the main health and safety initiatives will include:

- completion of the Marshalls SHE stage 1 training for the remaining 50 per cent of non-supervisory employees;
- the development and implementation of a full SHEQ digital integrated management system; and
- the introduction of the Marshalls SHE observation initiative, which will promote employee engagement at all levels and be part of the wider behavioural safety programme within Marshalls.

Board of Directors

Vanda Murray OBE
Chair

N R I

Term of office
Appointed as Non-Executive Director and Chair in May 2018. Elected in May 2019.

Length of service
1 year 8 months

Skills and experience
Fellow of the Chartered Institute of Marketing with extensive experience of corporate leadership in both executive and non-executive roles with a wide range of UK and international businesses. Previous executive roles include Chief Executive of Blick plc from 2001 until its successful sale to Stanley Works Inc. in 2004 and Managing Director of Ultraframe plc between 2004 and 2006. She is a Non-Executive Director of Manchester Airports Group and Pro-Chancellor and Chair of the Board of Governors of Manchester Metropolitan University.

External appointments
Senior Independent Non-Executive Director and Chair of the Remuneration Committee of Bunzl plc. Non-Executive Director and Chair of the Remuneration Committee of Redrow plc.

Martyn Coffey
Chief Executive

Term of office
Joined the Company and appointed to the Board in September 2013. Last re-elected in May 2019.

Length of service
6 years 4 months

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

External appointments
Director of the Mineral Products Association. Non-Executive Director and Chair of the Remuneration Committee of Eurocell plc.

Jack Clarke
Chief Financial Officer

Term of office
Joined the Company and appointed to the Board on 1 October 2014. Last re-elected in May 2019.

Length of service
5 years 3 months

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

External appointments
None.

Committee key:
- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- ● Chair of the Committee
- I Independent Director

Gender composition
Female (3) Male (4)

Length of service
1 - 2 years (2) 3 - 4 years (2) 5+ years (3)

Janet Ashdown

Senior Independent Non-Executive Director, designated Non-Executive Director for workforce engagement

A N R I

Term of office
Appointed in March 2015. Last re-elected in May 2019.

Length of service
4 years 9 months

Skills and experience
Non-executive experience includes serving on the Boards of SIG plc (until May 2019) and Coventry Building Society (until 2017). Previous executive experience included 30 years with BP plc, most recently as Director, BP Oil UK Limited, and Head of UK Retail and Commercial Fuels. Between 2010 and 2012 she was CEO of Harvest Energy.

External appointments
Non-Executive Director and Chair of the Remuneration Committee of Victrex plc. Non-Executive Director of the Nuclear Decommissioning Authority. Non-Executive Director and Chair of the Corporate Sustainability Committee of RHI Magnesita N.V (since June 2019).

Graham Prothero

Non-Executive Director

A N R I

Term of office
Appointed in May 2017. Last re-elected in May 2019.

Length of service
2 years 5 months

Skills and experience
Graham Prothero is a Chartered Accountant and is Chief Operating Officer of Vistry Group PLC (appointed January 2020). He was previously Chief Executive of Galliford Try plc. He is also on the Board of the Jigsaw Trust, a charitable trust. Graham has extensive senior management experience in the sector, including with leading property developer Development Securities PLC (now U+I), Taylor Woodrow, the listed contractor / developer, and Blue Circle Industries plc. Graham also spent 7 years as a partner in the Real Estate, Hospitality and Construction Group of Ernst & Young LLP.

External appointments
Chief Operating Officer of Vistry Group PLC.

Tim Pile

Non-Executive Director

A N R I

Term of office
Appointed in October 2010. Last re-elected in May 2019.

Length of service
9 years 3 months

Skills and experience
Formerly Chairman of Cogent Elliott, the leading independent marketing agency, and was Chief Executive Officer of Sainsbury's Bank. Previous Non-Executive Director roles include Cancer Research UK.

External appointments
Senior Independent Director and Chair of Finance and Performance of the Royal Orthopaedic Hospital. Chair of Greater Birmingham and Solihull LEP. Non-Executive Director of the Greater Birmingham Chambers of Commerce. Observer, CWG 22 Board (Commonwealth Games).

Angela Bromfield

Non-Executive Director

A N R I

Term of office
Appointed in October 2019.

Length of service
3 months

Skills and experience
Angela Bromfield has extensive commercial strategy, marketing and communications executive experience. She was Strategic Marketing and Communications Director at Morgan Sindall plc until 2013 and prior to that held senior roles at the Tarmac Group, Premier Farnell plc and ICI plc.

External appointments
Non-Executive Director and Chair of the Remuneration Committee of Churchill China PLC. Non-Executive Director and Chair of the Remuneration Committee of Zotefoams PLC. Non-Executive Director of Harworth Group PLC and a member of the Audit Committee.

Cathy Baxandall

Group Company Secretary

The Board comprises Directors with a broad range of skill and experience comprising leadership, construction, finance, M&A, product development, technology and retail. In decision-making, the Non-Executive Directors have contributed relevant skills and knowledge particularly in strategic thinking and planning, financial matters, innovation, health and safety, engagement with stakeholders and culture change.

Corporate Governance Statement

Engaging with our stakeholders to create value aligned with our culture

Dear shareholder

I am pleased to introduce our Corporate Governance Statement, which explains how Marshalls' governance framework supports the principles of integrity, strong ethical values and professionalism integral to our business. The Board recognises that we are accountable to shareholders for good corporate governance, and this report, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 50 to 86, seeks to demonstrate our commitment to high standards of governance that are recognised and understood by all.

During 2019:

- we have increased employee and stakeholder engagement in decision making through more regular and transparent consultation, interaction and reporting;
- our customer experience initiative has put customers at the core of our business with measurable improvements; and
- we have continued to invest in our people and our products, with a strong commitment to ethical and sustainable business through The Marshalls Way and our Code of Conduct.

In 2020 we will:

- invest responsibly to serve the interests of our stakeholders in the widest sense;
- further improve the sustainability of our products and services by reducing our net contribution to emissions; and
- continue our focus on people and culture through better communications, increased work on safety (particularly in newly acquired businesses) and strong succession and development programmes with a clear diversity agenda.

Leadership, governance and purpose

Good governance depends on good and effective leadership and a healthy corporate culture, supported by robust systems and processes and a good understanding of risk and risk appetite. Our Strategic Report on pages 24 to 29 explains how we seek to fulfil our purpose, how this is supported by our policies and procedures and our approach to key risks.

The reports of our Board Committees give further detail on how our policies and processes have been applied and developed during the year in particular areas and how this relates to our values and strategy. We have focused on engagement and operational improvement, aligning and developing our recruitment, reward and incentive structures, ensuring progress can be measured and monitored appropriately and promoting a business that is resilient, responsible and alive to opportunity.

Board evaluation

An evaluation of the performance of the Board and its Committees was conducted in 2019 by external evaluator Independent Audit, using a combination of its "Thinking Board" online questionnaire and tailored additional support to ensure that issues identified in the Board's 2018 evaluation were

Compliance statement

This Corporate Governance Statement has been prepared in accordance with the principles of the UK Corporate Governance Code dated July 2018 (the "UK Code") which applies to the financial year 2019. The standards set by the UK Code have been met throughout 2019. Our Governance sections over the following pages explain how the Group has applied the principles throughout the year and up to the date of this Annual Report.

1

Board leadership and company purpose

- Led by strong and experienced Chair
- Focused on strategy
- Commitment to sustainability and ethical principles

Read more on page 46

2

Composition, succession and evaluation

- Majority of independent Directors
- Board with wide experience and relevant skills
- Annual effectiveness audit

Read more on pages 46 and 47

Board evaluation – 2019 process

Independent Audit was appointed in July 2019 to conduct an external review of Board and Committee effectiveness. Independent Audit is an independent third party professional organisation with no other connection to the Company. The review was conducted using its online assessment service, Thinking Board.

- Questionnaire was adapted to reflect Board priorities and areas that had previously been identified for focus
- Questionnaire was circulated to all Board members in September 2019
- Responses were received and analysed in October 2019
- Independent Audit attended the October 2019 Board meeting to present the findings and discuss conclusions
- Board reviewed progress against enhancement actions from 2018 evaluation and agreed actions and priorities for 2020 (December 2019 / January 2020)

appropriately followed up during the year. Page 48 of this report gives more detail on how the 2018 evaluation outcomes were addressed in 2019, the extent to which the objectives set were achieved, the objectives identified by the 2019 evaluation and how the Board expects to deliver these.

Diversity

Marshalls' policy is that no employee or job applicant will be treated less favourably on the grounds of race, colour, nationality, ethnic or national origin, gender (including gender reassignment), pregnancy, marital or civil partner status, sexual orientation, religious belief, age or disability, or on any other grounds which cannot be justified on job related terms. We do not discriminate, and we are committed to equality within our business and in our dealings with other organisations. These policy principles are embodied in our Code of Conduct and are supported by policies and procedures designed to attract and retain talent from the widest range of applicants. Briefs to external recruitment agencies and search consultants are aimed at improving diversity ratios and balance both at Board and senior management level and more widely within the business, while also reflecting the changing strategic needs of the Group. More recently, our Employee Voice engagement initiative is intended to ensure employees are able to contribute to the development of opportunities and the embedding of our positive values across the business.

As a Board, we recognise that this is a process that will take time to become embedded. Having set the direction, the Board is fully engaged with the initiatives to deliver an ambitious "people" programme as part of our 5 year Strategy. While there is much work to do to achieve true gender and diversity balance, there is a clear commitment to this programme, with a strong management team performing to measurable objectives that we expect to develop further in 2020. The Remuneration Report contains details of our gender ratios and gender pay gap data (pages 82 and 83), and the Nomination Committee Report (pages 50 and 51) explains in more detail how we implement our policy in relation to recruitment and succession planning and how we aim to achieve improvements.

Sustainability, ethics and climate change

Marshalls has shown leadership in its well-documented and clear commitment to high standards of ethical and sustainable business over many years. It was the first company in its sector to publish the carbon footprint of its UK-manufactured products, and the first UK manufacturer to become a signatory to the UN Global Compact. It published its first Modern Slavery Statement in 2017 and works with Government and reputable NGOs to ensure that the principles in this statement are applied throughout its supply chain and its customer base. New products are developed with a view to reducing carbon footprint through lower non-sustainable energy use in production processes, increasing the proportion of recycled materials, and responding to environmental needs: for example, better water management, or improving the protection of urban populations. The Board regards environmental sustainability as a key element of its purpose as well as being a core value, and this remains at the forefront of its strategic plans.

Further information is set out in the Sustainability Report on pages 36 to 41.

Responsibility

In the opinion of the Directors these Annual Financial Statements present a fair, balanced and understandable assessment of the Group's position and prospects and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report on pages 89 and 90 and 55 to 88.

Vanda Murray OBE
Chair
12 March 2020

3

Division of responsibilities

- Clear and transparent reporting procedures
- Regular dialogue between Board and management
- KPI trackers and reporting procedures

Read more on page 47

4

Audit risk and internal control

- Oversight of internal audits and risk reviews
- KPIs, monthly trackers and regular reviews to monitor progress
- Measure delivery outcomes to ensure benefits are realised

Read more on pages 47 and 48

5

Remuneration

- Policy consistent with UK Code
- Alignment of outcomes with interests of shareholders and stakeholders
- Non-financial ESG measures embedded in incentive schemes
- Committee discretion to override outcomes where circumstances required

Read more on page 48

Corporate Governance Statement *continued*

Role of the Board

The Board currently comprises an Independent Non-Executive Chair, 4 Non-Executive Directors and 2 Executive Directors. Their biographical details are on pages 42 and 43.

There is a written Schedule of Matters Reserved for the Board, reviewed annually, which is available on the website. The reserved matters include:

The Board delegates specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report on pages 52 to 54 provides details of the Board's application of Code principles in relation to financial reporting, audit, risk management and internal controls. The Nomination Committee Report on pages 50 and 51 reports how Board and senior management composition, succession and development are managed to reflect Code principles. The Remuneration Report on pages 55 to 88 explains how the Group's Remuneration Policy has been implemented, and shows Directors' remuneration for 2019. The Remuneration Report also provides gender pay and balance information. Ad hoc Board Committees are established for particular purposes: for example, during 2019 Board Committees were established to approve preliminary and half-year results.

Day-to-day management and the implementation of strategies agreed by the Board are delegated to the Executive Directors. The Group's reporting structure below Board level is designed so that decisions are made by the most appropriate people in a timely manner. Management teams report to members of the Executive Committee (comprised of senior managers, including the 2 Executive Directors). The Executive Directors and other Executive Committee members give regular briefings to the Board in relation to business issues and developments. Clear and measurable KPIs are in place to enable the Board to monitor progress. These policies and procedures enable the Board to make informed decisions on key issues including strategy and risk management.

Leadership and purpose

The Board has reviewed its purpose against the UK Code principles during 2019. Delivering long-term sustainable success is a key focus of the strategic plan, and in setting strategy the Board has ensured that the needs of shareholders, stakeholders and wider society have all been fully reflected in the priority areas. The Company continues to make progress in defining the desired culture and identifying the action plans designed to promote and embed this. The Board has been involved with the work on culture as well as re-evaluating purpose and values, and has engaged with the Group HR Director in relation to a number of initiatives introduced during 2019 designed to promote the culture and values of the business as well as ensuring they are aligned with strategy.

There are clear and measurable KPIs to monitor objectives and the Board receives regular updates from Executive Directors in relation to these. The Risk Register is reviewed at least twice yearly. The Board receives periodic reports from the internal auditor on a range of matters identified each year that are approved by the Board.

The Board engagement with shareholders and employees has been reinforced in 2019 through (i) a regular series of scheduled meetings with major shareholders, and (ii) the introduction of Employee Voice forums attended by employees from all levels of the business and the designated NED. The Board has been involved in both setting objectives and measuring response through Board reporting and individual Executive presentations.

The Board has received detailed briefings on recruitment and reward strategy, personal development and succession planning, and alignment of these with the strategic objectives of the Group, also linked closely to culture and fairness principles. A structured and regular reporting format has been introduced in relation to HR strategy which enables the Board to monitor workforce policies and practices throughout the year.

Conflicts and concerns

The Board maintains a conflicts register that identifies situations in which conflicts may arise, and which is reviewed regularly. In situations where an actual conflict is identified, the affected Director may be excluded from participating in relevant Board meetings or voting on decisions. There is no shareholder with a holding of sufficient significance to exercise undue influence over the Board or compromise independent judgement.

Concerns about the running of the Company or proposed action would be recorded in the Board minutes. On resignation, if a Non-Executive Director did have any such concerns, the Chair would invite the Non-Executive Director to provide a written statement for circulation to the Board.

The Group's Serious Concerns Policy sets out the principles under which employees can raise concerns in confidence. This is supported by an independent whistleblowing telephone and online reporting system operated by external specialists, through which concerns may be reported anonymously if preferred. The Board receives reports on matters raised under this policy and the outcome of investigations. Any concerns raised are investigated appropriately by individuals whose judgement is independent and who are not directly involved with the matters raised.

Board composition, succession and evaluation

There is a transparent and formal process for appointments led by the Nomination Committee supported by external specialist recruiters. Board succession planning is reviewed at least annually by the Nomination Committee, while succession planning at Executive level is reviewed by the Board. The Board also reviews succession planning for senior management and is able to consider and challenge as appropriate the Group's recruitment policies and how they promote diversity. The policies and process are commented on further in the Nomination Committee Report.

Roles and division of responsibilities

There is a clear division between Executive leadership and leadership of the Board expressed in the written Terms of Reference of the Chair and Chief Executive.

The Chair leads the Board and is responsible for its overall effectiveness. She was independent on appointment in 2018 and brings her objective judgement to the role. The independent review of Board effectiveness, among other issues, focused on the openness of Board debates, the relevance and clarity of Board information and constructive Board relations. No issues were identified in this area.

The Chief Executive has responsibility for all operational matters which include the implementation of strategy and policies approved by the Board. The Senior Independent Director provides a sounding board for the Chair and also acts as an intermediary for other Directors and shareholders.

The Board has determined each of the Non-Executive Directors to be independent in accordance with Section 2, Provision 10 of the UK Code. Tim Pile's term of office was extended for a further year to enable the recruitment of his replacement, which has not affected his independence.

At least once a year the Chair meets the Non-Executive Directors without the Executive Directors being present. The Senior Independent Director meets the other Non-Executive Directors annually without the Chair to appraise the Chair's performance.

On appointment, the expected time commitment for Board members is made clear. The Chair and other Non-Executive Directors disclosed their other commitments prior to appointment and agreed 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 commitments of the Chair and other Directors are shown on pages 42 and 43.

We believe our Board has a good combination of skills, experience and knowledge. The Board reviews each year its own composition and assesses whether the current skills, experience and knowledge are aligned with the Group's strategy and expected future leadership needs. The Board acknowledges the benefit of refreshment and has a clear succession plan designed to ensure that Board members' terms expire or they retire over clearly defined periods, normally not exceeding 9 years. There is an annual effectiveness review which was conducted in 2019 by Independent Audit (as referenced in the Chair's introduction).

All Directors stand for re-election at every Annual General Meeting, and all current Directors except for Tim Pile will stand for re-election or election at the 2020 Annual General Meeting. The Directors' biographical details on pages 42 and 43 show their term of appointment and length of service on the Board.

Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are complied with and, through the Chair, advises the Board on governance matters. The appointment or removal of the Company Secretary are matters for the whole Board.

Audit, risk and internal control

The Board has established written policies and procedures for external and internal audit functions designed to ensure that they remain independent and effective. The Board scrutinises financial and narrative statements in accordance with best practice supported by the advice of the auditor.

The Board has a well-established procedure to identify, monitor and manage risk, and has carried out reviews of the Group's risk management and internal control systems and the effectiveness of all material controls, including financial, operational and compliance controls. The Board has reviewed the overall effectiveness of risk management and internal controls, covering all material controls. The Strategic Report comments in detail (pages 20 and 21) on the principal risks facing the Group, in particular those that would threaten our business model, future performance, solvency or liquidity and the controls in place to mitigate them. The Board conducts a rigorous assessment of these risks, particularly operational risks that might affect the Group's viability in the short term and emerging risks that might impact the longer term. The Board's risk review covers emerging risks and incorporates some stress testing, by envisaging scenarios that might arise during the financial year and / or the planning cycle, and considering, with financial impact modelling where appropriate, the likely effect on the business and its prospects. The Board reviewed the Group's risk management system and the system of internal control at risk review meetings in May and November 2019; the Risk Register was reviewed by the Audit Committee in December 2019 and the

Board meetings and attendance*

Key = ● Present ○ Absent

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Briefing topics 2019
Vanda Murray OBE (Non-Executive Chair)	●●●●●●●	–	●●●●	●●	Market trends Sales and service delivery Acquisition integration updates Health, safety and environment Emerging businesses Operations HR strategy Climate change and science-based targets
Janet Ashdown (Non-Executive)	●●●●●●●	●●●●	●●●●	●●	
Jack Clarke	●●●●●●●	–	–	–	
Martyn Coffey	●●●●●●●	–	–	–	
Graham Prothero (Non-Executive)	●●●●●●●	●●●●	●●●●	●●	
Tim Pile (Non-Executive)	●●●●●●●	●●●●	●●●●	●●	
Angela Bromfield (Non-Executive)+	○○○○○●●	○○○●	○○●●	○○	

* The Chief Executive and the Finance Director are not members of the Audit Committee but normally attend Audit Committee meetings by invitation. The Non-Executive Directors also meet the auditor in private. The Chief Executive attends Remuneration Committee meetings by invitation. The Company Secretary attends Board and Committee meetings as Secretary. Board members also participate in site visits, training sessions and events such as the Group's annual management conference.

+ Angela Bromfield attended all scheduled meetings following her appointment on 1 October 2019.

Corporate Governance Statement *continued*

How Board priorities were addressed during the year

Culture, values and engagement

- The Marshalls Way statement of values was simplified and relaunched. The Code of Conduct, defining the Marshalls Way, was updated for approval in December 2019
- Board leadership and support for initiatives designed to achieve cultural objectives, supported by measurable targets and a new approach to internal communications
- Introduction of structured 2-way regular and consistent reporting to the Board on internal culture, stakeholder feedback and survey outcomes
- Employee Voice forum attended by designated Non-Executive Director for workforce engagement
- Annual strategy day review to set strategic priorities and ensure strategy and values are aligned
- Regular key shareholder visits for Chair and SID programmed into timetable

Succession planning

- Adoption of Nomination Policy (March 2019) setting out vision for the recruitment of a diverse and skilled Board able to promote the Company's success and deliver strategy in a sustainable way
- Recruitment of Angela Bromfield as NED to replace Tim Pile
- 5-year HR plan now in place with clear aim to align recruitment and people development with strategy, values and culture at senior manager level and throughout the business, which is well understood by the Board
- Review of leadership immediately below the Board as part of long-term succession planning and following integration of acquired businesses

Strategy and risk

- New 5-year plan with strategic milestones identified, investor communications have incorporated and explained this
- CEO reports regularly on progress against strategic plan
- Board discussions focus on forward-looking strategic matters
- NED risk review completed and integrated into Risk Register; Risk Register updated to reflect agreed strategic priorities
- External Board training on 2018 UK Code, MAR and other regulatory matters included in meeting programme

Audit, risk and internal control *continued*

Non-Executive Directors carried out a risk review in October 2019 the outcome of which was incorporated into the Risk Register.

The Audit Committee Report on pages 52 to 54 describes the internal control system, how the Board assures itself of the independence and effectiveness of internal and external audit functions and how they are managed and monitored. The Board acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Focus areas and actions to enhance effectiveness in 2020 (from 2019 review)

Replies to the 2019 evaluation conducted by external evaluator Independent Audit concluded that the Board was considered to be working very effectively and there was openness, mutual respect and good leadership supported by good and timely information. Areas identified for further development were:

Culture

- The Board recognises the need to continue to develop and deepen the cultural message throughout the business
- The Board will establish KPIs to measure progress towards the Board's desired culture
- There will be increased opportunities for Board members to spend time in the business, with structured programme to support

Stakeholder engagement

- Recognising that there is good shareholder engagement, the Board and senior management will extend programme of presentations, reports and meetings to raise the profile of the views of customers, suppliers and the wider community in Board discussions and decision-making, giving especial weight to improving visibility and understanding of customers and customer experience
- Continue to develop engagement with employees through EVG and other established channels

Succession planning

- Continued focus on succession plans at Executive and senior management level and within the organisation as a whole, designed to improve recruitment and development of the talent of the future to deliver sustainable success and to meet the Company's diversity and reward objectives
- Set measurable KPIs / milestones in succession planning and recruitment

Remuneration

The current Remuneration Policy was last approved by shareholders in 2017, and a revised Policy will be submitted for approval at the 2020 Annual General Meeting. The Directors' Remuneration Report contains the 2020 Policy, which has been prepared taking into account the UK Code and the views expressed during a detailed consultation process with the Company's top 20 shareholders and with external voting agencies. The Remuneration Report also gives details of how the current Policy has been applied, how the Remuneration Committee has carried out its responsibilities during the year and the remuneration practices and outcomes.

Vanda Murray OBE
Chair
12 March 2020

Stakeholders and stakeholder engagement

Factoring our stakeholders into Board procedures

The concerns of key stakeholder groups are factored into Board discussions and decision making. In performing their duty under S172(1) of the Companies Act 2006, the Board ensures that the impact on our stakeholders is carefully considered by management when formulating all proposals requiring Board approval.

Details of how the Group engages with key stakeholder groups is set out on pages 18 and 19. The engagement channels used by the Board in addressing the key concerns of each stakeholder group are set out in the table below. The Directors' statement in relation to their statutory duty in accordance with S172 (1) of the Companies Act 2006 is on page 19.

Stakeholders	Key concerns	Engagement channels	Outcomes
Shareholders	• Company's ongoing performance • The longer-term strategy • Corporate governance and culture • Environmental, social and governance ("ESG") disclosure and performance	• Site-based Capital Markets Day in June 2019 attended by Board members • Chair and Senior Independent Director meet major shareholders and investors at least annually • Regular meetings between major shareholders and Executive Directors • Board undertakes site visits to gain understanding of operational business issues • Additional meetings and written consultations in reaction to particular issues (e.g. new policies)	• Formal feedback process • A full series of meetings is planned for 2020 • Consultation on policies reflected in final adopted versions
Employees*	• Health and safety • Employee experience and engagement • Diversity and inclusion • Leadership and people development • Developing culture	• Janet Ashdown is the designated Non-Executive Director for workforce engagement • Board regular reports include 6-monthly updates on reward and recruitment issues • Board receives monthly health and safety reports and performance tracker • Board attends management conference • Board members participate in projects and mentoring	• Janet Ashdown attends Employee Voice Group ("EVG") formed in 2019 • Nominated Director ensures EVG concerns are fed into Board discussions • 2020 Board priority to establish measurable KPIs in culture • Board approved updated Diversity and Inclusion Policy in 2019
Customers	• Customer engagement and satisfaction • Quality and customer service • Customer experience • New product development and innovation	• Regular reports on the Customer Centricity Project • Meetings with sales teams and participating in customer visits • Customer experience scores	• Board was instrumental in developing Customer Centricity Project • Customer experience has been a key driver of the Group's digital strategy initiatives
Suppliers	• Continuity of supply • Sustainability management • Quality • Ethical sourcing • Building strong relationships • Financial credibility	• Feedback reports on supply chain compliance • Regular supply chain and business continuity audits undertaken • Reports received on ethical sourcing and ETI Base Code	• Approval of new Code of Conduct in 2019 • Review of governance process in relation to supplier tendering to be undertaken in 2020 • Increased focus on strategic partnerships and compliance processes
Community	• Health and safety • Sustainability • Environmental protection • Contribution to community life • Responsible business	• Feedback reports on environmental needs and priorities • Regular updates from management on sustainability • Sustainable NPD	• Focus on landscape protection products and sustainable raw material sourcing • The Board aims to reflect the interests of communities • Investment in drainage products to mitigate the impact of local flooding • Board approval of the Group's submission in relation to the Science Based Targets Initiative
Regulatory bodies	• Strong governance • Transparency in reporting • Regulatory compliance audits	• Maintaining Fair Tax Mark accreditation • Maintaining status as a constituent of FTSE4Good • Membership of the Living Wage Partnership • The Board receives feedback from external audits and on communication with regulatory bodies • LINGC, modern slavery and victim support organisations	• The Board is fully engaged with the Group's participation in the Government's working party on modern slavery and the business community's response to developing legislation

*For the purpose of this report, employees includes permanent and temporary staff and agency workers, wherever they are located.

Nomination Committee Report

Our recruitment and succession plans incorporate the principles of diversity, gender equality, objectivity and fairness

Dear shareholder

I am pleased to report to shareholders on the main activities of the Committee and how it has performed its duties during 2019. I chair Nomination Committee meetings, but would not do so where the Committee was dealing with my own reappointment or replacement as Chair.

Members and attendance	Meetings
Vanda Murray OBE – Chair	●●
Janet Ashdown – SID	●●
Graham Prothero	●●
Tim Pile	●●
Angela Bromfield	○○

Angela Bromfield joined the Nomination Committee on appointment in October 2019 but did not attend any meetings in 2019 as they both predated her appointment and related to it.

2019 highlights

- Adopted Nominations Policy setting out our principles in relation to Board and Executive succession planning.
- Recruitment of Angela Bromfield as a Non-Executive Director to succeed Tim Pile.
- Reviewed succession plan and identified future needs, both for Board and senior management positions.

2020 priorities

- Supporting strategy and initiatives to promote diversity and cultural values, applying policy principles.
- Orderly management of Board succession plan.
- Focus on "pipeline" below Board level.

Link to TOR and Nominations Policy
www.marshalls.co.uk/about-us/corporate-governance

Marshalls Nominations Policy

The table below summarises the key features of our Nominations Policy and how it is applied.

Policy principle	Supporting measures	How implemented in 2019
• Recruitment and succession reflect the strategic needs of the business • Recruitment contributes to desired values and culture	• Nominations Committee carries out an annual skills review aligned with 3–5 year strategic plans • New Directors agree commitment to strategic direction and Group policies	• New appointment designated to add skills and experience appropriate for 2020 Plan; Angela Bromfield identified and recruited using Inzito Partners (independent recruiter with no other connection to the Company) to replace Tim Pile
• Recruitment to achieve diversity in widest sense	• Policy sets direction and gives leadership • Brief for search consultants for new Board appointments • Diversity initiatives / succession plans at Executive level reviewed and targets monitored	• Policy adopted February 2019 • Brief to Inzito incorporated diversity as a key objective • Introduction of HR reporting template including corporate culture and employee diversity KPIs • Review of succession planning below Board level
• There should be a clear formal Board succession plan based on objective criteria	• Annual review of terms of office • Annual individual evaluation • Use of independent external search advisers	• Review completed January 2019 • Individual evaluations February / March 2019 • Inzito used for 2019 NED recruitment process
• Directors must devote sufficient time to perform effectively and familiarise themselves with the business	• Limit on other Board appointments • Detailed induction, site visits, training and employee engagement programme	• Included in letters of appointment • Board training and visit programme as part of Angela Bromfield induction • All Directors participate in site visits, annual management conference and annual strategy day
• Compliance / good governance	• Conflicts policy and register reviewed no less than 6 monthly • Annual re-election of Directors	• Reviews in January and June 2019 • All Directors stood for election / re-election in May 2019

The performance of the Committee was evaluated as part of the Board evaluation process in 2019 described on pages 44 and 45. The Committee Terms of Reference were reviewed and updated to take account of the UK Corporate Governance Code published in July 2018 (the "UK Code"), which applies from 1 January 2019.

During the year the Nomination Committee held 2 scheduled meetings, and there were additional meetings and discussions in connection with succession planning and recruitment held by telephone.

Evaluation and reappointment of Directors

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

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

It is the Company's policy that Executive Directors can only hold 1 external listed company non-executive directorship. Voluntary service on the governing board of a social, trade or charitable organisation is also permitted. Details of the external appointments held by the Executive Directors are included in the biographical notes on pages 42 and 43.

Governance

The Committee has acted throughout 2019 in accordance with the principles of the UK Code. In addition, the Committee has assessed its effectiveness during 2019 against the UK Code as part of the annual Board evaluation process. The evaluation concluded that the Committee had been successful in securing a good mix of skills and experience in the composition of the current Board. The framework for the refreshment of skills, experience and diversity to support the needs of the business and its stakeholders in the future is transparent and well understood.

Vanda Murray OBE
Chair of the Nomination Committee
12 March 2020

"We have a well-balanced Board with the skills and experience to deliver our new 5 year Strategy and a clear vision for succession."

Vanda Murray OBE
Chair of the Nomination Committee

Audit Committee Report

Effective system of risk management and control

Dear shareholder

In this report I set out the Audit Committee's objectives and responsibilities and also explain the activities undertaken during 2019 and the priorities for 2020. This report, which is part of the Directors' Report, explains how the Audit Committee has discharged its responsibilities during 2019.

Members and attendance	Meetings
Janet Ashdown	●●●●
Graham Prothero	●●●●
Tim Pile	●●●●
Angela Bromfield (joined the Committee on 1 October 2019 and attended all scheduled meetings following appointment.)	○○○●

Link to TOR and Nominations Policy
www.marshalls.co.uk/about-us/corporate-governance

During 2019:

- we reviewed the significant financial judgements during the year and the preparation of the 2019 Financial Statements. Areas of focus in 2019 were inventory provisioning and revisions to provisional fair value adjustments on the Edenhall acquisition in 2018;
- provided assurance to the Board in respect of the adoption of IFRS 16 "*Leases*". This followed feedback from the external auditor in relation to the Group's adoption of IFRS 16 "*Leases*", including the transition and year-end disclosures in the Financial Statements;
- provided assurance to the Board on whether the 2019 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and reviewed the forecasts and sensitivity analyses underlying the Group's going concern assessment and Viability Statement;
- we carried out a detailed review of the outcomes of cyber security audits undertaken by KPMG LLP in order to improve cyber security controls and to ensure that IT controls remain appropriate and robust; and
- we commissioned internal audit reviews by KPMG LLP in relation to procurement, health and safety processes, logistics and fleet management, the Code of Conduct, supplier rebates and expenses. In total, 8 individual internal audit reviews were undertaken.

In 2020 we will:

- continue to oversee the significant financial judgements made by management;
- review the delivery of the external and internal audit, to monitor progress and to monitor changes in external regulatory environment and best practice;
- assess and improve cyber security controls and ensure that IT controls remain appropriate and robust. This will involve further cyber security audits; and
- review the findings from internal audit reviews undertaken by KPMG LLP and monitor the implementation of recommendations made in these reports and the status of progress made against previously agreed actions. There are a further 8 individual internal audit reviews planned for 2020, including cyber security, business continuity, IT disaster recovery, recruitment, supplier tendering and the integration of Edenhall.

How the Audit Committee operates

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

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

Effectiveness of the Audit Committee

During the year an external evaluation of the Committee's performance was undertaken as part of the Board evaluation process. This is explained in detail in the Corporate Governance Statement on pages 44 to 49. The review found the Committee to be effective and well run. No areas of concern were highlighted during this review although a number of agreed actions have been taken forward.

The Chair of the Committee is a Chartered Accountant and the Board is satisfied he is independent and has recent and relevant financial experience as required by the Code. Other members also have relevant sectoral and financial experience. Their biographical details are on pages 42 and 43.

Financial reporting

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

The Board has adopted the going concern basis in preparing these Financial Statements and considers that the Group is able to continue in operation and meet its liabilities as they fall due for at least the next 12 months.

IFRS 16 "*Leases*"

IFRS 16 was adopted on 1 January 2019 and, other than low value and very short-term leases, all leases are now recognised on the Group's balance sheet. New systems and operating procedures have been introduced to ensure full processing compliance and adherence to all the new financial disclosures and reporting requirements. The Committee has monitored the progress of the transition exercise and has reviewed the financial impact. Key priorities for the Committee have been the adequacy of controls over data accuracy and completeness. Authorisation and data processing procedures and controls have been integrated within the Group's core systems. Further information about the financial impact for the Group is included in Note 1 on pages 104 to 106.

Risk management and internal control

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

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

The Group has an established internal control framework, which 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. There are well-established procedures to identify, monitor and manage risk, and within the internal control framework, policies and procedures are reviewed on an ongoing basis.

The Group has a formal process for the ongoing assessment of operational financial and IT-based controls, the objective being to gain assurance that the control framework is complete and that individual controls are operating effectively. A rolling programme of independent internal checking is undertaken focusing on key controls, reconciliations and access to, and changing permissions on, base data.

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 2019.

The Group maintains a written Risk Register that identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have on the Group. Each risk has a designated control owner and, against each risk, the effectiveness of the controls that exist to manage and, where possible, minimise or eliminate those risks are also listed. The Risk Register process identifies areas for action and independent audit assessment in order to test the effectiveness of the Group's risk control systems. Information relating to the management of risks and any changes to the assessment of key risks is regularly reported to the Board, and the Risk Register is updated to reflect changes. Reporting has been improved in 2019 to include better assessment of the Group's risk appetite and emerging risks. The reporting highlights the proximity (how far away in time the risk will occur) and velocity (the time between an event occurring and the impact taking effect) of each significant risk. To the extent that any failings or weaknesses are identified during the review process, appropriate measures are taken to remedy these. No significant weaknesses have been identified during the year. The key risks affecting the Group, how they relate to strategy and how they changed during the year, together with a description of the controls and mitigation associated with such risks, are highlighted in the Strategic Report on pages 20 and 21.

External audit, auditor independence and objectivity

The Audit Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment and removal of the external auditor. It keeps under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor. In considering the scope of the audit, the Committee, ensures that there is focus and challenge in relation to materiality and effectiveness of planning. The Group's current auditor, Deloitte LLP, has processes in place designed to maintain independence, including regular rotation of the audit partner. Deloitte LLP was appointed in May 2015 as statutory auditor following a tender process, and Christopher Robertson, who has acted as audit partner since the appointment of Deloitte LLP in May 2015, will rotate off the audit following the 2020 AGM. The Company has complied with the Competition and Markets Authority's Order for the financial year under review.

The Committee has adopted policies to safeguard the independence of its external auditor. It is the policy of the Company that the external auditor should not provide non-audit services, other than those that are "de minimis" in value, of less than £5,000 in aggregate in any financial year. Any other non-audit services require the specific approval of the Committee. Where the Committee perceives that the independence of the auditor could be compromised, the work will not be awarded to the external auditor. Details of amounts paid to the external auditor, and its entire network, for audit and non-audit services in 2019 are analysed in Note 3 on page 116. Other than the Half-yearly review of Marshalls plc, for which a fee of £20,000 was charged (2018: £20,000), no amounts were paid for non-audit work during 2019. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £240,000 (2018: £387,000).

Internal audit

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

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

During the year, in addition to the regular internal control process, KPMG LLP conducted specific reviews on cyber security risk, procurement, health and safety processes, logistics and fleet management, the Code of Conduct, supplier rebates and expenses.

Graham Prothero
Chair of the Audit Committee

Audit Committee Report *continued*

Significant issues related to the Financial Statements

When reviewing the annual and half yearly results, the Committee exercises its judgement in relation to matters drawn to its attention by the internal audit function, the Risk Committee and the Group's external auditor, and were satisfied by the conclusions. The significant areas considered by the Committee for 2019 are summarised below. In each case the Committee reviewed the findings of the external auditor and considered the assessments and conclusions made by management:

- **The risk of management override of controls** – management's assessment of the control framework including authorisation controls and segregation of duties. The Committee considered those areas where management applies judgement in determining the appropriate accounting and discussed this with the external auditor. The external auditor presented its findings and its use of data analytics.
- **Inventory provisioning** – management's assessment of the appropriate level of provisioning against inventory obsolescence. The gross levels of finished goods inventory held and the provisions recorded against obsolescence and in respect of items that might be sold at lower than cost were reviewed by the Committee. The review included meetings with operational management to discuss the inventory provisioning strategy. The external auditor presented its findings with regard to the audit testing over inventory valuation.
- **Revenue and rebate recognition** – management's assessment of the appropriate levels of accruals to recognise for rebates due to customers at the year end. The Committee discussed the policy on rebate recognition with operational management. The external auditor presented its findings with regard to the audit testing in this area to the Committee. The Committee is satisfied with the controls and procedures that support the timeliness and completeness of recognition of rebates due to customers.
- **Revisions to the provisional fair value adjustments on the Edenhall acquisition in 2018** – management's assessment of the process for identification and revised valuation of fair value adjustments. The Committee considered those areas where management judgement was applied. The external auditor tested significant revisions to provisional fair value adjustments by reference to supporting evidence.

Internal audit *continued*

The Committee is pleased to report that, although the wider risk of cyber fraud continues to increase, no significant failings or weaknesses were identified during the year. There were no incidences of fraud that significantly affected the Group's business during 2019. A rolling programme of cyber security awareness training is undertaken and external presentations were made to selected groups of employees by specialists from the Group's banking partners.

Whistleblowing and bribery

The Board is responsible for the Group's Serious Concerns Policy and whistleblowing procedures. The Audit Committee monitors on behalf of the Board any reported incidents under the Serious Concerns Policy (our Whistleblowing Policy), which is available to all employees. A review of the policy and related procedures has been undertaken during the year. As a consequence of this review, Safecall, a third party organisation, has been appointed to handle all concerns independently and confidentially on behalf of the Group. These procedures are embedded into the Code of Conduct and are relevant to all stakeholders including suppliers, partners and employees. The policy and the Safecall process are displayed on operating site noticeboards and on the Company's intranet, and set out the procedure for employees to raise legitimate concerns about any wrongdoing without fear of criticism, discrimination or reprisal.

Fair, balanced and understandable

The Committee has considered whether, in its opinion, the 2019 Annual Report and Financial Statements is, taken as a whole, fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. As part of its review the Committee considered the disclosures in the Strategic Report relating to the Group's new 5 year Strategy, The Marshalls Way and Code of Conduct along with climate change and other sustainability issues. In making this assessment, the Committee has advised the Board in relation to the statement required by the UK Corporate Governance Code.

The Committee has concluded that the disclosures, and the process and controls underlying their production, were appropriate to enable it to determine that the 2019 Annual Report and Financial Statements is fair, balanced and understandable.

Effectiveness of the external audit

An annual review of external audit effectiveness was undertaken by the Committee in 2019. The conclusion of the review was that the external auditor had conducted a comprehensive, appropriate and effective audit. Communication, at all levels, had been open and constructive and areas where the external auditor could work more effectively, in respect of each phase of the audit, were identified.

Effectiveness of the internal audit

An annual review of internal audit effectiveness and of the performance of KPMG LLP as independent internal auditor was undertaken by the Committee in 2019.

The conclusion was very positive and was that the current internal audit process continues to be an efficient and effective means of managing the internal audit function. The Committee has considered, with KPMG LLP, how this process can be developed further and further improvements have been reflected in the 2020 plan.

The Committee is satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. The outcome of any investigation and recommended action is reported to the Board.

The Company is committed to a zero-tolerance position with regard to bribery, made explicit through its Anti-Bribery Code and supporting guidance on hospitality and gifts. The policy and procedures are published on the Company website and displayed on operating site noticeboards. Online training is available to all employees to reinforce the Anti-Bribery Code and procedures, and classroom-based training sessions are also held throughout the year. During 2019, Edenhall employees received their training as a key part of their integration. All employees in decision-making roles with potential exposure to bribery risk have completed the training and must self-certify annually that they continue to comply. There is a maintained register of employee interests and a gifts and hospitality record. The internal audit review programme included an update review of the adequacy of the Company's procedures in relation to anti-bribery controls and procedures.

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

Graham Prothero
Chair of the Audit Committee
12 March 2020

Remuneration Committee Report

A clear and transparent policy linked to delivery of long-term success

2019 highlights

- Strong Group performance resulting in achievement of Executive incentive targets, with significant element of variable award in shares or share equivalents.
- Committee Terms of Reference, procedures and evaluation measures reviewed.
- Developed the new Remuneration Policy and its application for 2020.
- Consulted with shareholders and other stakeholders in relation to the new 2020 Policy.
- Sought shareholder approval to extend the Management Incentive Plan to align with the new 2020 Remuneration Policy under which it operates.
- Executive Director and senior management remuneration packages for 2020 set, having taken into account the pay and benefits of the wider workforce and the comparator group.
- Incentive scheme targets set for 2020 using stretching financial and non-financial measures designed to align with strategic objectives and shareholder interests.
- Continued development and implementation of the remit and supporting framework for Janet Ashdown (the designated Non-Executive Director for workforce engagement) to engage with employees and stakeholders on pay and benefits during the year.
- Reviewed the success of the 2019 action plan for engagement with employees and other stakeholders on remuneration.
- Reviewed alignment with wider workforce pay policies and incentives.
- Reviewed the action plans to reduce scope for gender pay gaps and progress against measurable KPIs.

2020 priorities

- Monitor the results from the 2020 AGM and conduct any necessary stakeholder engagement or action plan.
- Determine incentive outcomes for 2020.
- Set incentive scheme targets for 2021.
- Continue to monitor the success of the action plan for engagement with employees and other stakeholders on remuneration.
- Review alignment with wider workforce pay policies and incentives.
- Review the action plans to reduce scope for gender pay gaps and progress against measurable KPIs.

Members and attendance	Meetings
Janet Ashdown	●●●●
Vanda Murray OBE	●●●●
Tim Pile	●●●●
Graham Prothero	●●●●
Angela Bromfield (joined the Committee on 1 October 2019 and attended all scheduled meetings following appointment.)	○○●●

The CEO 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, along with the Group Human Resources Director.

Terms of Reference
www.marshalls.co.uk/about-us/corporate-governance

> **Our Policy and incentive plans are clearly linked to our strategy, values and culture.**

Janet Ashdown
Chair of the Remuneration Committee

Remuneration Committee Report *continued*

Chair's annual statement

Dear Shareholder

I am writing to you as the Chair of Marshalls' Remuneration Committee and am pleased to set out in this report how the Committee has carried out its objectives and responsibilities during 2019.

This report is divided into 3 sections: an introduction and at a glance "summary" of our activities, our proposed new 2020 Remuneration Policy, and our Annual Remuneration Report showing how our current Policy was applied during the year and outcomes for our Executives.

Business performance

The Group's KPIs monitor progress towards the achievement of the Group's objectives. All of the Group's strategic KPIs have moved forward strongly during 2019, as shown on pages 22 and 23 of the Strategic Report. The Company operates a single long-term incentive plan, the Management Incentive Plan ("MIP"), which focuses directly and indirectly on aligning the reward of Executive Directors and senior management with delivery of these KPIs. EPS, net debt, customer service and health and safety are the measures expressly used to determine awards under the MIP.

Outcomes for 2019

Page 59 sets out the performance conditions, targets set, level of satisfaction and corresponding percentages of salary earned under the MIP for 2019 by the Executive Directors. Martyn Coffey (CEO) received an MIP award of 248.9 per cent of salary (maximum 250 per cent) and Jack Clarke (Group Finance Director) received an MIP award of 248.9 per cent of salary (maximum 250 per cent).

Discretions

The Committee determined that the incentive outcomes for 2019 based on the application of the MIP Rules and performance conditions were in line with the overall performance of the business and did not exercise its discretion to alter the outcomes. The Committee did not adjust any incentive outcome to account for share price appreciation over the vesting period, having concluded that the value delivered was commensurate with performance over the period. The consideration of performance against non-financial ESG measures is integrated into our review of overall remuneration. The Remuneration Policy operated over the 2019 financial year as intended by the Committee.

New Remuneration Policy for 2020

The current approved Policy is due for renewal at the 2020 AGM, having last been approved at our 2017 Annual General Meeting. The Committee therefore conducted a comprehensive review of Marshalls' Executive remuneration arrangements in 2019 and determined that the current Policy continues to support the

Shareholder engagement

The Committee consulted with the Company's 23 largest shareholders, Glass Lewis, the IA and ISS on the new Policy. I am pleased to report that the significant majority of our largest shareholders were supportive of the new Policy. The following table sets out the main areas of discussion, comments or amendments suggested by shareholders, the Committee's response and rationale for the final position set out in the new Remuneration Policy:

Areas of discussion	Comments or amendments suggested by shareholders	Committee's response and rationale for final position in policy
Management Incentive Plan	One shareholder was uncomfortable with the MIP structure.	As only one shareholder was uncomfortable with the structure of the MIP, and the Committee believes that it continues to support the Company's strategy and culture, there is no requirement to materially change it.
Incumbent Executive Director pension alignment with the wider workforce	Several shareholders asked whether there is a plan to reduce the pension contribution for incumbent Executive Directors to align with the workforce by 2022.	The Committee is prepared to make the commitment that, by the end of 2022, we will ensure alignment of our incumbent Executive Directors with the majority employee pension contribution. However, at this point it is difficult to set out the phasing and progression as the Company is currently reviewing the contribution levels for all employees and the differential contribution rates throughout the Company (we are already increasing the pension contribution rate for the majority of the workforce by 1% in April 2020), particularly given a number of recent acquisitions (CPM and Edenhall) - not just the Executive Directors. This will take some time and there are a number of factors which will impact on this including overall cost to the Company. We have, however, in view of the feedback, agreed a clear reduction plan for the CEO's pension contribution.
Approach to the post-cessation shareholding requirement	Some shareholders were seeking the full 200% of salary shareholding requirement to apply for 2 years post cessation, in line with the IA Principles.	We have carefully considered the balance between the interests of stakeholders in the Executive Directors retaining a shareholding post cessation and the level and duration of that holding. Following this consideration, the Committee does not intend to make any changes to the proposed post-cessation shareholding requirement. Our independent adviser, PwC, conducted detailed modelling which suggests that the existing 2-year post-cessation holding period on the current MIP B Element awards held by our 2 Executive Directors would achieve the same effect as a shareholding requirement of 200% of salary for both years 1 and 2 post cessation for a good leaver. Therefore, we believe that the combination of the existing post-cessation holding period on MIP Element B awards and our proposed post-cessation minimum shareholding requirement provides the appropriate balance for all stakeholders. The Committee will continue to monitor market developments and will review its position on this issue should it become necessary in future.

Company's strategy and culture and that there was no requirement to materially change it. As the shareholder approval of the current MIP is also due to expire in 2020, the Company is seeking to renew the MIP to support the new 2020 Policy and there is no intention to change the structure or operation of the MIP on renewal except to enhance the malus and clawback triggers to align with best practice.

Consequently, the changes made to the 2020 Policy are intended to bring the new Policy up to date with market developments, the new 2018 UK Corporate Governance Code and regulations, specifically:

- new Executive Directors' employer pension contributions will be set at the majority rate for employees, and incumbent Executive Director employer pension contributions will be reduced to align with the workforce by the end of 2022;
- introduction of an explicit post-cessation minimum shareholding requirement of 200 per cent of salary for one year and 100 per cent of salary for a further year; and
- enhancement of malus and clawback triggers to align with the FRC's Guidance on Board Effectiveness.

Implementation of the new Policy in 2020

CEO salary increase

The latest review of the remuneration of senior Executives and managers at Marshalls, reliably demonstrated to the Committee that, due to a material increase in the scale and complexity of the Group over the last few years, senior Executive salaries have fallen significantly below market and do not reflect the increased scope and responsibilities of the CEO role in particular.

Under the leadership of the current CEO, the Company has grown significantly in both size and complexity. The Group has made a number of successful acquisitions, improving all of its key performance measures including market capitalisation (increasing by around two-thirds over the last year), turnover and profit. Headcount has increased to 2,816 and the number of operating locations has increased to 55.

The Committee recognises that salary increases of more than the workforce are a sensitive issue in the current environment.

However, the CEO's current salary no longer reflects his expanded role, and the Committee recognises that this is likely to compromise the ability of the Company to attract, recruit and retain a CEO of the necessary calibre and experience to manage the materially expanded and more complex organisation that Marshalls is today, in particular given the expectation from investors that new Directors are appointed on the same (or lower) salary as their predecessor. As a result, the Committee felt it necessary to review the approach to the CEO's salary for 2020.

Both the current approved Policy and the proposed 2020 policy provide that salary increases for Executive Directors will normally be in line with the increase for the wider workforce. There are exceptions where:

- an individual's package is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or
- there is a material increase in scope or responsibility in the individual's role.

The Committee has determined that both of these exceptions apply as explained above, and that a salary increase of 9 per cent for the CEO is therefore appropriate and necessary for 2020. The Committee has reviewed external benchmarking data against companies of similar size, with validation against industry / sector peers, to ensure the level of increase proposed is not excessive. The resulting salary of £501,000 remains below the lower quartile against comparable companies and on a total remuneration basis results in a package of between the lower quartile and median.

The CFO's salary will increase for 2020 in line with the workforce increase under Policy principles.

The above approach is consistent with the remuneration principles applied throughout the organisation at all levels, namely:

- The 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 Company seeks to benchmark itself against comparable companies.
- The aim of the Company's policy is to attract, retain and continue to motivate talented employees while aligning remuneration with the achievement of the Company's strategic objectives.

CEO phased pension reduction plan

The Committee recognises the wish of shareholders to see alignment between Director pension contributions and those of the workforce. The Committee has agreed the following plan for the reduction of the CEO pension contribution over time:

- an immediate 2.5 per cent reduction from 20 per cent to 17.5 per cent of salary for 2020;
- a further 2.5 per cent reduction to 15 per cent of salary for 2021; and
- reduction to workforce levels (currently 5 per cent of salary) by the end of 2022.

Wider workforce considerations

Marshalls is committed to creating an inclusive working environment and to rewarding its employees in a fair manner. In making decisions on Executive pay, the Remuneration Committee considers wider workforce remuneration and conditions. This report includes information on our wider workforce pay conditions, our CEO to employee pay ratio, our gender pay statistics and our diversity initiatives. The Committee's role in monitoring and reporting on such issues is key to the promotion and development of our values and culture.

Board and committee membership

Angela Bromfield was appointed to the Board as a Non-Executive Director and joined the Remuneration Committee on 1 October 2019. Angela Bromfield has served as a member or Chair of a number of other remuneration committees. Her experience is welcomed.

I would like to thank our shareholders for their continued support during the year demonstrated by the vote at the 2019 AGM. I will be available at the Company's 2020 AGM to answer any questions in relation to this Remuneration Report.

Janet Ashdown
Chair of the Remuneration Committee
12 March 2020

Remuneration Committee Report *continued*

Chair's annual statement *continued*

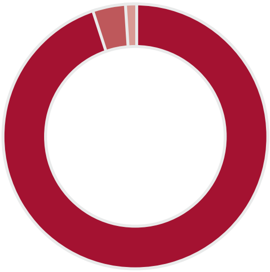
External advisers

The Remuneration Committee was advised during the year by external remuneration adviser PricewaterhouseCoopers LLP ("PwC"). PwC attends meetings of the Committee by invitation.

PwC's fees are agreed by the Remuneration Committee according to the work performed. PwC were appointed after a tender process by the Committee in 2016, and their terms of engagement are available on request from the Company Secretary. PwC also provided general consulting services to the Company during the year on pension matters and potential acquisitions. The Committee is satisfied that the remuneration advice from PwC is objective and independent based on the separation of the team advising the Committee from any other work undertaken by PwC for the Group and the fact that PwC is a signatory to the Remuneration Consultants Group's Code of Conduct. PwC's work relating to Executive remuneration during 2019 included a comprehensive review of the Remuneration Policy and support with the 2020 Policy design; shareholder consultation support; preparation of the Remuneration Committee Report; advice on employee engagement and stakeholder reporting obligations under the Committee's expanded remit; total remuneration benchmarking of Non-Executive and Executive Directors and senior Executives; and general advice on remuneration trends, regulations and best practice. The amount paid to PwC in respect of remuneration advice received during 2019 was £62,500 (2018: £52,000).

Our Remuneration Report has been prepared in accordance with the Companies Act 2008 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It meets the requirements of the 2018 UK Corporate Governance Code (the "UK Code") and is also prepared in accordance with the UK Listing Authority's Listing Rules and Disclosure and Transparency Rules.

Voting outcomes 2019



Remuneration Report

- For
- Against
- Votes withheld

95.9 per cent of shareholders voted in favour of the Remuneration Report at the Company's 2019 AGM.

Voting results were:

- For: 140,527,576 (95.90 per cent of votes cast)
- Against: 6,002,392 (4.10 per cent of votes cast)
- Withheld: 1,434,035

The Remuneration Policy received a vote of 96 per cent in favour at the 2017 AGM (142,908,317 votes in favour; 6,471,716 votes against and 2,094,134 votes withheld), and the new Policy is being submitted to shareholders at the 2020 AGM.

At a glance

2019 remuneration outcomes

The tables below show how the Group performed against targets for the MIP in 2019. Performance measures and targets are linked to the key strategic objectives highlighted on pages 20 and 21 of the Strategic Report.

MIP Element A: 99.6 per cent of maximum (2018: 98 per cent of maximum) was awarded to the CEO and CFO.

MIP Element B: 99.6 per cent of maximum (2018: 98 per cent of maximum) was awarded to the CEO and CFO.

	Threshold (0% payable)	Maximum (100% payable)	Actual (2019)	Weighting outcome (% total award)	CEO £'000	CFO £'000
EPS (75% of maximum)	26.68p	29.70p	29.76p	100%	£862,665 max £862,665 actual	£565,888 max £565,888 actual
Operating cash flow ("OCF") to EBITDA ratio (25% of maximum)	£73.3m	£88.9m	£88.4m	98.3%	£287,555 max £282,580 actual	£188,629 max £185,366 actual
Non-financial targets (customer service / health and safety)				100%	No deduction	No deduction
Total						

Performance conditions were set at the beginning of 2019 and the Committee took account of both internal budgets and external factors such as the market consensus of investors for the full year 2019.

Definitions

Other than in respect of IFRS 16, the EPS and OCF ratio for 2019 were measured using International Financial Reporting Standards ("IFRSs") based on the audited results of the Group and subject to the discretion of the Committee with regard to one-off items. The Committee determined that pre-IFRS 16 targets were to be used in 2019.

EPS

EPS relates to our strategic objective to grow profits. Reported EPS (post-IFRS 16) grew by 12 per cent to 29.36 pence in 2019.

OCF / EBITDA

OCF / EBITDA ratio relates to our strategic objective to convert earnings into cash flow and to use cash responsibly. The OCF / EBITDA ratio was 98.3 per cent in 2019.

Non-financial targets

Our customers are at the heart of our business model, and our measurement of customer service uses factors such as product availability, on-time delivery performance and administrative and delivery accuracy to assess performance. The Group's average customer service performance, assessed monthly, exceeded its minimum target of 95 per cent throughout 2019. The Group also continued its excellent performance against its stated objective of keeping days lost to accidents to a minimum, by reference to the 2016 rate. Days lost to accidents year on year actually reduced by a further 13.7 per cent. Had either of these targets not been met, the overall level of MIP award would have reduced by 10 per cent for each measure; the achievement of these measures means that no reduction factor will apply.

See page 85 for details of the awards made.

Link to Company strategy

The following table sets out the Group's KPIs and how they are reflected in the operation of the MIP:

Strategic KPI	Revenue	Profit	ROCE	Net debt	Customer service	Health and safety
Measure	EPS / OCF	EPS / OCF	EPS / OCF	OCF	Index KPI	Target KPI
Remuneration element	MIP A / MIP B	MIP A / MIP B	MIP A / MIP B	MIP A / MIP B	MIP A / MIP B	MIP A / MIP B

The use of EPS under the MIP as the main performance condition ensures that the Executive Directors are focused on driving increased profitable growth in accordance with the Company strategy. The OCF to EBITDA ratio ensures that this growth in profit is not at the expense of its quality and sustainability. The customer metric and health and safety performance conditions reflect our commitment to service and employee wellbeing and the need to ensure that growth and profitability are not achieved in a way that is detrimental to the Company's customers and employees nor in a way that promotes short-term, high risk behaviour.

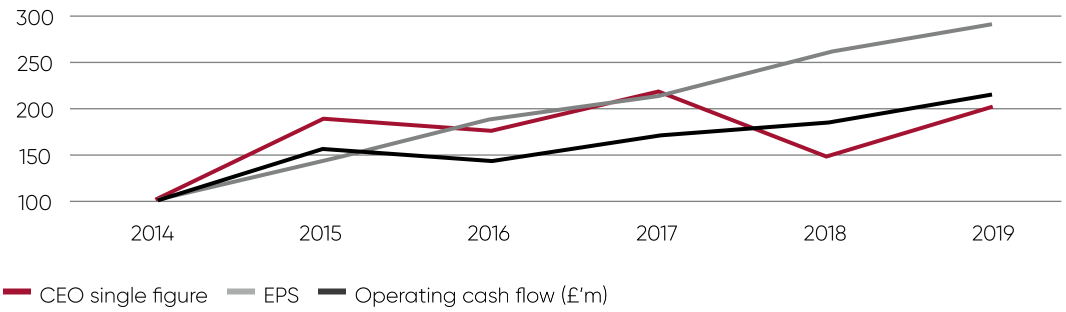
Full details of the Company's strategy are set out in the Strategic Report on pages 20 and 21.

Remuneration Committee Report *continued*

At a glance *continued*

Long-term performance

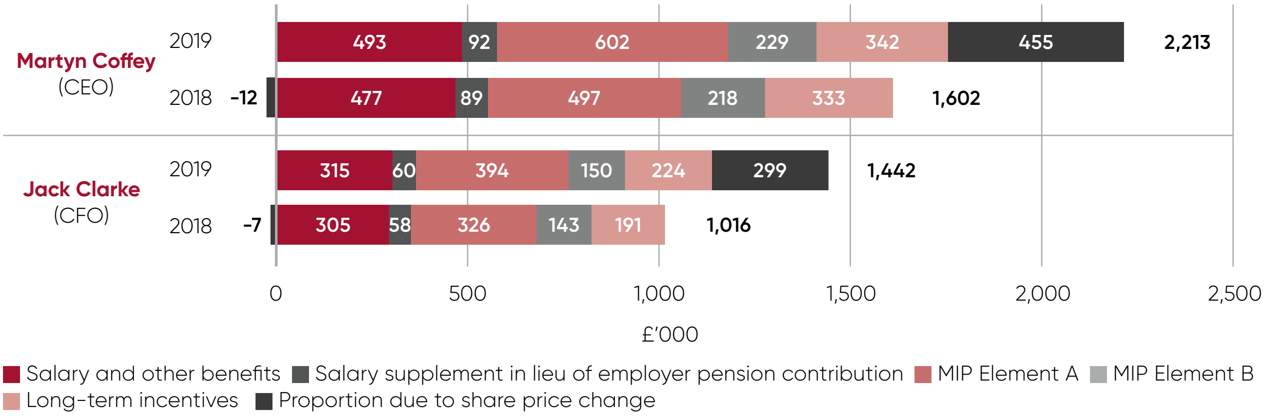
The following chart shows the single figure of remuneration for the CEO over the last 5 financial years compared to the Company's EPS and operating cash flow over the same period. The EPS and operating cash flow for 2019 have been disclosed on a pre-IFRS 16 basis in order to be consistent with prior periods. The chart demonstrates a strong correlation between Company performance demonstrated by these measures and the remuneration paid to the CEO.



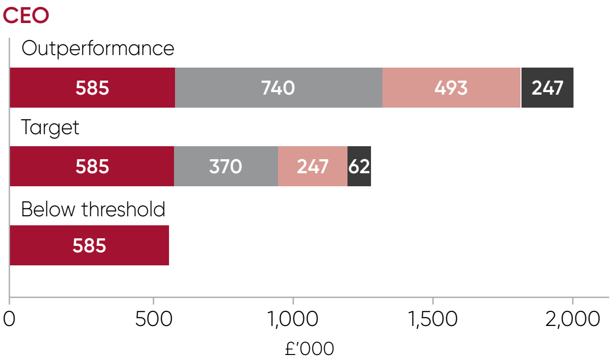
2018 / 19 single figure

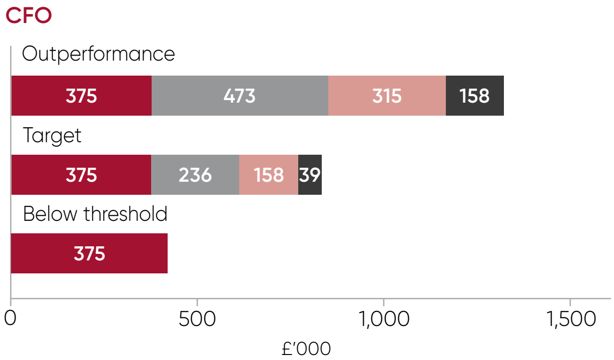
The following charts summarise the single figure of remuneration for 2019 in comparison with 2018 and with the minimum, target and maximum remuneration scenarios from the 2017 Remuneration Policy to show how the actual remuneration compares to the Policy remuneration. For those elements of remuneration provided in shares in 2018 and 2019, we have separated out their original value on grant and the additional value generated due to share price growth over the vesting period. It is the Committee's view that one of the key objectives of equity-based remuneration is to align Executives' interests and those of shareholders. With such a high proportion of MIP awards expressed in or linked to shares, the impact of share price movement on overall Executive reward can be significant. The increase in the value of awards due to share price growth over the vesting periods is another demonstration of how our Policy aligns with strategy and the interests of shareholders.

Explanatory notes on the single figure can be found in the Annual Report on Remuneration (page 84).



Total remuneration opportunity under the 2017 Policy for each of the Executive Directors at 3 different levels of performance is shown below:





Salary, benefits and pension contribution | MIP Element A | MIP Element B | Proportion due to share price growth

Notes:

a) Base salary, benefits and pension information is taken from the single figure remuneration table in the 2019 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 salary supplement paid instead of contractual employer pension contributions.

b) At target, 50 per cent of the annual award under the MIP pays out.

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.

Comparison to peers

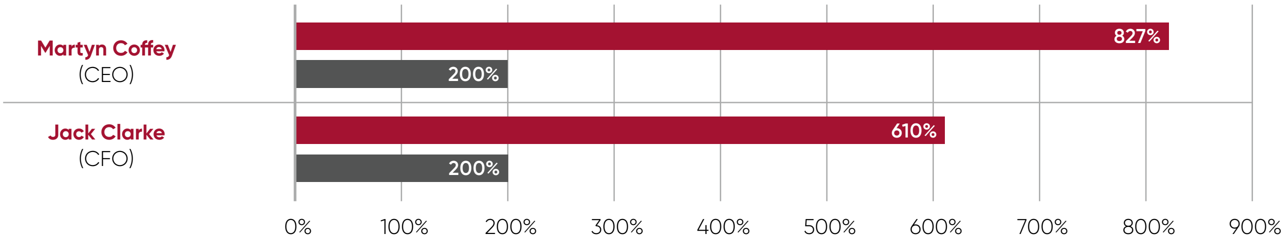
The following chart shows the relative position of base salary and total compensation for our Executive Directors compared to our peers.

Lower quartile to median ■ Middle to upper quartile ◆ Martyn Coffey (CEO) / Jack Clarke (CFO)

The charts demonstrate the Committee's policy that salary and benefits should be set at or below the market level, with variable incentives allowing an overall above-market positioning when the Company has performed well. The variable element assumes an "on-target" performance under relevant incentive schemes.

Shareholding requirement

The minimum shareholding requirement for Executive Directors and their actual holding is set out below. It must be built up over a 5-year period and then subsequently held at an equivalent of 200 per cent of base salary.



■ Actual shareholding ■ Shareholding requirement

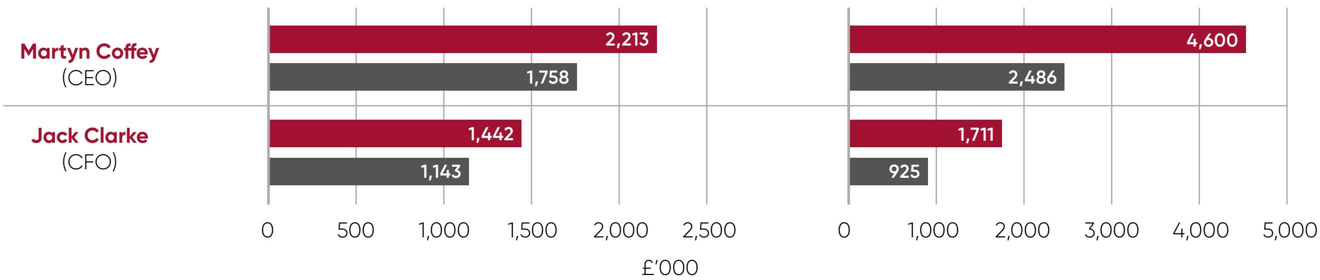
Under the new 2020 Policy, the full shareholding requirement will continue to apply for one year post cessation of employment and half of the requirement for a further year.

Impact of share price appreciation

It is the Committee's view that it is important when considering the remuneration paid in the year under the single figure to take a holistic view of the Director's total reward linked to the performance of the Company. In the Committee's opinion, the impact on the total reward of the Director is more important than the single figure in any one year. This approach encourages Directors to take a long-term view of the sustainable performance of the Company, which is critical in a cyclical business. The ability for the Directors to gain and lose, dependent on the share price performance of the Company, at a level which is material to their total remuneration is a key facet of the Company's Remuneration Policy. The Committee has discretion to adjust remuneration as a result of share price appreciation or depreciation, but has not seen fit to exercise this discretion in relation to 2019 outcomes. The following table sets out the single figure for 2019, the share interests held by the Executive Directors at the beginning and end of the financial year and the impact on the value of these share interests taking the opening price and closing price for the year.

Impact of share price change on single figure remuneration

Impact of share price change on value of shares held



■ Full impact with share price change ■ Assuming no share price change

Remuneration Committee Report *continued*

Implementation of the Policy in 2019 and 2020

The table below sets out the following information:

- summary of the current 2017 Remuneration Policy;
- changes from the 2017 Remuneration Policy in the proposed 2020 Remuneration Policy;
- how the Company implemented the 2017 Remuneration Policy in 2019; and
- how the Company proposes to implement the 2020 Remuneration Policy in 2020.

2017 Policy	Changes to the new 2020 Policy
Salary Base salaries are set taking into account the individual's scope, role, responsibilities and performance, performance of the Group, wider employee salary increases, remuneration practices in the Group, and the economic environment. Typically, the base salaries of Executive Directors in post at the start of the Policy period and who remain in the same role throughout the Policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group.	None.
Benefits and pension The maximum Company contribution or pension allowance is 20% of salary for incumbent Executive Directors. Benefits typically include car or car allowance, private medical insurance, life assurance and membership of the Group's employee share plans.	New Executive Directors' employer pension contributions will be set at the majority rate for employees. Plan to progressively reduce incumbent Executive employer pension contributions to align with the workforce by the end of 2022.
Management Incentive Plan Element A **Maximum 150% of salary** Annual performance conditions and targets are set at the beginning of the plan year. A minimum of 50% of the bonus is based on financial performance measures. Upon assessment of performance by the Committee, a contribution will be made by the Company into the participant's Plan Account and 50% of the cumulative balance will be paid in cash. Any remaining balance will be converted into shares or share-linked units. 100% of the balance in the final year of the plan will normally be paid in shares to the participant. During the plan period, 50% of the retained balance is at risk of forfeiture based on a minimum performance measure determined annually by the Committee.	Threshold 0% of maximum. Target pays 50% of maximum.
Management Incentive Plan Element B **Maximum 100% of salary** Annual targets are set by reference to financial, strategic and operational objectives by the Remuneration Committee. Awards are granted retrospectively in shares based on the performance targets for the relevant year. Awards vest (subject to continued employment) 3 years from grant. Awards, once vested (net of tax), may not be sold for a further 2 years. There is a financial underpin which, if not achieved over 3 years, results in the loss of up to 50% of unvested awards.	Threshold 0% of maximum. Target pays 50% of maximum.
ESG factors The Committee has discretion to set annual targets related to ESG measures and avoidance of ESG risks.	
Minimum shareholding requirement Executive Directors must build up over a 5-year period and then subsequently hold a shareholding equivalent to a minimum of 200% of base salary. Executive Directors are required to retain 50% of the post-tax number of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained.	Introduction of an explicit post-cessation minimum shareholding requirement of 200% of salary for one year and 100% of salary for a further year.

How we implemented the 2017 Policy in 2019	How we will implement the new 2020 Policy in 2020
Executive Director salaries for 2019 were as follows: • CEO - £460,000; and • Group FD - £302,000. Salary increases were 3.3% in 2019, in line with inflation and increases for UK employees generally.	From 1 January 2020, Executive Director salaries will be: • CEO - £501,000 (9% increase); and • Group FD - £310,000 (2.7% increase). The general UK employee salary increase for 2020 is 2.7%. See page 57 for the rationale behind the CEO's salary rise.
The maximum Company contribution or pension allowance is 20% of salary.	The CEO's employer pension contribution will be reduced by 2.5% to 17.5% of salary. This will be reduced by a further 2.5% in 2021, and a final reduction in 2022 to align with the majority workforce contribution. No immediate change for the Group FD. See page 57 of the Chair's annual statement for the rationale behind the pension alignment process.
Outcome level in 2019 was as follows: • CEO – 149% of base salary; and • Group FD – 149% of base salary. The performance measures were: • EPS (75%); • ratio of OCF to EBITDA (25%); and • non-financial targets (if not met, it results in a deduction from amount earned under other measures). See page 59 of the at a glance section for details of the targets, their level of satisfaction and the corresponding bonus earned.	No change to maximum opportunities under the MIP. No change to the performance conditions under the MIP. Additional non-financial performance conditions to reflect our focus on brand, customers and employees will continue to apply: • customer service (must remain at or above 95%); and • health and safety incidence: the rate of accidents must not fall below an agreed threshold, benchmarked by reference to the "base" year (2016). If they are not met, there is a reduction of award value earned by 10% in relation to each of these additional conditions. Element A awards have a forfeiture threshold set annually at the time of confirmation of the award. If this is breached, 50% of the deferred balance in a participant's Element A MIP account is forfeited. Element B awards also have a long-term financial underpin based on a minimum EPS threshold that must be maintained over the 3 years from the date of grant. If this is breached, 50% of the Element B award is forfeited. Element B awards are granted after the end of the financial period by reference to which they have been earned and the underpin is set at the time of grant. The measurement period under the MIP by reference to which these targets must be met will be the full financial year ending 31 December 2020. 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 cash levels in the Company and therefore their disclosure in advance is not in the interests of the Company or shareholders. The Committee will, however, provide full retrospective disclosure to enable shareholders to judge the level of award against the targets set.
Outcome level for 2019 was as follows: • CEO – 99% of base salary; and • Group FD – 99% of base salary. The performance measures were the same as for Element A.	
The non-financial performance conditions include a Health and Safety element. In addition, the strategic KPIs against which overall performance is measured include sustainability and carbon reduction targets.	
In line with the 2017 Policy.	The new post-cessation minimum shareholding requirement will apply.

Remuneration Committee Report *continued*

Implementation of the Policy in 2019 and 2020 *continued*

Non-Executive Directors

There was an increase in the base fee of Non-Executive Directors and the Chair of 2.7 per cent from 1 January 2020, in line with UK employees. Non-Executive Directors reclaim business expenses incurred in the performance of their duties retrospectively against duly presented invoices.

Director	**1 January 2020 £'000**	1 January 2019 £'000	Percentage increase
Vanda Murray (Chair)	**175.0**	170.4	2.7%
Janet Ashdown (SID, Chair of Remuneration Committee)	**64.8**	63.1	2.7%
Graham Prothero (Chair of Audit Committee)	**57.6**	56.1	2.7%
Tim Pile	**49.1**	47.8	2.7%
Angela Bromfield (appointed on 1 October 2019)	**49.1**	–	–

Remuneration Policy

Introduction

The Remuneration Committee is required to submit its new Remuneration Policy to a formal shareholder vote at the next Annual General Meeting of the Company. This new Policy is intended to apply for the 3 years beginning on the date of approval at the 2020 Annual General Meeting.

The Remuneration Committee, having reviewed its current Remuneration Policy and invited shareholder comment, concluded that the current Policy in substance remained fit for purpose to support the implementation of the Company's strategy over the next 3-year Policy period.

Committee process to determine new Remuneration Policy

The process the Committee went through in determining the 2020 Remuneration Policy was as follows:

- the Committee considered the Company's strategy and how the current Remuneration Policy related to and supported the strategy, and formed its own views on the changes (if any) required to the Policy to align with the strategy;
- the Committee received advice from its independent remuneration consultant on the impact of the 2018 UK Code, regulations and current investor sentiment; and
- the Committee also consulted with Executive Directors and other relevant members of senior management on the proposed changes to the Remuneration Policy.

The Committee was mindful in its deliberations on the new Remuneration Policy of any potential conflicts of interest and sought to minimise them through an open and transparent internal consultation process, by seeking independent advice from its external advisers and by undertaking a full shareholder consultation exercise. No member of the Committee is entitled to participate in any Company or Group incentive scheme.

During the consultation, Janet Ashdown and Vanda Murray arranged 8 face-to-face meetings with shareholders, and communicated directly with the Company's 23 largest shareholders, as well as investment and voting institutions such as Glass Lewis, the IA and ISS. All comments and feedback were carefully considered, and certain aspects of the initial draft policy were altered to reflect majority shareholder views. This was a detailed and extensive process, and the Committee is grateful to those who participated to provide comment and feedback.

In determining the new Remuneration Policy, the Committee paid particular attention to Provision 40 of the UK Code. The following table summarises the Committee's views:

Factor	How our new Remuneration Policy aligns
Clarity	• The current approach to remuneration has been operated by the Company for 6 years and is well understood by participants and other stakeholders. • The Committee has consulted 3 times with shareholders on the current approach which has been strongly endorsed each time.
Simplicity	• The remuneration arrangements are simple, consisting of a combination of an annually benchmarked fixed salary and benefits package and a single incentive plan – the Management Incentive Plan ("MIP") originally approved by shareholders in 2014. • The rationale and operation of the MIP is easy to understand as it aligns with the Company's strategy.

Risk	• The Remuneration Policy is designed to ensure that incentives do not encourage short-term risk taking at the expense of a long-term sustainable business. To this end, the key features of the MIP include:
	  • setting defined limits on the maximum awards which can be earned;
	  • requiring the deferral of a substantial proportion of awards in shares for a material period of time;
	  • aligning the performance conditions with the strategy of the Company;
	  • ensuring a focus on long-term sustainable performance through the MIP;
	  • applying forfeiture thresholds so that awards remain at risk where there is subsequent underperformance; and
	  • ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes.
	• These elements mitigate the risk of target-based incentives by:
	  • limiting the maximum value that can be earned;
	  • deferring the value in shares over a period of up to 5 years, which helps ensure that the performance earning the award remains sustainable and thereby discourages short-term behaviours;
	  • linking any reward to objectives that contribute to the agreed strategy of the Company;
	  • reducing the awards or cancelling them if the behaviours giving rise to the awards are inappropriate; and
	  • reducing the awards or cancelling them, if it appears that the criteria on which the award was based do not reflect the underlying performance of the Company.

Predictability	• Shareholders were given full information on the potential values which could be earned under the MIP at its inception, and the proposed renewal of the MIP retains the same limits, balances and phased reward structure. There is full and transparent retrospective annual reporting disclosure of targets and the degree to which they were achieved. In addition, all the checks and balances set out above under Risk are disclosed as part of the Policy.
Proportionality	• The MIP clearly rewards the successful implementation of the strategy. Deferral and measurement of performance over a number of years, ensures that the Executive Directors have a strong incentive to ensure that good performance is sustainable over the long term. Poor performance cannot be rewarded due to the Committee's overriding discretion to depart from the formulaic outcomes under the MIP if they do not reflect underlying business performance.
Alignment to culture	• A key tenet of the Marshalls culture is a focus on long-term sustainable performance. This is reflected directly in the type of performance conditions used in the MIP which assess sustainable performance using a variety of non-financial and financial measures. • The focus on share ownership and long-term sustainable performance is also a key part of the Company's culture. In addition, the measures used in the MIP directly support the implementation of the strategy.

Remuneration Committee Report *continued*

Remuneration Policy *continued*

Changes to the Policy

The 2020 Remuneration Policy set out below has not materially changed from the current Policy approved in 2017, other than to ensure full compliance with the UK Code. The proposed changes include alignment of pension contributions for new Executive Director appointments with the pension contribution applicable to the wider workforce, (and a commitment to do so for incumbent Executive Directors by the end of 2022), introduction of a post-cessation shareholding requirement and enhancement of malus and clawback triggers to align with best practice. The following table sets out the key remuneration elements of the UK Code and how the new Remuneration Policy complies:

Key remuneration element of the 2018 UK Corporate Governance Code	Alignment with our proposed new Remuneration Policy
5-year period between the date of grant and realisation for equity incentives	• The MIP Element B meets this requirement.
Phased release of equity awards	• The MIP ensures the phased release of equity awards through annual rolling vesting.
Discretion to override formulaic outcomes	• The Remuneration Policy and MIP rules contain the ability to override formulaic outcomes and apply discretion where deemed necessary.
Post-cessation shareholding requirement	• We have introduced a 2-year post cessation shareholding requirement.
Pension alignment	• The employer pension contribution for new Executive Directors is reduced to align with the majority employee contribution, and for the incumbent Executive Directors will be reduced to align with the majority workforce contribution by the end of 2022.
Extended malus and clawback	• Malus and clawback triggers enhanced to align with the FRC's Guidance on Board Effectiveness.

Operation of the new Policy

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

The aim of the Policy is to attract, retain and continue to motivate talented Executive Directors while aligning remuneration with shareholder interests and with the achievement of strategic performance objectives. This is achieved by balancing a basic fixed package, which is periodically benchmarked against a comparator group, with the opportunity to achieve upper quartile remuneration from a combination of stretching but achievable incentives.

The Terms of Reference for the Committee also include the responsibility for setting the policy on incentive reward for senior employees, in particular those who could have a material impact on the risk profile of the Group. The Committee has, in the design and application of the Company's variable performance related incentive plan, incorporated risk adjustment mechanisms to encourage consistent and sustainable levels of Company performance and to ensure, when selecting performance conditions and the level of challenge within those conditions, that they support the long-term future of the Company. In reviewing its policy and determining remuneration the Committee also considers the wider economic conditions and pay and reward packages elsewhere in its sector and within the business.

2020 Policy table

Element	Purpose and how it supports the strategy	Operation	Maximum
Fixed remuneration			
Salary	Base salary recognises the market value of the Executive's role, skills, responsibilities, performance and experience.	An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • general salary rises for employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group; • the experience of the relevant Director; • the economic environment; and • whether a benchmarking exercise is appropriate (using salaries within the ranges paid by the companies in the comparator groups for remuneration benchmarking). Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	Typically, the base salaries of Executive Directors in post at the start of the Policy period and who remain in the same role throughout the Policy period will be increased by a similar percentage to the average annual percentage increase in salaries of other UK employees in the Group. The exceptions to this rule may be where: • an individual's package is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or • there is a material increase in scope or responsibility in the individual's role. The Committee ensures that maximum salary levels are positioned in line with companies of a similar size and validated against industry / sector peers, so that they are competitive. The Committee intends to review the comparators periodically and may add or remove companies as it considers appropriate. Any changes to the comparator groups will be explained in the report on the implementation of Remuneration Policy in the following financial year.
Pension	To enable Executive Directors to make appropriate provision for retirement.	Executive Directors are entitled to join the defined contribution scheme operated by Marshalls. The Company contributes at an agreed percentage of basic salary. Executive Directors may take a pension allowance in place of the Company's contribution to the Scheme. Pension allowances are excluded for the purposes of calculating any other element of remuneration based on a percentage of salary.	The maximum Company contribution or pension allowance is 20% of salary for incumbent Executive Directors; however, this will be reduced to align with the majority contribution to employees by the end of 2022. For any new Executive Director appointments, the maximum employer pension contribution or allowance will be in line with the majority contribution to UK employees.
Benefits	The Company is required to provide benefits in order to be competitive and to ensure it is able to recruit and retain Executive Directors.	Benefits include car or car allowance, health insurance, life assurance and membership of the Group's employee share plans (the Executive Directors will also be eligible to participate in any other all employee plan operated by the Company from time to time). The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment.	The maximum is the cost of providing the relevant benefits as described.

Remuneration Committee Report *continued*

Remuneration Policy *continued*

2020 Policy table *continued*

Element	Purpose and how it supports the strategy	Operation
Variable performance-based remuneration		
Management Incentive Plan ("MIP") Element A	Enabling the successful implementation of Group strategy through setting relevant targets to measure Executive Director performance. Aligns the interests of Executives with shareholders and contributes to the retention of key individuals by ensuring that Executives take part of their annual bonus in shares or share-linked units rather than cash.	Annual performance conditions and targets are set at the beginning of the Plan year by reference to financial, strategic and operational objectives by the Remuneration Committee. As well as determining the performance conditions, targets and relative weighting, the Committee will also determine, within the approved range, the level of target bonus at the beginning of the Plan year. Upon assessment of performance by the Committee, a contribution will be made by the Company into the participant's Plan Account and 50% of the cumulative balance will be paid in cash. Any remaining balance will be converted into shares or share-linked units. 100% of the balance in the final year of the Plan will normally be settled in the form of shares transferred or allotted to the participant. During the Plan period, 50% of the retained balance is at risk of forfeiture based on a minimum performance measure determined annually by the Committee. Full details of the relevant targets and their weighting, and how they have been measured, will be reported in the Remuneration Report for the relevant financial year. The Committee may award dividend equivalents on shares or share-linked units held under the Plan to Plan participants to the extent that they vest.
MIP Element B	To link variable pay to achievement of annual financial and business objectives. To promote long-term shareholding in the Company and strengthen alignment between interests of Executive Directors and senior managers and those of shareholders.	Annual performance conditions and targets are set by reference to financial, strategic and operational objectives by the Remuneration Committee. Awards are granted retrospectively in shares based on the achievement of performance targets for the relevant year. Awards vest (subject to continued employment) 3 years from grant. Sale restrictions apply to Awards that have vested: normally vested awards may not be sold for a further 2 years after vesting or post cessation of employment. There is a financial underpin which, if not achieved over the 3-year vesting period, results in the loss of up to 50% of unvested awards. Details of the performance conditions, targets and their level of satisfaction for the year being reported on will be set out in the Remuneration Report for the relevant financial year. The Committee may award dividend equivalents on shares or share-linked units held under the Plan to Plan participants to the extent that they vest.

Maximum	Performance conditions
Maximum 150% of salary Threshold 0% Target 50% Maximum 100%	An award under the Plan is subject to satisfying relevant performance conditions and targets determined annually by the Remuneration Committee by reference to financial and non-financial objectives that are closely linked to the strategy of the business and may also contain individual performance objectives, measured over a period of one financial year. A minimum of 50% of the bonus is based on financial performance measures. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the bonus, disclosing precise targets for the Plan in advance would not be in shareholder interests. Targets, performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs under the Plan. The Committee retains the discretion to: • change the performance measures and targets and the weighting attached to the performance measures and targets part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and • make downward or upward adjustments to the amount of bonus contribution earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. The Plan contains malus and clawback provisions.
Maximum 100% of salary Threshold 0% Target 50% Maximum 100%	An award under the Plan is subject to satisfying relevant performance conditions and targets determined annually by the Remuneration Committee by reference to financial and non-financial objectives that are closely linked to the strategy of the business and may also contain individual performance objectives, measured over a period of one financial year. The Committee takes the same view on commercial sensitivity as for Element A of the MIP. The discretions set out above for Element A also apply to Element B. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. The Plan contains malus and clawback provisions.

Remuneration Committee Report *continued*

Remuneration Policy *continued*

Minimum shareholding requirement

The minimum shareholding requirements for Executive Directors, is 200 per cent of base salary. Executive Directors are required to retain 50 per cent of the post-tax number of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained. Adherence to these guidelines is a condition of continued participation in the incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned.

The Committee retains the discretion to increase the minimum shareholding requirements. On cessation of employment, Executive Directors are required to retain their minimum shareholding requirement immediately prior to departure for one year and to retain 50 per cent of this minimum shareholding for a further year. Where their actual shareholding at departure is below the minimum shareholding requirement the Executive Director's actual shareholding is required to be retained on the same terms and for the same periods.

Malus and clawback

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

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

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

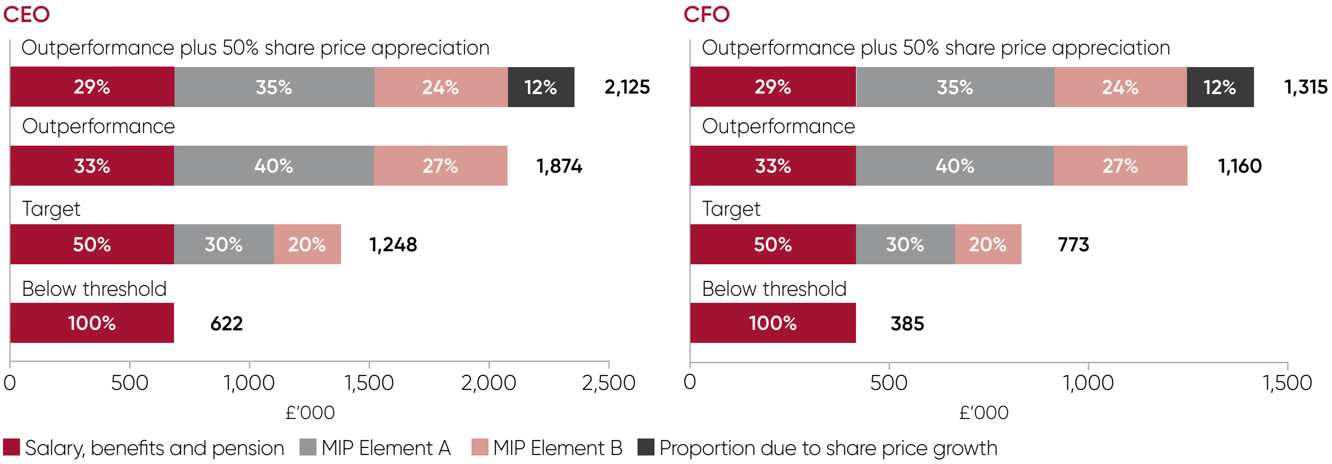
- discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- if the assessment of any performance condition or condition in respect of a Company Element A contribution or Element B award was based on error, or inaccurate or misleading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

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

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

Total remuneration opportunity

In future years, the total remuneration opportunity under the Policy for each of the Executive Directors at 4 different levels of performance is shown below:



Notes:

a) Base salary and pension are effective from 1 January 2020.

b) Benefits information is taken from the single figure remuneration table in the 2019 Annual Remuneration Report. The benefits value reflects a fully expensed company car, medical insurance and any other taxable benefits.

c) Achievement of target will result in 50 per cent of the annual award under the MIP.

d) 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.

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

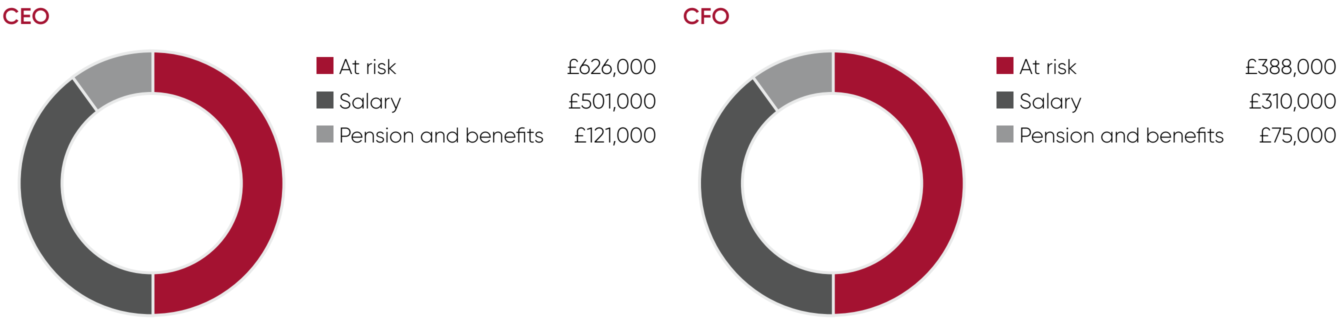
f) The maximum + 50 per cent share price increase represents the full 250 per cent of salary potential under the MIP, as well as the maximum value assuming a 50 per cent increase in share price for MIP Element B awards.

Pay at risk

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

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

Figures have been calculated based on target performance (fixed elements plus 50 per cent of the maximum MIP). The charts have been based on the same assumptions as set out for the illustrations of the application of the total remuneration opportunity under the new Policy.



Consideration of Remuneration Policy for other employees

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

The Committee has arrangements in place to receive and review the views of the Company's employees on Executive remuneration and the application of the Remuneration Policy by means of regular meetings with employee groups attended by the designated Non-Executive Director for workforce engagement, periodic surveys and detailed half yearly reports from the Group HR Director to the Committee. These are regularly and openly communicated to the Board. In setting the Policy, the Company has not used any remuneration comparison measurements.

Remuneration Committee Report *continued*

Remuneration Policy *continued*

Recruitment Policy

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

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

Remuneration element	Recruitment policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors, save that the employer pension contributions for new appointments will be aligned with the range of pension contribution applicable to the wider UK workforce.
MIP	Maximum participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 250% of salary.
Maximum variable remuneration	The maximum variable remuneration which may be granted is 250% of salary.
"Buyout" of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justify the buyout of any elements of a previous employment package, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: • the proportion of the performance period completed on the date of the Executive Director's cessation of employment; • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • any other terms and conditions having a material effect on their value ("lapsed value"). The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plan. To the extent that it was not possible or practical to buy out the lapsed value within the terms of the Company's existing incentive plan, a bespoke arrangement would be used.
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences / housing allowance and schooling. No relocation allowances will apply for a period greater than 2 years.

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

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

Directors' service contracts

Element	Executive Directors		Non-Executive Directors				
Term	Martyn Coffey	Jack Clarke	Vanda Murray	Janet Ashdown	Tim Pile	Graham Prothero	Angela Bromfield
Date of contract / appointment	September 2013	October 2014	May 2018	March 2015 (renewed in March 2018)	October 2010 (renewed in 2013, 2016 and May 2019)	May 2017	October 2019
Notice period in months							
Company	12	12	6	6	6	6	6
Director	(6)	(6)	(6)	(6)	(6)	(6)	(6)

In accordance with Policy, Executive Directors' service contracts do not contain liquidated damages clauses, nor any contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement or providing for compensation for loss of office or employment that occurs because of a takeover bid. The maximum notice period for an Executive Director is 12 months.

Executive Directors are permitted to hold one external plc Board appointment, and may retain any remuneration received in that capacity.

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

All Directors are subject to annual re-election.

Policy on termination payments

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

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

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

Remuneration Committee Report *continued*

Remuneration Policy *continued*

Policy on termination payments *continued*

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

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

Change of control

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

Discretion

The Committee has discretion in several areas of Policy. 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.

Remuneration Committee Report *continued*

Remuneration Policy *continued*

Consideration of shareholder views

The Committee regularly consults with shareholders on Executive remuneration. The Remuneration Committee gave shareholders the opportunity to comment on the 2020 Policy before its finalisation. The Committee is committed to consulting in advance with shareholders before making any material changes to any element of Executive remuneration.

Chair and Non-Executive Directors' remuneration policy

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

Fairness, diversity and wider workforce considerations

Introduction

This section of the Remuneration Report deals with the following:

- The Committee's approach to the review of wider workforce pay policies and how it has taken these into consideration in setting remuneration;
- The alignment of the incentives operated by the Company with its culture and strategy;
- General pay and conditions in the Company;
- Gender and diversity; and
- Comparison metrics relating to Executive and employee remuneration.

Process

The Committee fulfils its' responsibility for the oversight and review of wider workforce pay, policies and incentives through a formal process. Reporting is prepared on a six monthly basis to show details of all elements of remuneration for all members of the workforce (excluding temporary and agency staff and consultants). The reports include data on:

- Salary and salary increases:
- General positioning of remuneration packages (benchmarking);
- Bonus (total eligible population, target and maximum range, performance conditions, payment method, scope for discretion / recovery under malus and clawback provisions);
- Sales and commission plans;
- Long-term incentive plans (total eligible population, target and maximum range, performance conditions, payment method, scope for discretion / recovery under malus and clawback provisions, vesting and holding periods); and
- Pension schemes and other benefits (defined contribution plan, total eligible population, Company contribution and employee contribution).

This information is used to inform the overall Reward Strategy and action plans for the wider UK workforce.

As Senior Independent Director, Chair of the Remuneration Committee and designated Non-executive Director for workforce engagement, Janet Ashdown attends employee forums within a planned engagement framework. This forum, the Employee Voice Group ("EVG"), meets on at least a quarterly basis and provides valuable input into new policy development around a range of topics including reward and remuneration policy. The meetings are chaired by the Group Human Resources Director and attended by a mixed group of colleagues from across the different parts of the Group. Other Non-Executive Directors may also attend EVG meetings.

The Committee also receives feedback from employee surveys and the Executive Roadshows which are a series of regular site visits made by the Executive Directors and senior management.

The Committee has the authority to ask for additional information from the Company in order to carry out its responsibilities.

The levels of remuneration and the packages offered vary across the Company depending on the employee's level of seniority and role. The Committee, when conducting its review, is paying particular attention to:

- whether the element of remuneration is consistent with the Company remuneration principles;
- whether incentive structures are designed in a way that promotes the Company's strategy, values and culture;
- if there are differences in remuneration, whether, they are objectively justifiable; and
- whether the approach seems fair and equitable in the context of other employee packages.

The Committee uses its review of the wider workforce remuneration and incentives to inform the approach applied to the remuneration of the Executive Directors and senior management. In particular, the Committee is focused on whether, within the framework set out above, the approach to the remuneration of the Executive Directors and senior management is consistent with that applied to the wider workforce.

Progress during 2019

During 2019, the Committee conducted its first full audit of wider workforce pay and conditions. The Committee has a clear strategy in place to develop this process and rectify any disparities revealed as a result of the review over the coming years.

Overview of findings

The key findings of the Committee's review for 2019 were as follows:

- Average salary increases for employees across the Company are being applied on an equitable and objective basis. The average rise of 3.3 per cent for 2019 was the same as that applied to the salaries of the Executive Directors, consistent with Policy. The exception to this approach (as explained for the 2020 CEO changes in the Chair's Annual Statement) would be the same throughout the Company, with the opportunity to address any material discrepancy between pay and the role being carried out.
- The incentive scheme structures that apply to colleagues below Executive Director level, are all designed and operate in accordance with the Company remuneration principles, and general performance targets for incentive schemes apply the same rigorous performance criteria. In particular, the incentive schemes for senior management do not motivate irresponsible behaviours, use the same strategic KPIs as those reported for Executive Directors and include both financial and non-financial measures with sustainability and employee well-being measurements.
- In line with the Company's wider policy on pay, all employees are eligible for enrolment in a defined contribution pension arrangement. The current basic contribution (4 per cent employer, 4 per cent employee for the Marshalls Group) is being increased by 1 per cent (employer and employee) in April 2020. There are incumbent Director and senior manager packages with a higher employer pension; however it is expected that the pension contribution for new Executive Directors and senior management in future will be aligned with the pension contribution applicable to the wider workforce.
- The benefits structure includes pension and life assurance cover (for death in service) to all Group employees. The minimum lump sum benefit for death in service has increased to £50,000 with effect from 1 January 2019. Other benefits such as private medical cover and health screening are offered according to the level of seniority of the role in line with market practice.

In summary, the Committee is satisfied that the approach to remuneration across the wider workforce is consistent with the Company's Remuneration Policy and the wider principles of fairness and sustainability that are fundamental to the Group's culture. Further, in the Committee's opinion the approach to Executive remuneration aligns with wider Company pay policy and there are no anomalies specific to the Executive Directors.

The Company expects to develop its engagement and communication channels in relation to remuneration during 2020, and to report in more detail to shareholders on how this has been achieved.

Remuneration Committee Report *continued*

Fairness, diversity and wider workforce considerations *continued*

Overview of findings *continued*

- The majority of our employees are able to share in the success of the Company through incentive compensation. In line with market practice the level of incentive compensation and whether it is paid solely in cash or in a mixture of cash and deferred shares depends on the level of seniority of the employee. The incentive approach applied to the Executive Directors aligns with the wider Company policy on incentives, which is to associate a higher percentage of at-risk performance pay with the seniority of the role, and to increase the amount of incentive deferred, provided in equity and / or measured over the longer term for roles with greater seniority.
- The following table shows the cascade of incentives throughout the Company:

Level (number)	Participation in Element A of the MIP (percentage range)	Participation in Element B of the MIP (percentage range)	Participation in other bonus or commission plans	Participation in all-employee equity plans (Sharesave / SPP)
Executive Directors (2)	150% of salary	100% of salary	X	✓
Executive Committee (7)	45% to 120% of salary	30% to 70% of salary	X	✓
Senior management (12)	45% to 55% of salary	30% to 35% of salary	X	✓
Employees in BSP (69)			15% to 45% +5% bonus shares	✓
Employees in other job related bonus or commission schemes (409)			Sales bonuses	✓

In summary the Committee is satisfied that the approach to remuneration across the Company is consistent with the Company's principles of remuneration. Further, in the Committee's opinion the approach to Executive remuneration aligns with wider Company pay policy and there are no anomalies specific to the Executive Directors.

Widening employee share ownership

Equity participation is offered to all employees of the Company through the Share Purchase Plan and SAYE schemes and to managers and the Executives through the MIP or the BSP, each of which involves the award of shares. It is the Company's policy to allow employees to share in Company success by means of equity participation. Employees can become shareholders through employee share plans including:

Bonus Share Plan

The Bonus Share Plan approved in 2015 provides the opportunity for participants to earn "free" bonus shares of up to 5 per cent of salary, which vest after 3 years subject to performance conditions and continued employment; performance conditions are usually aligned with those set for the MIP.

Sharesave Scheme / Share Purchase Plan

Marshalls launched a Sharesave / SAYE Scheme in 2015 to encourage wider ownership of Marshalls plc shares across the entire workforce, so that the employees are able to participate in the Group's success in a way that aligns their interests with those of shareholders. The 2015 SAYE Scheme matured in December 2018 resulting in 640 employees exercising their option to acquire shares from their savings fund at a discounted share price of £2.91 and a total of 728,492 shares being issued to employees. The Share Purchase Plan is an "evergreen" scheme under which employees may purchase shares in the market on a monthly basis out of gross salary, another way of incentivising investment by employees in the Company's shares.

The Group intends to launch another SAYE scheme for employees in 2020.

Real Living Wage employer

Marshalls is proud to be a Real Living Wage employer, underscoring its commitment to its employees. Marshalls achieved living wage accreditation in 2018 and has maintained its status throughout 2019.

Fairness throughout our supply chain

From real living wages in the UK to the elimination of child labour in India, we believe that what is good for society is good for business. Our approach to labour rights is driven by the ETI Base Code, which we adopted in 2005. To ensure that the Base Code principles are embedded within operations and supply chains, we employ social auditors in India, China and Vietnam, which regularly carry out checks and audits to ensure that the Base Code is being upheld and to report any concerns or violations so that we can take swift action should we need to. Marshalls also works closely with external organisations to ensure our business and supply chain operates to identify and eliminate slavery in all its forms under the principles now embodied in the Modern Slavery Act 2015. Our Modern Slavery Statement can be found on the Company's website (www.marshalls.co.uk/our-policies). Marshalls was the first company in its sector to belong to the ETI and is committed to the ETI Base Code.

Pay comparisons

CEO ratio

The ratio of CEO pay (based on the single total figure of remuneration) to that of UK employees for the last 2 years, in the table below. The calculation has been performed using the methodology in Option A of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) in line with best practice and is based on the total single figure of remuneration.

	CEO pay ratio				Employee salary				Employee total pay and benefits		
Financial year	25th percentile	50th percentile	75th percentile	CEO salary £'000	25th percentile £'000	50th percentile £'000	75th percentile £'000	CEO total pay and benefits £'000	25th percentile £'000	50th percentile £'000	75th percentile £'000
2019	77.6:1	60.6:1	51.0:1	460	22	36	40	2,215	28	36	43
2018	58:1	44:1	37:1	445	27	35	42	1,602	28	36	43

The 25th, 50th and 75th percentiles have been calculated using actual pay for the year ended 31 December 2019, increased where appropriate to give full time equivalent remuneration for part time workers or those working only part of the year.

To give context to this ratio, we have included below a chart tracking CEO pay and average employee pay since Martyn Coffey's appointment alongside Marshalls' TSR performance over the same period. The Remuneration Committee has always been committed to ensuring that CEO reward is commensurate with performance. The chart shows a clear alignment between shareholder returns and CEO single figure pay. The CEO single figure for 2013 was affected by the retiring CEO's 2012 and 2013 LTIP awards vesting early on a pro-rata basis owing to his good leaver status.

Shareholders expect the CEO to have a significant proportion of pay based on performance and paid in shares. It is this element of the package which provides the volatility in CEO remuneration and the variations in the ratio. The Committee is satisfied that the underlying picture does not show a divergence trend between the CEO remuneration and employees generally, i.e. excluding share price volatility, the relationship with employee pay is consistent. This is supported by the percentage change in CEO remuneration table in the next section.

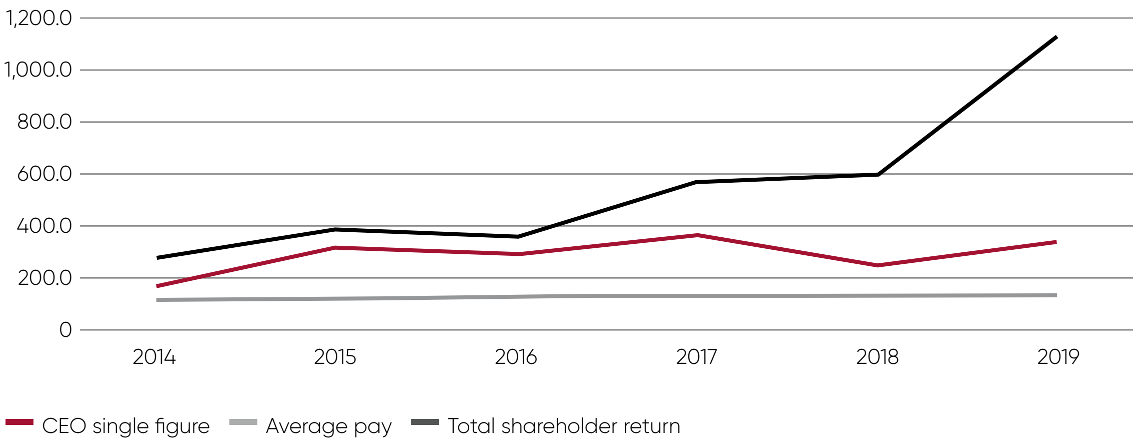
	2014	2015	2016	2017	2018	**2019**
Ratio of single figure total remuneration to average employee	25.2x	50.1x	37.5x	48.9x	31.9x	**42.4x**

- Our CEO pay is made up of a higher proportion of performance related incentives than that of our employees, in line with the expectations of our shareholders. This introduces a higher degree of variability in CEO pay each year which affects the ratio.
- The value of long-term incentives which measure performance over 3 years is disclosed in pay in the year it vests; this affects historical years up to 2017. This increases the CEO pay in that year, again impacting the ratio for that year.
- Long-term incentives are provided in shares, and therefore an increase in share price during any deferral or vesting period magnifies the impact of a long-term incentive award in the year in which it vests. The high ratio in 2013 reflects the early vesting of long-term incentive awards held by the previous CEO, Graham Holden, on his retirement.
- We recognise that the ratio is driven by the different structure of the pay of our CEO versus that of our employees, as well as the make-up of our workforce. This ratio varies between businesses even in the same sector. What is important from our perspective is that this ratio is influenced only by the differences in structure, and not by divergence in fixed pay between the CEO and wider workforce.
- Where the base structure of remuneration is similar, for example on comparison between the Executive Committee pay and that of the CEO, the ratio is much more stable over time.

Remuneration Committee Report *continued*

Fairness, diversity and wider workforce considerations *continued*

CEO / average pay against TSR



Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2018 and 2019 compares with the percentage change in the average of each of those components of pay for the UK-based employees of the Group as a whole.

	Salary £'000		Percentage change (Note a)	Taxable benefits £'000		Percentage change	Bonus (Note b) £'000		Percentage change
	2019	2018	%	**2019**	2018	%	**2019**	2018	%
CEO pay	**460**	445	3.3	**33**	32	3.1	**1,039**	715	45.3
UK total pay	**100,071**	94,758	5.6	**2,703**	2,190	23.4	**6,868**	6,389	7.5
Number of employees	**2,744**	2,639	4.0	**319**	320	(0.3)	**783**	890	(12.0)
Average per employee	**36.5**	35.9	1.6	**8.5**	6.8	23.8	**8.8**	7.2	22.2

Notes:

a) Martyn Coffey's salary was increased on 1 January 2019 by 3.3 per cent, the same percentage increase as given to the workforce as a whole.

b) The bonus is the non-deferred amount earned for the relevant year taken from the single figure remuneration table on page 84.

c) A 3.3 per cent increase was awarded to the workforce on 1 January 2019. The table above shows, however, that the average salary increase per employee for 2019 was slightly lower. This was due to variations in overtime in the current year and specific variations relating to the impact and timing of leavers and new starters.

d) The table above shows that the average bonus per employee increased by 22.3 per cent in 2019 compared with the prior year.

e) UK employees have been used as the number of overseas employees is not significant (71) and pay and conditions in the non-UK locations (Belgium, China, USA and Dubai) are different from those prevailing in the UK.

CEO pay in the last 10 years

This table shows how pay for the CEO role has changed in the last 10 years:

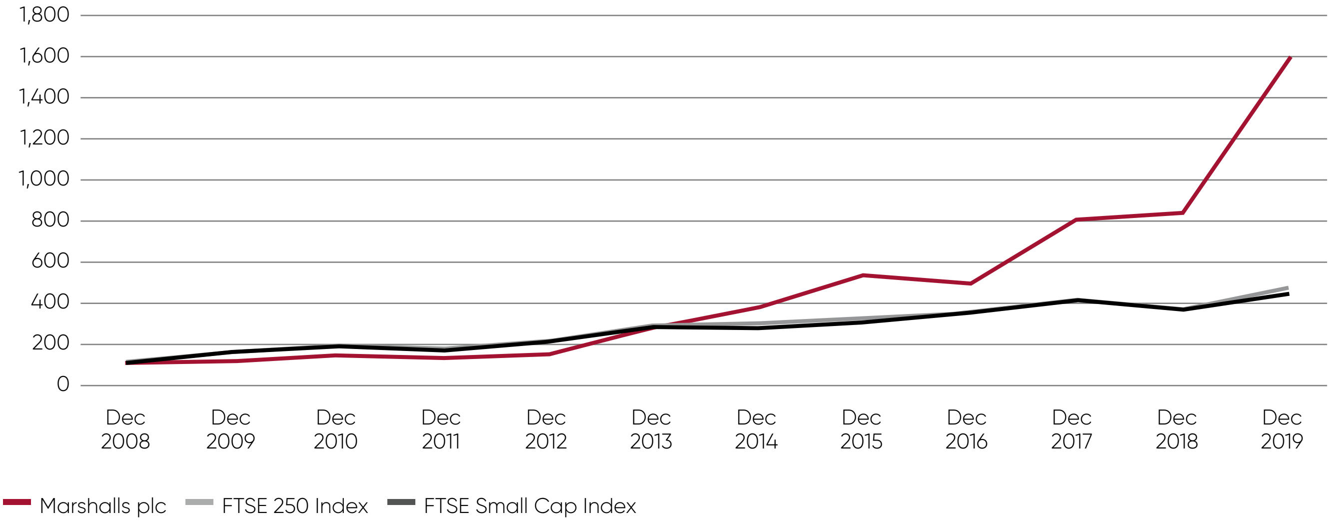
Year £'000	2010	2011	2012	2013 (Note b)	2014	2015	2016	2017	2018	**2019**
Single figure remuneration	671	752	938	3,143	1,101	2,064	1,913	2,383	1,602	**2,213**
% of maximum annual bonus earned	38.6%	78.1%	33.0%	63.6%	99.3%	100%	96.9%	100%	98%	**99.6%**
% of maximum LTIP / MIP awards vesting	–	–	–	63.0%	–	100%	100%	100%	98%	**99.6%**

Notes:

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

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

Total shareholder return



This chart shows the Group's total shareholder return ("TSR") performance compared to (i) the FTSE Small Cap Index and (ii) the FTSE 250. TSR is defined as share price growth plus reinvested dividends. Marshalls plc was a constituent of the FTSE Small Cap Index for the period from January 2009 to August 2015 and became a constituent of the FTSE 250 in August 2015. This chart shows the value at 31 December 2019 of £100 invested in Marshalls plc on 1 January 2009 compared with the value of £100 invested in (i) the FTSE Small Cap Index and (ii) the FTSE 250. The other plotted points are the intervening financial year ends. Marshalls' TSR performance improved by 89.7 per cent in 2019, compared with a rise of 18.8 per cent in the FTSE Small Cap Index and a rise of 28.9 per cent in the FTSE 250 in 2019.

Remuneration Committee Report *continued*

Fairness, diversity and wider workforce considerations *continued*

Gender balance and pay

On the snapshot date of 5 April 2019 the Group's total workforce (excluding Edenhall), comprised 2,580 employees with the following gender balance:

	Male	Female
Total workforce	2,183	397
Senior managers[1]	7	2
Directors	4	2

1 Senior managers are defined according to the UK Code and comprise the Executive Committee and the Company Secretary.

Our gender pay gap disclosure is based on amounts paid in the April 2019 payroll. The gender bonus gap is based on incentives paid in the year to 31 March 2019. Our disclosures are made pursuant to the UK Government Equalities legislation. The 2 main employer entities in the Group during 2019 were Marshalls Group Limited, which employs the vast majority of employees, and Marshalls plc.

CPM Group Limited was acquired in October 2017 and all employees were transferred to Marshalls Group Limited in 2018. Due to technical differences in the pay structure of CPM employees, they remained on the CPM PAYE tax reference until the end of the 2018 / 2019 tax year so disclosed their gender pay ratios separately in April 2019. For April 2020 and beyond, former employees of CPM Group Limited will be included in the Group reporting.

The charts below show the consolidated results for the Marshalls Group (including Marshalls plc) and separately for Marshalls Group Limited and CPM Group Limited to provide a more accurate overview. Edenhall, acquired in December 2018, remained a separate employer until June 2019 at which time its employees transferred to Marshalls Group Limited. However, as Edenhall employed fewer than 250 employees there is no requirement to report in 2019. The former Edenhall employees will be included in the 2020 disclosures for Marshalls Group Limited.

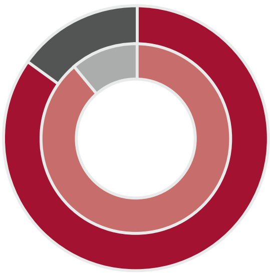
There was an improvement in the consolidated mean gender pay gap from 15.7 per cent in 2018 to 4.3 per cent and in the median gender pay gap from 21.8 per cent in 2018 to 17.0 per cent. We have also seen an improvement in the mean bonus gender pay gap from 79.1 per cent in 2018 to 71.4 per cent and the median bonus gender pay gap from 73.9 per cent in 2018 to 67.0 per cent. Our gender split analysis shows that almost 85 per cent of our workforce are male and 15 per cent female, which is typical of the manufacturing and construction sector generally. Whilst the proportion of female workers to male workers has slightly decreased since 2018 the number of women who are paid in the upper quartile increased from 12.6 per cent in 2018 to 14.5 per cent. As the gender pay gap figures show, in 2019 the median average bonus value for male workers reduced and the median bonus value for female workers increased.

These results correlate with a number of concerted initiatives introduced in 2019 to attract and retain more women into more senior positions. We have introduced enhancements to our occupational maternity pay and have introduced flexible working arrangements in areas of our business where there is a high concentration of female workers. The introduction of new recruitment practices has also allowed us to increase our focus on diversity and inclusion. We anticipate this continuing in 2020 as we further develop our talent strategies.

We have also refreshed our total reward strategy in the year. The focus of this strategy is to modernise and enhance our reward offering, giving greater transparency and flexibility to colleagues. We believe that this will also assist us in attracting and retaining diverse talent and will further improve gender imbalances.

	Mean gender pay gap	Median gender pay gap	Mean bonus gender pay gap	Median bonus gender pay gap
2019 results				
Marshalls Group Limited	14.6%	18.7%	63.7%	48.6%
CPM Group Limited	11.3%	14.1%	52.4%	54.8%
Consolidated (Marshalls plc and Marshalls Group Limited)	4.3%	17.0%	71.4%	67.%
2018 results				
Marshalls Group Limited	15.2%	21.2%	85.0%	20.0%
CPM Group Limited	20.6%	23.1%	69.3%	69.7%
Consolidated (Marshalls plc and Marshalls Group Limited)	15.7%	21.8%	79.1%	73.9%

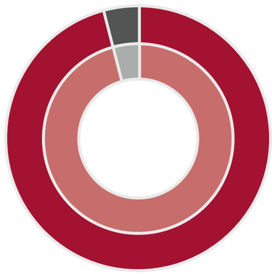
Upper quartile



Consolidated
Male 85% Female 15%

Marshalls Group Limited
Male 89% Female 11%

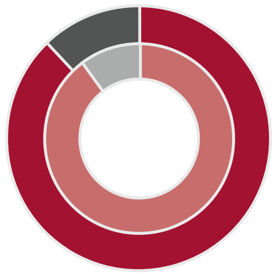
Upper middle quartile



Consolidated
Male 96% Female 4%

Marshalls Group Limited
Male 96% Female 4%

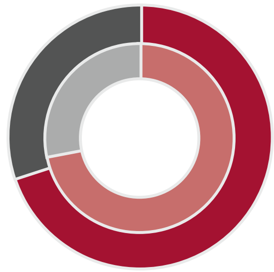
Lower middle quartile



Consolidated
Male 88% Female 12%

Marshalls Group Limited
Male 90% Female 10%

Lower quartile



Consolidated
Male 70% Female 30%

Marshalls Group Limited
Male 72% Female 28%

The same factors are relevant on bonus outcomes. Across our consolidated workforce more women than men participate in a bonus scheme; however, the predominance of men in senior roles carrying higher base pay means that we are also reporting a gender pay gap in mean and median bonus.

	Male		Female
Percentage receiving bonus			
Consolidated	29.7%		41.6%
Marshalls Group Limited	16.1%		40.5%
Mean bonus gap			
Consolidated		71%	
Marshalls Group Limited		80%	
Median bonus gap			
Consolidated		67%	
Marshalls Group Limited		50%	

Equality and diversity initiatives

The Group has policies that promote equality and diversity in the workforce as well as prohibiting discrimination in any form. We are committed to promoting equality and preventing discrimination at work. We recognise that everyone is different and we are passionate about creating an inclusive environment, where everyone can contribute their best work and develop to their full potential. The Group's Code of Conduct clearly states its commitment to these principles and requires a similar commitment from its business partners.

Initiatives and progress during 2019 include:

- The appointment of Angela Bromfield as Non-Executive Director further improved gender balance at Board level.
- We have updated and relaunched the Group's Diversity and Inclusion Policy and ensured that briefs for recruitment aim to attract a diverse range of applicants.
- We have updated the Group's Code of Conduct which is currently being launched to all employees, suppliers and stakeholders.
- Marshalls has signed the Social Mobility Pledge which represents our commitment to:
  - partnership – partnering with schools and colleges to provide coaching through careers advice and mentoring people from disadvantaged backgrounds or circumstances;
  - access – providing structured work experience and apprenticeship opportunities; and
  - recruitment – promoting policies that do not distinguish on grounds of background.
- We have launched a Women's Talent Network that meets quarterly to support diversity in the workplace and provide development opportunities.

Remuneration Committee Report *continued*

Annual Remuneration Report

This report covers the reporting period from 1 January 2019 to 31 December 2019 and explains how the Remuneration Policy has been implemented. Comparative figures for the 2018 financial year have also been provided.

Single total figure of remuneration in 2019 – Executive Directors (audited)

	Fixed £'000						Performance related £'000									
							Annual bonus				Long-term incentives					
	Salary		Other benefits		Salary supplement in lieu of pension		MIP Element A		MIP Element B		MIP Element B		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Martyn Coffey	**460**	445	**33**	32	**92**	89	**810**	497	**229**	218	**589**	321	**2,213**	1,602
Jack Clarke	**302**	292	**13**	13	**60**	58	**531**	326	**150**	143	**386**	184	**1,442**	1,016
Total	**762**	737	**46**	45	**152**	147	**1,341**	823	**379**	361	**975**	505	**3,655**	2,618
			Note a		Note b		Note c				Note d			

Notes:

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

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

c) The annual bonus column shows 50 per cent of the total bonus contribution earned under the MIP Element A in respect of 2019 performance, and 50 per cent of the total value of Element B shares awarded which are deferred but are not subject to further performance conditions (other than continued employment). The remaining 50 per cent in respect of 2019 Element A is deferred into shares in the MIP account which are subject to performance and employment-based forfeiture for a further holding period. The remaining 50 per cent of 2019 Element B shares is subject to performance and employment-based forfeiture for a 3-year deferred period. These deferred elements will be disclosed in the long-term incentives column when the conditions are satisfied. The deferred shares in relation to both Element A and Element B may change in value during the holding period depending on Marshalls' share price.

d) The long-term incentives column shows the aggregate value of sums released from MIP account balances from earlier years that are no longer subject to deferral and forfeiture risk.

Setting pay in context

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

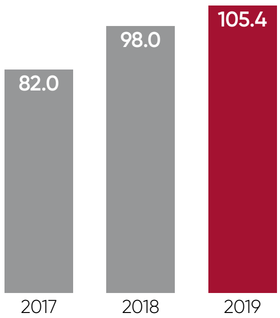
The 4 elements represent the most significant outgoings for the Company during the financial year. In addition to staff pay and shareholder distributions, capital investment and taxation are shown for the following reasons:

- investment – the Company's strategy is to increase capital investment to take advantage of market demand and in order to ensure that the business grows in a sustainable manner with a corresponding long-term benefit for all stakeholders; and
- tax – the Company is a UK taxpayer and feels that it is beneficial to demonstrate to all its stakeholders its total UK tax contribution. The most significant elements of the Company's UK tax contribution are VAT, employer's NI, corporation tax, fuel duty and aggregates levy. As profitability increases, corporation tax will also increase. In 2019 the Group was re-accredited with the Fair Tax Mark.

Relative importance of spend on pay (percentage change)

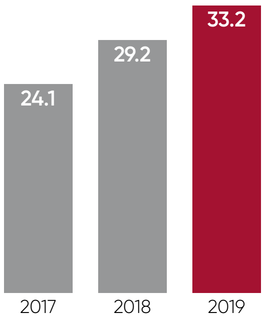
Staff pay (£'m)

+7.5%



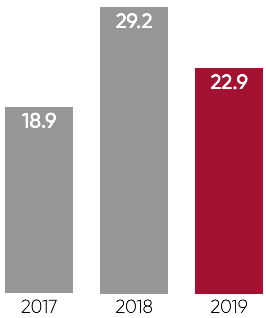
Distributions to shareholders (£'m)

+13.5%



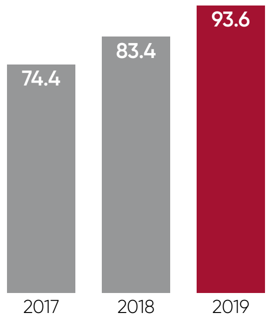
Capital investment (£'m)

–21.8%



Tax (£'m)

+12.2%



Outcomes of incentive schemes in 2019 (audited)

See page 59 for details of the satisfaction of the performance conditions under the MIP for 2019.

MIP awards 2019

Element A

Plan Accounts	Martyn Coffey	Jack Clarke
Opening balance (number of shares) (Note a)	111,194	72,940
2019 contribution (% of salary earned)	149%	149%
Value	£687,147	£450,752
2019 element released (Note b)	£809,622	£531,092
Closing balance (deferred into shares)	£809,621	£531,092
Number of shares represented by closing balance (Note c)	98,546	64,644

Element B

	Martyn Coffey	Jack Clarke
Number of shares awarded	55,759	36,576
Percentage of salary	99%	99%
Value	£458,098	£300,502
EPS forfeiture threshold (Note d)	18.95p	18.95p

Notes:

a) 50 per cent of the earned Element A award is released to the participant as annual bonus; the remaining 50 per cent is deferred into the participant's MIP account and converted into shares. The previously deferred proportion of the 2018 Element A award was converted into shares by reference to the mid-market average value for the 30-day period ending on 31 December 2018. Dividends paid during the year are also added to the carried-forward plan account. The chart above shows the resulting closing balance value calculated by reference to the mid-market average value for the 30-day period ended 31 December 2019 and adding the value of dividends of 16.7 pence per share paid during 2019.

b) The earned Element A award for 2019 is added to the individual's plan account, and 50 per cent of the resulting balance is released to the participant as an annual bonus; the remaining 50 per cent is deferred into the participant's MIP account and converted into shares. The deferral is repeated in each subsequent year up to the final year. In the final year, subject to any forfeiture provisions, 100 per cent of any balance in the MIP account is released.

c) The carried-forward balance is converted back into shares by reference to the mid-market average value for the 30-day period ended 31 December 2019 (821.56 pence).

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

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

Non-Executive Directors do not participate in any of the Company's incentive arrangements. Their fees are reviewed periodically and were last reviewed in October 2019. The Chair's fees are set by the Committee; other Non-Executive Directors' fees are set by the Board as a whole. The Non-Executive Directors reclaim travel and accommodation expenses incurred in the performance of their duties, and where this is a taxable benefit it is shown below as a grossed-up taxable amount.

	Board fee £'000		Committee fees £'000		Expenses £'000		Total £'000	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Vanda Murray Chair and Chair of Nomination Committee (from 9 May 2018)	**170**	106	**–**	–	**6**	1	**176**	107
Janet Ashdown Senior Independent Director, Chair of Remuneration Committee and member of Audit and Nomination Committees	**48**	47	**15**	8	**1**	1	**64**	56
Tim Pile Member of Audit, Remuneration and Nomination Committees	**48**	46	**–**	–	**2**	1	**50**	47
Graham Prothero Chair of Audit Committee and member of Remuneration and Nomination Committees	**48**	46	**8**	7	**2**	1	**58**	54
Angela Bromfield Member of Audit, Remuneration and Nomination Committees (from 1 October 2019)	**12**	–	**–**	–	**–**	–	**12**	–
Andrew Allner (retired 9 May 2018)	**–**	55	**–**	–	**–**	1	**–**	56
Total	**326**	300	**23**	15	**11**	5	**360**	320

Remuneration Committee Report *continued*

Annual Remuneration Report *continued*

Statement of implementation of Remuneration Policy in the following financial year (2020)

See pages 62 and 77.

Payments to past Directors / payments for loss of office

There were no payments to past Directors. There were no payments to Directors or former Directors for loss of office.

Directors' shareholdings and share interests

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

- the number of shares the Director holds unconditionally; and
- the number of shares subject to unvested incentive awards as at 31 December 2019.

	Shareholding requirement		Beneficially owned	Shares that will vest following 2019 results (Note c)	Deferred shares (Note d)	Deferred and contingent share interests (Note e)	Total interests in shares (including contingent interests)
Director	% of salary	Number of shares required (Note a)	Number of shares (Note b)	Number of shares	Number of shares	Number of shares	Number of shares
Executive							
Martyn Coffey	200	106,997	385,039	149,802	125,646	224,192	884,679
Jack Clarke	200	70,188	100,668	98,266	82,420	147,064	428,418
Non-Executive							
Vanda Murray	–	–	15,000	–	–	–	15,000
Janet Ashdown	–	–	11,210	–	–	–	11,210
Tim Pile	–	–	44,740	–	–	–	44,740
Graham Prothero	–	–	2,417	–	–	–	2,417
Angela Bromfield	–	–	–	–	–	–	–

Notes:

a) The closing price on 31 December 2019 of 860.0 pence per share has been used to measure the number of shares required.

b) As at the date of this report the number of shares beneficially owned by Martyn Coffey was 385,039 and by Jack Clarke was 100,668. Changes were due to share purchases under the Share Purchase Plan and changes to their "persons closely associated".

c) This comprises Element B awards granted in March 2017 (based on 2016 performance) that will vest 3 years from grant (i.e. March 2020) before deduction of any tax and NIC. This must be held for a minimum of 2 further years.

d) This column includes the 50 per cent proportion of share interests awarded in 2017, 2018 and 2019 under Element B of the MIP in the form of nil-cost options or conditional shares that may be exercised after the 3-year deferral period but where vesting is only dependent on continuing employment throughout the 3-year deferral period with no other performance conditions.

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

f) Share interests under Element A and Element B of the MIP are calculated by reference to the mid-market average value for the 30-day period ended 31 December 2019 (821.56 pence).

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

It should be noted that both Executive Directors have met their minimum shareholding requirements.

Janet Ashdown
Chair of the Remuneration Committee
12 March 2020

Directors' Report – Other Regulatory Information

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

The Directors of the Company are listed on pages 42 and 43.

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 (2018: £nil).

Risk management: The Group's risk management objectives, its approach to managing risk generally and its use of financial instruments are described in the Strategic Report on pages 24 to 29. Further details of the Group's risk management in relation to financial risks and its use of financial instruments to mitigate such risks are set out in Note 18 on pages 124 to 129.

Greenhouse gas emissions: The Group's CO_2 (greenhouse gas) emissions in 2019 are disclosed in the Strategic Report on page 40.

Employees: Details of how the Directors have engaged with employees are set out on pages 37 and 49. Further information is provided in relation to the engagement channels used and the outcomes from the engagement. The Company's policies in relation to disabled employees and employee involvement and communication are explained in the Strategic Report on page 36.

Stakeholders: Details of how the Directors have developed relationships with customers, suppliers and other stakeholder groups are set out on page 49, along with engagement channels used. Additional details of the Group's stakeholder engagement strategy is explained on pages 18 and 19. The statement by the Directors in relation to their strategy duly in accordance with S172(1) Companies Act 2006 is found on page 19.

Corporate governance: Details of how the Group complies with the UK Corporate Governance Code are set out on pages 44 to 49.

Post-balance sheet events of importance since 31 December 2019: There have been no important events affecting the Group since the end of the financial year.

Research and development: Activity and likely future developments for the business are described in the Strategic Report on pages 2 to 41.

Dividends

The Board is recommending a final dividend of 9.65 pence (2018: 8.00 pence) per share which, together with the interim dividend of 4.70 pence (2018: 4.00 pence) per share, makes a combined dividend of 14.35 pence (2018: 12.00 pence) per share. The Board is also recommending payment of a supplementary dividend of 4.00 pence per share, which is discretionary and non-recurring. Payment of the final dividend and the supplementary dividend, if approved at the Annual General Meeting, will be made on 30 June 2020 to shareholders registered at the close of business on 5 June 2020. The ex-dividend date will be 4 June 2020.

The dividend paid in the year to 31 December 2019 and disclosed in the Consolidated Income Statement is 16.70 pence (2018: 14.80 pence) per share, being the previous year's final dividend of 8.00 pence (2018: 6.80 pence) per share, the interim dividend of 4.70 pence (2018: 4.00 pence) per share in respect of the year ended 31 December 2019 and the prior year supplementary dividend of 4.00 pence per share. The 2018 final and supplementary dividends were paid on 28 June 2019 and the 2019 interim dividend was paid on 4 December 2019.

Share capital and authority to purchase shares

The Company's share capital at 1 January 2020 was 200,052,157 Ordinary Shares of 25 pence. This represented an increase of 58,724 Ordinary Shares during the year ended 31 December 2019 following the issue of shares to participants exercising their Sharesave options during 2019. Sharesave allotments were made for cash based on an exercise price of £2.91 per share and pre-emption rights were disapplied under the authority granted at the 2018 AGM. Details of the share capital are set out in Note 22 on page 134.

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

The Marshalls plc Employee Benefit Trust ("EBT") holds shares for the purposes of satisfying future awards that may vest under the Company's share-based incentive schemes. The EBT may purchase shares in the Company from time to time to satisfy awards granted to Directors and senior Executives subject to the achievement of performance targets under the Company's incentive schemes. At 31 December 2019 the EBT held 1,689,986 Ordinary Shares in the Company (2018: 1,736,213 shares) in respect of future incentive awards under the Company's employee share schemes. Details of outstanding awards are set out in Note 19 on pages 131 and 132. The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The Trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

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

At the Annual General Meeting in May 2019 shareholders gave authority to the Directors to purchase up to 29,886,875 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 2019 and 12 March 2020 under this authority, which will expire at the 2020 Annual General Meeting. The Directors will seek to renew the authority at that meeting.

Directors' Report – Other Regulatory Information *continued*

Contracts of significance and related parties

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

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

Articles of Association

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

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

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

The Group has granted indemnities to its Directors to the extent permitted by law (which one qualifying party indemnities of Section 236 of the Companies Act 2006) and these remained in force during the year in relation to certain losses and liabilities that the Directors may incur to third parties in the course of action as Directors or employees of the Company, any subsidiary or associated company, or as a Director of the pension scheme trustee board. Neither the liability insurance nor the indemnities provide cover in the event of proven fraudulent or dishonest activity. The Group has not indemnified any Director under the indemnities currently in place.

Directors' interests

Details of Directors' remuneration, their interests in the share capital of the Company and the share-based payment awards are contained in the Remuneration Committee Report on pages 55 to 86.

Listing Rule requirements

The applicable requirements of Listing Rule 9.8.4R in respect of long-term incentive schemes (pages 131 and 132) and contracts of significance (page 87) are included in this Annual Report.

Substantial shareholdings

The Company has no controlling shareholder. As at 12 March 2020, the Company had been notified, in accordance with DTR 5, of the following disclosable interests of 3 per cent or more in its voting rights:

	As at 12 March 2020 %	As at 31 December 2019 %
Aberdeen Standard Investments	**12.71**	11.89
Majedie Asset Management	**7.02**	7.83
Royal London Asset Management	**5.17**	4.93
BlackRock	**4.76**	4.52
JP Morgan Asset Management	**4.44**	5.33
Vanguard Group	**4.11**	4.03
Montanaro Investment Managers	**3.90**	3.80
Lansdowne Partners	**3.83**	2.09
RWC Partners	**3.16**	2.97

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

Cathy Baxandall
Group Company Secretary
12 March 2020

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

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

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

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

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

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

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

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

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

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

Responsibility statement of the Directors on the Annual Report and Accounts

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on pages 40 and 41 confirm that, to the best of each of their knowledge:

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

Disclosure of information to the auditor

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

Statement of Directors' Responsibilities *continued*

in respect of the Annual Report and the Financial Statements

Going concern

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

Cautionary statement and Directors' liability

This Annual Report 2019 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 Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT, 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
12 March 2020

Independent Auditor's Report

to the members of Marshalls plc

Report on the audit of the Financial Statements

1. Opinion

In our opinion:

- the Financial Statements of Marshalls plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 *"Reduced Disclosure Framework"*; 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.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related Notes 1 to 44.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 *"Reduced Disclosure Framework"* (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • the valuation of the inventory provision; and • revisions to provisional fair value adjustments on the Edenhall Group acquisition in 2018. Within this report, key audit matters are identified as follows: ↑ Increased level of risk → Similar level of risk → Decreased level of risk
Materiality	The materiality that we used for the Group Financial Statements was £3.5 million which was determined on the basis of 5 per cent of profit before tax.
Scoping	Full scope audits were performed on all UK components. This accounts for 96 per cent of Group revenue, 100 per cent of Group net assets and 100 per cent of profit before tax generated by profit making entities.
Significant changes in our approach	We have refined our key audit matter in relation to the acquisition accounting of Edenhall Group to be the revisions during the year to the provisional fair values recognised at 31 December 2018. We no longer have a key audit matter in relation to the acquisition of the CPM Group in 2017 as all fair value adjustments were finalised in 2018. There have been no other significant changes to our audit approach since the prior year.

Independent Auditor's Report *continued*

to the members of Marshalls plc

4. Conclusions relating to going concern, principal risks and viability statement

4.1 Going concern

We have reviewed the Directors' Statement in Note 1 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the Financial Statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the Financial Statements.

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

4.2 Principal risks and Viability Statement

Based solely on reading the Directors' Statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 26 to 29 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 26 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 25 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' Statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

5. Key audit matters *continued*

5.1 Valuation of the inventory provision ➔

Key audit matter description	The Group is primarily involved in the manufacture and sale of landscape and natural stone products, selling to Public Sector, Commercial and Domestic end users. It records inventory at the lower of cost and net realisable value, carrying a large amount of inventories in order to meet customer needs on demand. The Group offers a wide range of non-perishable products that are manufactured and subsequently stored in large quantities at various locations, and therefore carries a high level of inventories at any given point. A risk exists that the sales prices of inventories, particularly those which are aged or in excess of specific customer requirements, may need to be discounted before they can be sold. The risk of discounting, combined with potential costs to move the inventories to a location where demand exists, may result in the inventories being sold at below cost. The Directors are responsible for making judgements surrounding the future recoverability of stock values based on the ageing and state of the stock compared to the sales potential. Given the level of judgement involved, we have also identified this as a potential fraud risk area. The carrying value of the Group's inventory is £89.2 million (2018: £84.4 million), as disclosed in Note 12 to the Financial Statements, and this is noted as an area considered by the Audit Committee in its report on page 54.
How the scope of our audit responded to the key audit matter	We have: • obtained an understanding of the relevant controls relating to management's processes to record inventory provisions; • tested the relevant controls relating to the stock database; • attended inventory counts at key locations and considered any signs of damage / obsolescence which would indicate or requirement for a provision; • used data analytics to compare product lines' recoverable value to its cost value; and • assessed the adequacy of provisions recorded, including where relevant the impact of Brexit uncertainties on the market and therefore potential sales prices to be achieved.
Key observations	Based on our procedures the results of our testing were satisfactory. We concur with the basis of valuation of inventory and are satisfied that the level of inventory provisions is appropriate.

5.2. Revisions to provisional fair value adjustments on the Edenhall Group acquisition !

Key audit matter description	The Group acquired Edenhall Limited on 12 December 2018. The acquisition was accounted for in accordance with the requirements of IFRS 3 *"Business Combinations"* and this required judgement to be applied in the determination of fair value adjustments to the net assets within the acquired business. IFRS 3 allows an adjustment to be made to the fair values of the net assets acquired within the 12 months post acquisition and revisions to provisional fair values require management judgement. The primary revisions made during the hindsight period relate to legal and regulatory costs associated with health and safety remediation costs and property costs. This has been identified as a potential risk of fraud given the level of management judgement required to determine the revised fair values. As disclosed in Note 24 to the Financial Statements, revisions to provisional fair value adjustments made on the Edenhall acquisition were £6.2 million in accruals and provisions resulting in totals of £10.7 million (2018: £4.6 million). This matter is discussed by the Audit Committee on page 54.
How the scope of our audit responded to the key audit matter	We have: • obtained an understanding of relevant controls relating to management's processes; • tested the significant revisions to provisional fair value adjustments in relation to health and safety remediation costs by agreeing to third party cost estimates or actual costs incurred for similar work performed on other Marshall's sites; • agreed the value of future property costs to third party surveyor reports; • reviewed the scope, competency and independence of the specialists utilised by management to quantify future property costs to understand the work completed; and • reviewed regulatory requirements and lease agreements to ensure that the obligations to perform the remediation work exist.
Key observations	Based on our procedures we concur that the judgements made by management to revise fair values on acquisition are reasonable.

Independent Auditor's Report *continued*

to the members of Marshalls plc

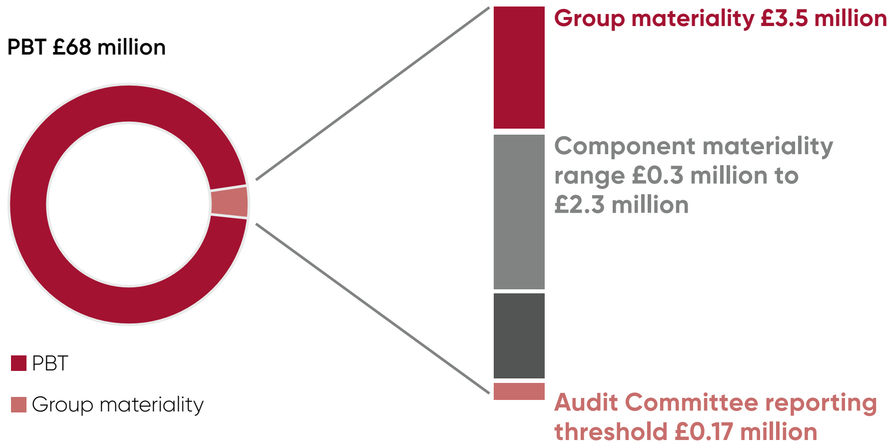
6. Our application of materiality

6.1 Materiality

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

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

	Group Financial Statements	Parent Company Financial Statements
Materiality	£3.5 million (2018: £3.1 million).	£1.4 million (2018: £1.0 million).
Basis for determining materiality	5 per cent (2018: 5 per cent) of pre-tax profit.	0.5 per cent (2018: 0.5 per cent) of net assets which has been capped at 40 per cent (2018: 40 per cent) of Group materiality.
Rationale for the benchmark applied	In our professional judgement, profit before tax is the principal benchmark within the Financial Statements that is relevant to users of the Financial Statements when assessing performance of the Group.	As a holding company, net assets are considered to be the primary benchmark.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Group performance materiality was set at 70 per cent of Group materiality for the 2019 audit (2018: 70 per cent). In determining performance materiality, we considered the following factors:

a. the quality of the control environment;

b. no history of uncorrected misstatements in prior periods; and

c. our assessment of the engagement risk.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £171,000 (2018: £147,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement both at the Group and component level.

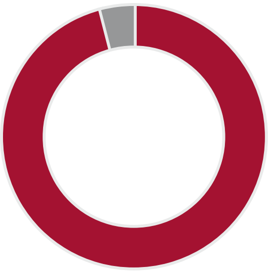
The Group and Parent Company audits are performed at the Group's head office in Elland, West Yorkshire. The Group audit team performed the entire audit of the UK components of the Group. The UK components accounted for 96 per cent (2018: 95 per cent) of Group revenue, 100 per cent (2018: 99 per cent) of Group net assets and 100 per cent (2018: 100 per cent) of Group profit before tax generated by profit making entities.

Marshalls NV accounts for the remaining revenue and net assets of the Group but are not regarded as significant components for our Group audit. At the Group level, we also tested the consolidation process. The Group audit team carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining component not subject to audit.

7. An overview of the scope of our audit *continued*

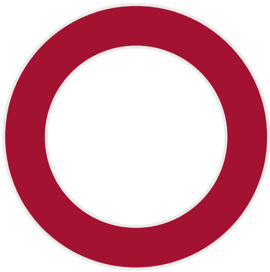
7.1. Identification and scoping of components *continued*

Revenue



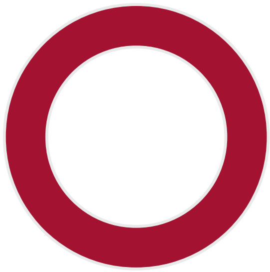
Full audit scope	96%
Review at Group level	4%

Profit before tax generated by profit making entities



Full audit scope	100%
Review at Group level	0%

Net assets



Full audit scope	100%
Review at Group level	0%

7.2. Our consideration of the control environment

IT systems

To support the audit testing performed we have involved our IT specialists to consider the relevant IT systems used by the Group to generate information which supports the amount recognised in the Financial Statements. In order to evaluate the IT environment of the Group we have obtained an understanding of relevant IT systems and the automated controls within these systems.

In evaluating the IT environment, we have:

- tested the IT systems within the main finance IT system. This is used for the entity's financial reporting process and houses all finance, payroll and HR modules. We have also tested the data warehouse system which houses the stock database;
- tested general IT controls for each of these systems: Access Security (joiners, movers, leavers ("JML"), passwords, privileged access and user access reviews ("UARs")), change management (change process and segregation of duties) and batch jobs (access to amend, and monitoring of batch jobs);
- performed sample testing, where applicable, in order to determine operating effectiveness (JML, UARs, change management and batch job monitoring); and
- taken reliance on all IT controls associated with these systems.

Controls reliance

In addition to our substantive testing performance during our audit we obtained an understanding of the relevant controls on key business cycles. In the current year we have taken controls reliance over the revenue and customer rebates business cycles as these are key accounts that impact the Group profit. We have obtained an understanding of the relevant controls in relation to revenue and customer rebates then tested these relevant controls.

8. Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our Auditor's Report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Independent Auditor's Report *continued*

to the members of Marshalls plc

8. Other information *continued*

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable –** the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting –** the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' Statement of compliance with the UK Corporate Governance Code –** the parts of the Directors' Statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations, are set out below.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks and irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.

The matters were discussed among the engagement team and involving relevant internal specialists, including tax, pensions, IT, regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of the inventory provision and revisions to provisional fair value adjustments on the Edenhall Group acquisition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

As a result of performing the above, we identified the valuation of inventory provision and revisions to provisional fair value adjustments on the Edenhall acquisition as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to those key audit matters.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud *continued*

11.1. Identifying and assessing potential risks related to irregularities *continued*

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

1. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

2. Matters on which we are required to report by exception

2.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

2.2. Directors' remuneration

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

We have nothing to report in respect of these matters.

3. Other matters

3.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Audit Committee on 20 May 2015 to audit the Financial Statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 December 2015 to 31 December 2019.

3.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

4. Use of our report

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

Christopher Robertson (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom
12 March 2020

Consolidated Income Statement

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Revenue	2	**541,832**	490,988
Net operating costs	3	**(468,151)**	(426,154)
Operating profit	2	**73,681**	64,834
Financial expenses	5	**(3,835)**	(1,904)
Financial income	5	**7**	5
Profit before tax	2	**69,853**	62,935
Income tax expense	6	**(11,942)**	(11,307)
Profit for the financial year		**57,911**	51,628
Profit for the year			
Attributable to:			
Equity shareholders of the Parent		**58,240**	51,958
Non-controlling interests		**(329)**	(330)
		57,911	51,628
Earnings per share			
Basic	7	**29.36**	26.29p
Diluted	7	**29.14**	26.08p
Dividend			
Pence per share	8	**16.70p**	14.80p
Dividends declared	8	**33,113**	29,250

All results relate to continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Profit for the financial year		**57,911**	51,628
Other comprehensive income / (expense)			
Items that will not be reclassified to the Income Statement:			
Remeasurements of the net defined benefit asset	19	**2,847**	9,985
Deferred tax arising	21	**(484)**	(1,698)
Total items that will not be reclassified to the Income Statement		**2,363**	8,287
Items that are or may in the future be reclassified to the Income Statement:			
Effective portion of changes in fair value of cash flow hedges		**231**	528
Fair value of cash flow hedges transferred to the Income Statement		**113**	(668)
Deferred tax arising	21	**(58)**	27
Exchange difference on retranslation of foreign currency net investment		**992**	(208)
Exchange movements associated with borrowings designated as a hedge against net investment		**(869)**	199
Foreign currency translation differences – non-controlling interests		**(42)**	(35)
Total items that are or may be reclassified subsequently to the Income Statement		**367**	(157)
Other comprehensive income for the year, net of income tax		**2,730**	8,130
Total comprehensive income for the year		**60,641**	59,758
Attributable to:			
Equity shareholders of the Parent		**61,012**	60,123
Non-controlling interests	23	**(371)**	(365)
		60,641	59,758

Consolidated Balance Sheet
at 31 December 2019

	Notes	2019 £'000	2018* £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**195,554**	192,061
Right-of-use assets	10	**40,014**	–
Intangible assets	11	**95,799**	95,802
Employee benefits	19	**15,721**	13,516
Deferred taxation assets	21	**2,947**	1,406
		350,035	302,785
Current assets			
Inventories	12	**89,238**	84,361
Trade and other receivables	13	**69,418**	80,430
Cash and cash equivalents	14	**53,258**	45,709
Derivative financial instruments	18	**620**	276
		212,534	210,776
Total assets		**562,569**	513,561
Liabilities			
Current liabilities			
Trade and other payables	15	**121,379**	128,533
Corporation tax		**11,234**	9,683
Short-term lease liabilities	17	**9,736**	–
Interest-bearing loans and borrowings	16	**20,000**	2,974
		162,349	141,190
Non-current liabilities			
Long-term lease liabilities	17	**32,224**	–
Interest-bearing loans and borrowings	16	**51,274**	80,168
Provisions	20	**2,649**	7,935
Deferred taxation liabilities	21	**18,307**	17,553
		104,454	105,656
Total liabilities		**266,803**	246,846
Net assets		**295,766**	266,715
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital	22	**50,013**	49,998
Share premium account		**24,482**	24,326
Own shares		**(1,391)**	(888)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**559**	273
Retained earnings		**359,053**	329,585
Equity attributable to equity shareholders of the Parent		**295,043**	265,621
Non-controlling interests	23	**723**	1,094
Total equity		**295,766**	266,715

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 24).

Approved at a Directors' meeting on 12 March 2020.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 104 to 138 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit for the financial year		**57,911**	51,628
Income tax expense	6	**11,942**	11,307
Profit before tax		**69,853**	62,935
Adjustments for:			
Depreciation	9, 10	**27,771**	14,199
Amortisation	11	**2,423**	1,759
Gain on sale of property, plant and equipment	3	**(306)**	(738)
Equity settled share-based payments		**3,024**	1,434
Financial income and expenses (net)		**3,828**	1,899
Operating cash flow before changes in working capital		**106,593**	81,488
Decrease / (increase) in trade and other receivables		**10,645**	(6,927)
Increase in inventories		**(5,262)**	(4,314)
(Decrease) / increase in trade and other payables		**(10,151)**	6,009
Operational restructuring costs paid	3	**(1,109)**	(1,244)
Acquisition costs paid		**(375)**	(594)
Cash generated from operations		**100,341**	74,418
Financial expenses paid		**(3,193)**	(1,308)
Income tax paid		**(9,023)**	(9,855)
Net cash flow from operating activities		**88,125**	63,255
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**523**	1,637
Financial income received		**7**	5
Acquisition of subsidiary undertaking	24	**–**	(11,726)
Acquisition of property, plant and equipment		**(20,488)**	(27,296)
Acquisition of intangible assets		**(2,420)**	(1,995)
Net cash flow from investing activities		**(22,378)**	(39,375)
Cash flows from financing activities			
Proceeds from issue of share capital		**225**	1,784
Payments to acquire own shares		**(1,470)**	(1,210)
Payment in respect of share-based payment awards		**–**	(3,683)
Repayment of borrowings following acquisition of subsidiaries		**–**	(4,742)
(Decrease) / increase in borrowings		**(10,927)**	39,101
Cash payment for the principal portion of lease liabilities		**(12,723)**	(101)
Equity dividends paid		**(33,203)**	(29,250)
Net cash flow from financing activities		**(58,098)**	1,899
Net increase in cash and cash equivalents		**7,649**	25,779
Cash and cash equivalents at the beginning of the year		**45,709**	19,845
Effect of exchange rate fluctuations		**(100)**	85
Cash and cash equivalents at the end of the year		**53,258**	45,709

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Attributable to equity holders of the Company									
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Current year										
At 1 January 2019	**49,998**	**24,326**	**(888)**	**75,394**	**(213,067)**	**273**	**329,585**	**265,621**	**1,094**	**266,715**
Effect of initial application of IFRS 16 (Note 1)	**–**	**–**	**–**	**–**	**–**	**–**	**(1,842)**	**(1,842)**	**–**	**(1,842)**
At 1 January 2019 – as restated	**49,998**	**24,326**	**(888)**	**75,394**	**(213,067)**	**273**	**327,743**	**263,779**	**1,094**	**264,873**
Total comprehensive income for the year										
Profit for the financial year attributable to equity shareholders of the Parent	**–**	**–**	**–**	**–**	**–**	**–**	**58,240**	**58,240**	**(329)**	**57,911**
Other comprehensive income / (expense)										
Foreign currency translation differences	**–**	**–**	**–**	**–**	**–**	**–**	**123**	**123**	**(42)**	**81**
Effective portion of changes in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**–**	**231**	**–**	**231**	**–**	**231**
Net change in fair value of cash flow hedges transferred to the Income Statement	**–**	**–**	**–**	**–**	**–**	**113**	**–**	**113**	**–**	**113**
Deferred tax arising	**–**	**–**	**–**	**–**	**–**	**(58)**	**–**	**(58)**	**–**	**(58)**
Defined benefit plan actuarial gain	**–**	**–**	**–**	**–**	**–**	**–**	**2,847**	**2,847**	**–**	**2,847**
Deferred tax arising	**–**	**–**	**–**	**–**	**–**	**–**	**(484)**	**(484)**	**–**	**(484)**
Total other comprehensive income	**–**	**–**	**–**	**–**	**–**	**286**	**2,486**	**2,772**	**(42)**	**2,730**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**286**	**60,726**	**61,012**	**(371)**	**60,641**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**3,024**	**3,024**	**–**	**3,024**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**1,219**	**1,219**	**–**	**1,219**
Corporation tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**457**	**457**	**–**	**457**
Dividends to equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(33,203)**	**(33,203)**	**–**	**(33,203)**
Shares issued	**15**	**156**	**54**	**–**	**–**	**–**	**–**	**225**	**–**	**225**
Purchase of own shares	**–**	**–**	**(1,470)**	**–**	**–**	**–**	**–**	**(1,470)**	**–**	**(1,470)**
Disposal of own shares	**–**	**–**	**913**	**–**	**–**	**–**	**(913)**	**–**	**–**	**–**
Total contributions by and distributions to owners	**15**	**156**	**(503)**	**–**	**–**	**–**	**(29,416)**	**(29,748)**	**–**	**(29,748)**
Total transactions with owners of the Company	**15**	**156**	**(503)**	**–**	**–**	**286**	**31,310**	**31,264**	**(371)**	**30,893**
At 31 December 2019	**50,013**	**24,482**	**(1,391)**	**75,394**	**(213,067)**	**559**	**359,053**	**295,043**	**723**	**295,766**

	Attributable to equity holders of the Company									
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Prior year										
At 1 January 2018	49,845	22,695	(2,359)	75,394	(213,067)	386	303,274	236,168	1,459	237,627
Total comprehensive income for the year										
Profit for the financial year attributable to equity shareholders of the Parent	–	–	–	–	–	–	51,958	51,958	(330)	51,628
Other comprehensive income / (expense)										
Foreign currency translation differences	–	–	–	–	–	–	(9)	(9)	(35)	(44)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	528	–	528	–	528
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	(668)	–	(668)	–	(668)
Deferred tax arising	–	–	–	–	–	27	–	27	–	27
Defined benefit plan actuarial gain	–	–	–	–	–	–	9,985	9,985	–	9,985
Deferred tax arising	–	–	–	–	–	–	(1,698)	(1,698)	–	(1,698)
Total other comprehensive income	–	–	–	–	–	(113)	8,278	8,165	(35)	8,130
Total comprehensive income for the year	–	–	–	–	–	(113)	60,236	60,123	(365)	59,758
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	–	–	–	–	–	–	(2,249)	(2,249)	–	(2,249)
Deferred tax on share-based payments	–	–	–	–	–	–	(171)	(171)	–	(171)
Corporation tax on share-based payments	–	–	–	–	–	–	426	426	–	426
Dividends to equity shareholders	–	–	–	–	–	–	(29,250)	(29,250)	–	(29,250)
Shares issued	153	1,631	–	–	–	–	–	1,784	–	1,784
Purchase of own shares	–	–	(1,210)	–	–	–	–	(1,210)	–	(1,210)
Disposal of own shares	–	–	2,681	–	–	–	(2,681)	–	–	–
Total contributions by and distributions to owners	153	1,631	1,471	–	–	–	(33,925)	(30,670)	–	(30,670)
Total transactions with owners of the Company	153	1,631	1,471	–	–	(113)	26,311	29,453	(365)	29,088
At 31 December 2018	49,998	24,326	(888)	75,394	(213,067)	273	329,585	265,621	1,094	266,715

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshalls plc (the "Company") is a public company limited by shares, incorporated in the United Kingdom under the Companies Act, and is registered in England and Wales. The Consolidated Financial Statements of the Company for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 12 March 2020.

The Company's registered address is Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT.

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

The Consolidated Financial Statements have been prepared in accordance with IFRSs as adopted for use in the EU and therefore the Group Financial Statements comply with Article 4 of the EU IAS Regulations. The Group has applied all accounting standards and interpretations issued by the IASB and International Financial Reporting Committee relevant to its operations and which are effective in respect of these Financial Statements.

Adoption of new standards in 2019

The Group has applied IFRS 16 *"Leases"* with effect from 1 January 2019. The impact of adoption is set out below.

Other than in respect of IFRS 16, the accounting policies have been applied consistently throughout the Group for the purpose of the Consolidated Financial Statements. The accounting policies are set out on the Company's website.

IFRS 16 "Leases"

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as for the impact of lease modifications, amongst others. The classification of cash flows is affected because operating lease payments under IAS 17 are presented as operating cash flows, whereas, under the IFRS 16 model, the lease payments are split into a principal and an interest portion which are presented as financing and operating cash flows respectively. Depreciation of the right-of-use asset is recognised in the Income Statement on a straight line basis, with interest recognised on the lease liability.

In adopting IFRS 16 from 1 January 2019, the Group has applied the modified retrospective transition approach and not restated comparative amounts for the year ended 31 December 2018. Right-of-use assets of £45,022,000 and lease liabilities of £46,520,000 were recognised as at 1 January 2019. For certain leases the Group has elected to measure the right-of-use asset as if IFRS 16 had been applied since the start of the lease, but using the incremental borrowing rate at 1 January 2019, with the difference between the right-of-use asset and the lease liability taken to retained earnings. In other cases, the Group has elected to measure right-of-use assets at the amount of the lease liability on adoption (adjusted for any lease prepayments or accrued lease expenses, onerous lease provisions and leased assets which have subsequently been sub-leased). The Group has elected to adopt the following practical expedients on transition:

- where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than undertaking an impairments review;
- to use hindsight in determining the lease term;
- to exclude initial direct costs from the measurement of the right-of-use asset; and
- to apply the portfolio approach where a group of leases has similar characteristics.

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

Short-term leases, with a duration of less than 12 months, have been accounted for in accordance with the recognition exemption in IFRS 16 and hence related payments are expensed as incurred. The Group also made use of the option to apply the recognition exemption for low value assets (with a value of less than the equivalent of $5,000), which means that related payments have been expensed as incurred. Expenses for short-term and low value assets amounted to £555,000 in the year ended 31 December 2019.

1 Accounting policies *continued*

Significant accounting policies *continued*

Adoption of new standards in 2019 *continued*

IFRS 16 "Leases" continued

Financial impact of IFRS 16

(a) Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	1 January 2019 £'000
Right-of-use assets	45,022
Lease liabilities	(46,520)
Retained earnings	1,842
Deferred tax	415
Reclassification of prepayments and accruals	(3)
Reclassification of finance lease assets	(1,697)
Reclassification of finance lease liabilities	941
	–

Included in the transition values for right-of-use assets and lease liabilities are £1,697,000 and £941,000 respectively in relation to previously recognised finance leases under IAS 17. The net asset value in respect of these items was £756,000.

Of the total right-of-use assets of £46,719,000 recognised at 1 January 2019, £20,910,000 related to leases of property and £25,809,000 to leases of plant and machinery.

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019.

	£'000
Operating lease commitments disclosed under IAS 17 at 31 December 2018	66,508
Exclusion of service / maintenance elements of a contract from the lease liability	(8,934)
Effect of discounting	(11,995)
Finance lease liabilities recognised under IAS 17 at 31 December 2018	941
Lease liabilities recognised at 1 January 2019	46,520

The lease liabilities were discounted at the incremental borrowing rate at 1 January 2019. The weighted average discount rate applied was 2.9 per cent. The incremental borrowing rate is calculated as the rate of interest which the Group would have been able to borrow for a similar term with a similar security of funds necessary to obtain a similar asset in a similar market.

(b) Impact for the period

In terms of the Income Statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the year ended 31 December 2019, in relation to leases under IFRS 16, the Group recognised the following amounts in the Consolidated Income Statement.

	£'000
Depreciation	12,868
Interest expense	1,342
Other lease payments including short-term and low value lease expenses	555
	14,765

The reconciliation of the Income Statement is as follows:

	Pre-IFRS 16 December 2019 £'000	**Impact of IFRS 16 £'000**	**As reported December 2019 £'000**	December 2018 £'000
Revenue	**541,832**	**–**	**541,832**	490,988
Net operating costs	**(469,252)**	**1,101**	**(468,151)**	(426,154)
Operating profit	**72,580**	**1,101**	**73,681**	64,834
Finance charges (net)	**(2,486)**	**(1,342)**	**(3,828)**	(1,899)
Profit before tax	**70,094**	**(241)**	**69,853**	62,935
Income tax	**(11,942)**	**–**	**(11,942)**	(11,307)
Profit after tax	**58,152**	**(241)**	**57,911**	51,628

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

Adoption of new standards in 2019 *continued*

IFRS 16 "Leases" continued

Financial impact of IFRS 16

(c) Impact on the Cash Flow Statement

Under IFRS 16 the cash payments for leasing are presented within financing activities and amount to £12,723,000 in the Consolidated Cash Flow Statement. Under IAS 17 operating lease payments were presented as operating cash outflows. The impact on the Consolidated Cash Flow Statement for the year ended 31 December 2019 has been to increase net cash flow from operating activities to £88,125,000. On a pre-IFRS 16 basis net cash flows from operating activities would have been £75,712,000 (2018: £63,255,000).

(d) Impact on the Balance Sheet

	Notes	Pre-IFRS 16 December 2019 £'000	Impact of IFRS 16 £'000	As reported December 2019 £'000	December 2018 £'000
Property, plant and equipment	9	196,989	(1,435)	195,554	192,061
Right-of-use assets	10	–	40,014	40,014	–
Deferred taxation assets	21	2,550	397	2,947	1,406
Net impact on total assets		199,539	38,976	238,515	193,467
Interest-bearing loans and borrowings	16	71,912	(638)	71,274	83,142
Lease liabilities	17	–	41,960	41,960	–
Deferred taxation liabilities	21	18,307	–	18,307	17,553
Net impact on total liabilities		90,219	41,322	131,541	100,695
Impact on retained earnings		361,137	(2,084)	359,053	329,585
Impact on net assets		297,850	(2,084)	295,766	266,715

(e) Impact on financial metrics

	Pre-IFRS 16 December 2019	Impact of IFRS 16	As reported December 2019	December 2018
Profit before tax (£'000)	70,094	(241)	69,853	62,935
EBITDA (£'000)	90,115	13,760	103,875	80,792
EPS (pence)	29.48	(0.12)	29.36	26.29
Net debt (£'000)	18,654	41,322	59,976	37,433
ROCE (%)	23.7	(2.3)	21.4	21.9
Net debt:EBITDA	0.2	0.4	0.6	0.5
Gearing (%)	6.3	14.0	20.3	14.0

The following other standards, interpretations and amendments to existing standards became effective on 1 January 2019 and have not had a material impact on the Group:

- IFRC 23 *"Uncertainty over Income Tax Treatments"*, effect from 1 January 2019;
- Amendments to IFRS 9 *"Prepayment Features with Negative Compensation"*, effective from 1 January 2019;
- Amendments to IAS 28 *"Long-term Interests in Associates and Joint Ventures"*, effective from 1 January 2019;
- Amendments to IAS 19 *"Plan Amendment, Curtailment or Settlement"*, effective from 1 January 2019; and
- *Annual Improvements to IFRS Standards 2015-2017 Cycle*, effective from 1 January 2019.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning 1 January 2019 and are not expected to have a material impact on the Group.

- Amendments to IFRS 3: *"Definition of a Business"*, effective from 1 January 2020 (not yet endorsed by the EU);
- Amendments to References to the Conceptual Framework in IFRS Standards, effective from 1 January 2020 (not yet endorsed by the EU);
- Amendments to IAS 1 and IAS 8 *"Definition of Material"*, effective from 1 January 2020 (not yet endorsed by the EU);
- IFRS 17 *"Insurance Contracts"*, effective from 1 January 2021;
- Amendments to IFRS 10 and IAS 28 *"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"*, effective date deferred indefinitely;
- Annual Improvements to IFRS Standards 2018 – 2020 cycle (not yet endorsed by the EU); and
- "*Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7)*", effective from 1 January 2020.

Other than in respect of IFRS 16 *"Leases"*, the Directors do not expect that the adoption of the standards listed above will have a material impact on the Financial Statements of the Group in future periods.

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 FRS 101 and these are presented on pages 139 to 146.

(b) Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 2 to 41. 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 18 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 16 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 6 August 2019. In the opinion of the Directors there are sufficient unutilised facilities held which mature after 12 months. The Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. Based on current expectations, the Group's cash forecasts continue to meet half year and year-end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

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

The accounting policies have been applied consistently throughout the Group for the purposes of these Consolidated Financial Statements and are also set out on the Company's website (www.marshalls.co.uk/investor/financial-performance).

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

The preparation of Financial Statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These are set out in Note 30 on page 138. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries (which are set out in detail in Note 34 on pages 143 and 144) are entities controlled by the Company. Control is achieved when the Company:

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to 1 or more of the 3 elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

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

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

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(c) Basis of consolidation *continued*

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

(iii) Transactions eliminated on consolidation
Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

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

(d) Foreign currency transactions

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

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used.

(e) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, fuel pricing and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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

Classification and measurement
The classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are 3 principal classification categories for financial assets that are debt instruments: (i) amortised cost; (ii) fair value through other comprehensive income ("FVTOCI"); and (iii) fair value through profit or loss ("FVTPL"). Equity investments in scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income. Under IFRS 9, derivatives embedded in financial assets are not bifurcated but instead the whole hybrid contract is assessed for classification.

Under IFRS 9, financial assets can be designated as at FVTPL to mitigate an accounting mismatch.

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

The change in the classification and measurement of listed redeemable notes has not had a material impact on the Group Financial Statements.

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

The IFRS 9 impairment model has been applied to the Group's financial assets that are debt instruments measured at amortised cost or FVTOCI as well as the Group's finance lease receivables, contract assets and issued financial guarantee contracts.

The Group has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables, finance lease receivables and contracts assets as required or permitted by IFRS 9. The loss allowance for these assets as at 1 January 2019 was not significantly different to that under IAS 39.

1 Accounting policies *continued*

Significant accounting policies *continued*

(f) Hedging

The Group has elected to apply the IFRS 9 hedge accounting requirements because they align more closely with the Group's risk management policies. An assessment of the Group's hedging relationships under IAS 39 was performed and it was determined that the relationships will qualify as continuing hedging relationships under IFRS 9.

(i) Cash flow hedges

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

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, it no longer meets the criteria for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Consolidated Income Statement and cash flow hedge accounting is discontinued prospectively.

(ii) Economic hedges

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

(g) Property, plant and equipment

(i) Owned assets

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(g) Property, plant and equipment *continued*

(iii) Depreciation *continued*

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

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

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

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

(h) Intangible assets

(i) Goodwill

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

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

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

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

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

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

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

In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired. The classification and accounting treatment relating to the acquisition of Edenhall Holdings Limited on 11 December 2018 was adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2019. Further details of this business combination are included in Note 24.

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

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

In respect of acquisitions where there is a contingent consideration element, an accrual is created for the estimated amount payable if it is probable that an outflow of economic benefits will be required to settle the obligation and this can be measured reliably.

(ii) Research and development

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

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

1 Accounting policies *continued*

Significant accounting policies *continued*

(h) Intangible assets *continued*

(iii) Other intangible assets

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

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

(i) Trade and other receivables

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

(j) Inventories

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

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

(k) Cash and cash equivalents

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

(l) Assets classified as held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within 1 year from the date of classification, and the asset is available for immediate sale in its present condition.

(m) Impairment

(i) Impairment review

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

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

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

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash generating unit is the group of assets identified on acquisition that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

(ii) Reversals of impairments

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

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

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(n) Share capital

(i) Share capital

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

(ii) Dividends

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

(o) Interest-bearing borrowings

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

(p) Pension schemes

(i) Defined benefit schemes

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

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

When the benefits of the scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement in the period of the scheme amendment.

Actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan are recognised immediately within the Consolidated Statement of Comprehensive Income.

(ii) Defined contribution schemes

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

(q) Share-based payment transactions

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

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

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

(r) Own shares held by the Employee Benefit Trust

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

(s) Provisions

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

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

(t) Trade and other payables

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

(u) Revenue

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

1 Accounting policies *continued*

Significant accounting policies *continued*

(u) Revenue *continued*

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

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

(v) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Financial expenses

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

(w) Income tax

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

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

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

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

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

(x) Segment reporting

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

(y) Alternative performance measures

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

Like-for-like revenue growth

Management uses like-for-like revenue growth as it provides a consistent measure of the percentage increase / decrease in revenue year on year, excluding the effect of acquisitions.

	2019 £'000	2018 £'000	Increase %
Reported revenue	**541,832**	490,988	10%
Edenhall post-acquisition revenue	**(35,489)**	(675)	
Like-for-like revenue	**506,343**	490,313	3%

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(y) Alternative performance measures *continued*

EBITA and EBITDA

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

	As reported 2019 £'000	Pre-IFRS 16 2019 £'000	Pre-IFRS 16 2018 £'000	Increase %
EBITDA	103,875	90,115	80,792	29%
Depreciation	(27,771)	(15,112)*	(14,199)	
EBITA	76,104	75,003	66,593	
Amortisation of intangible assets	(2,423)	(2,423)	(1,759)	
Operating profit	73,681	72,580	64,834	14%

* Pre-IFRS 16 depreciation of £15,112,000 comprises depreciation of £14,903,000 in respect of tangible fixed assets (Note 3) and £209,000 relating to assets previously classified as finance leases but now reclassified as right-of-use assets.

ROCE

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

	As reported 2019 £'000	Pre-IFRS 16 2019 £'000	Pre-IFRS 16 2018 £'000
EBITA	76,104	75,003	66,593
Shareholders' funds	295,766	297,850	266,715
Net debt	59,976	18,654	37,433
	355,742	316,504	304,148
Reported ROCE	21.4%	23.7%	21.9%

ROCE on a like-for-like basis (excluding the impact of acquisitions) includes adjustments to report the calculation on a basis that eliminates the impact of the acquisition of Edenhall in 2018. This ensures comparability with the prior year period.

	2019 £'000	2018 £'000
Reported EBITA	76,104	66,593
Post-acquisition EBIT	–	(21)
Amortisation of intangible assets in year of acquisition	–	17
Acquisition costs	–	375
Adjusted EBITA	76,104	66,964
Shareholders' funds	295,766	266,715
Net debt	59,976	37,433
	355,742	304,148
Impact on net debt arising from the acquisitions in the year	–	(16,468)
As adjusted	355,742	287,680
ROCE on a like-for-like basis (excluding the impact of acquisitions)	21.4%	23.3%

Net debt

Net debt comprises cash at bank and in hand, bank loans and leasing liabilities. An analysis of net debt is provided in Note 25.

IFRS 16 transition

The financial impact of the transition to IFRS 16 is set out on pages 104 to 106. Disclosures required under IFRS are referred to as either on a post-IFRS 16 basis or on a reported basis. Disclosures referred to on a pre-IFRS 16 basis are restated to those that applied before the adoption of IFRS 16 and are used throughout this Annual Report to show a like-for-like comparison with prior year periods.

1 Accounting policies *continued*

Significant accounting policies *continued*

(y) Alternative performance measures *continued*

The ratio of operating cash flow to EBITDA

The ration of operating cash flow to EBITDA is calculated on a pre-IFRS 16 basis as set out below:

	Pre-IFRS 2019 £'000	2018 £'000
Net cash flows from operating activities	75,712	63,255
Net financial expenses paid	1,851	1,308
Taxation paid	9,023	9,855
Operating cash flow	86,586	74,418
EBITDA	90,115	80,792
Ratio of operating cash flow to EBITDA	96.1%	92.1%

2 Segmental analysis

Segment revenues and results

	2019			2018		
	Landscape Products £'000	Other £'000	Total £'000	Landscape Products £'000	Other £'000	Total £'000
Total revenue	413,484	132,453	545,937	398,128	96,943	495,071
Inter-segment revenue	(362)	(3,743)	(4,105)	(228)	(3,855)	(4,083)
External revenue	413,122	128,710	541,832	397,900	93,088	490,988
Segment operating profit	71,663	6,719	78,382	68,418	2,095	70,513
Unallocated administration costs			(4,701)			(5,679)
Operating profit			73,681			64,834
Finance charges (net)			(3,828)			(1,899)
Profit before tax			69,853			62,935
Taxation			(11,942)			(11,307)
Profit after tax			57,911			51,628

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

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

Included in "Other" are the Group's Landscape Protection, Mineral Products, Edenhall, Premier Mortars and International operations, which do not currently meet the IFRS 8 reporting requirements.

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

Segment assets

	2019 £'000	2018* £'000
Fixed assets, right-of-use assets and inventory:		
Landscape Products	232,539	201,489
Other	92,267	74,933
Total segment fixed assets, right-of-use assets and inventory	324,806	276,422
Unallocated assets	237,763	237,139
Consolidated total assets	562,569	513,561

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 24).

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

Notes to the Consolidated Financial Statements *continued*

2 Segmental analysis *continued*

Other segment information

	Depreciation and amortisation		Fixed asset and right-of-use asset additions	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Landscape Products	**21,603**	13,251	**24,550**	21,060
Other	**8,591**	2,707	**5,027**	6,256
	30,194	15,958	**29,577**	27,316

Geographical destination of revenue

	2019 £'000	2018 £'000
United Kingdom	**514,905**	467,032
Rest of the world	**26,927**	23,956
	541,832	490,988

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

3 Net operating costs

	2019 £'000	2018 £'000
Raw materials and consumables	**198,124**	172,175
Changes in inventories of finished goods and work in progress	**847**	6,267
Personnel costs (Note 4)	**128,221**	116,588
Depreciation of property, plant and equipment	**14,903**	14,199
Depreciation of right-of-use assets	**12,868**	–
Amortisation of intangible assets	**2,423**	1,759
Own work capitalised	**(4,216)**	(3,340)
Other operating costs	**116,135**	120,187
Operational restructuring costs	**1,396**	1,244
Acquisition costs	**–**	375
Operating costs	**470,701**	429,454
Other operating income	**(2,244)**	(2,562)
Net gain on asset and property disposals	**(306)**	(738)*
Net operating costs	**468,151**	426,154

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

In the prior year, operating costs were expensed in accordance with the requirements of IAS 17. For the period ended 31 December 2019, leasing expenses for short-term leases as well as leases of low value assets remain within leasing costs, because the Group has applied the recognition exemption for those contracts provided by IFRS 16. Right-of-use assets are depreciated over the lease term.

	2019 £'000	2018 £'000
Net operating costs include:		
Auditor's remuneration (see below)	**248**	247
Short-term and low value lease costs	**555**	–
Operating leasing costs	**–**	12,522
Hire of plant and machinery	**3,214**	4,838
Research and development costs	**5,535**	4,927

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

	2019 £'000	2018 £'000
Audit of Financial Statements of Marshalls plc	**30**	30
Audit of Financial Statements of subsidiaries of the Company	**198**	173
Half yearly review of Marshalls plc	**20**	20
Other assurance services	**–**	24
	248	247

4 Personnel costs

	2019 £'000	2018 £'000
Personnel costs (including amounts charged in the year in relation to Directors):		
Wages and salaries	**104,338**	97,417
Social security costs	**12,367**	10,341
Share-based payments	**3,024**	1,789
Contributions to defined contribution pension scheme	**8,492**	7,041
Included within net operating costs (Note 3)	**128,221**	116,588
Personnel costs relating to restructuring (Note 3)	**1,076**	634
Total personnel costs	**129,297**	117,222

	2019 £'000	2018 £'000
Remuneration of Directors:		
Salary	**762**	737
Other benefits	**46**	45
MIP Element A bonus	**1,341**	823
MIP Element B bonus	**379**	362
Amounts receivable under the MIP at the end of the first cycle	**975**	505
Salary supplement in lieu of pension	**152**	147
Non-Executive Directors' fees and fixed allowances	**360**	320
	4,015	2,939

The aggregate of emoluments and amounts receivable under the MIP of the highest paid Director was £2,213,000 (2018: £1,602,000), including a salary supplement in lieu of pension of £92,000 (2018: £89,000).

There are no Directors to whom retirement benefits are accruing in respect of qualifying services. As set out in the Annual Remuneration Report on page 84, the Executive Directors receive a salary supplement in lieu of pension equal to their contractual entitlement of 20 per cent of basic salary.

Further details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed in the Remuneration Committee Report on pages 55 to 86.

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

	2019 Number	2018 Number
Continuing operations	**2,816**	2,640

5 Financial expenses and income

	2019 £'000	2018 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	**542**	496
Interest expense on bank loans, overdrafts and loan notes	**1,951**	1,403
Interest expense on lease liabilities	**1,342**	5
	3,835	1,904
(b) Financial income		
Interest receivable and similar income	**7**	5

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

Notes to the Consolidated Financial Statements *continued*

6 Income tax expense

	2019 £'000	2018 £'000
Current tax expense		
Current year	**13,214**	11,269
Adjustments for prior years	**(1,577)**	(934)
	11,637	10,335
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**556**	921
Adjustments for prior years	**(251)**	51
Total tax expense	**11,942**	11,307

	2019 %	2019 £'000	2018 %	2018 £'000
Reconciliation of effective tax rate				
Profit before tax	**100.0**	**69,853**	100.0	62,935
Tax using domestic corporation tax rate	**19.0**	**13,272**	19.0	11,957
Impact of capital allowances in excess of depreciation	**(0.7)**	**(523)**	(0.6)	(402)
Short-term timing differences	**0.6**	**386**	0.9	595
Adjustment to tax charge in prior year	**(2.3)**	**(1,577)**	(1.5)	(934)
Expenses not deductible for tax purposes	**0.1**	**79**	(1.4)	(881)
Corporation tax charge for the year	**16.7**	**11,637**	16.4	10,335
Impact of capital allowances in excess of depreciation	**0.9**	**648**	(0.2)	(130)
Short-term timing differences	**–**	**–**	1.8	1,139
Pension scheme movements	**(0.2)**	**(109)**	(0.2)	(101)
Other items	**0.4**	**261**	0.5	300
Adjustment to tax charge in prior year	**(0.4)**	**(251)**	0.1	51
Impact of the change in the rate of corporation tax on deferred taxation	**(0.3)**	**(244)**	(0.4)	(287)
Total tax charge for the year	**17.1**	**11,942**	18.0	11,307

The net amount of deferred taxation debited to the Consolidated Statement of Comprehensive Income in the year was £542,000 (2018: £1,671,000).

The majority of the Group's profits are earned in the UK with the standard rate of corporation tax being 19 per cent for the year to 31 December 2019.

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

The different accounting treatment of fixed assets for tax and accounting purposes is one reason why the taxable income of the Group is not the same as its accounting profit. During the year ended 31 December 2019 the capital allowances due to the Group exceeded the depreciation charge for the year.

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

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

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

The prior year adjustment in corporation tax includes the reversal of some tax provisions made on acquisition of subsidiaries in 2017 and 2018 which are no longer required.

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

The Group's overseas operations comprise a manufacturing operation in Belgium and sales and administration offices in the USA, China and Dubai. The sales of these units, in total, were less than 5 per cent of the Group's turnover in the year ended 31 December 2019. In total, the trading profits were not material and no tax was due.

7 Earnings per share

Basic earnings per share of 29.36 pence (2018: 26.29 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £58,240,000 (2018: £51,958,000) by the weighted average number of shares in issue during the period of 198,346,723 (2018: 197,669,293).

Profit attributable to Ordinary Shareholders

	2019 £'000	2018 £'000
Profit for the financial year	**57,911**	51,628
Loss attributable to non-controlling interests	**329**	330
Profit attributable to Ordinary Shareholders	**58,240**	51,958

Weighted average number of Ordinary Shares

	2019 Number	2018 Number
Number of issued Ordinary Shares	**200,052,157**	199,419,571
Effect of shares transferred into Employee Benefit Trust	**(1,705,434)**	(1,750,278)
Weighted average number of Ordinary Shares at the end of the year	**198,346,723**	197,669,293

Diluted earnings per share of 29.14 pence (2018: 26.08 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £58,240,000 (2018: £51,958,000) by the weighted average number of shares in issue during the period of 198,346,723 (2018: 197,669,293) plus potentially dilutive shares of 1,496,678 (2018: 1,548,929), which totals 199,843,401 (2018: 199,218,222).

Weighted average number of Ordinary Shares (diluted)

	2019 Number	2018 Number
Weighted average number of Ordinary Shares	**198,346,723**	197,669,293
Potentially dilutive shares	**1,496,678**	1,548,929
Weighted average number of Ordinary Shares (diluted)	**199,843,401**	199,218,222

8 Dividends

After the balance sheet date a final dividend of 9.65 pence (2018: 8.00 pence) per qualifying Ordinary Share was proposed by the Directors. In addition a supplementary dividend of 4.00 pence (2018: 4.00 pence) per qualifying Ordinary Share was proposed by the Directors. These dividends have not been provided for and there are no income tax consequences. The total dividends proposed in respect of the year are as follows:

	Pence per qualifying share	2019 £'000	2018 £'000
2019 supplementary	**4.00**	**7,934**	
2019 final	**9.65**	**19,142**	
2019 interim	**4.70**	**9,323**	
	18.35	**36,399**	
2018 supplementary	4.00		7,930
2018 final	8.00		15,860
2018 interim	4.00		7,906
	16.00		31,696

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

	Pence per qualifying share	2019 £'000	2018 £'000
2019 interim	**4.70**	**9,323**	
2018 supplementary	**4.00**	**7,930**	
2018 final	**8.00**	**15,860**	
	16.70	**33,113**	
2018 interim	4.00		7,906
2017 supplementary	4.00		7,905
2017 final	6.80		13,439
	14.80		29,250

The Board recommends a 2019 final dividend of 9.65 pence per qualifying Ordinary Share (amounting to £19,142,000), alongside a supplementary dividend of 4.00 pence per qualifying Ordinary Share (amounting to £7,934,000), to be paid on 30 June 2020 to shareholders registered at the close of business on 5 June 2020.

Notes to the Consolidated Financial Statements *continued*

9 Property, plant and equipment

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2018	93,656	23,464	346,869	463,989
Exchange differences	124	–	88	212
Additions	7,053	3,481	14,787	25,321
Acquisition of subsidiary	3,962	–	8,139	12,101
Reclassification	(1,744)	1,744	–	–
Disposals	(313)	–	(445)	(758)
At 31 December 2018*	102,738	28,689	369,438	500,865
At 1 January 2019	**102,738**	**28,689**	**369,438**	**500,865**
Exchange differences	**(472)**	**–**	**(379)**	**(851)**
Additions	**3,326**	**390**	**17,278**	**20,994**
Reclassified as right-of-use assets	**–**	**(402)**	**(2,072)**	**(2,474)**
Disposals	**(167)**	**–**	**(2,034)**	**(2,201)**
At 31 December 2019	**105,425**	**28,677**	**382,231**	**516,333**
Depreciation and impairment losses				
At 1 January 2018	38,826	8,406	247,664	294,896
Depreciation charge for the year	1,756	228	12,215	14,199
Exchange differences	4	–	84	88
Disposals	(13)	–	(366)	(379)
At 31 December 2018	40,573	8,634	259,597	308,804
At 1 January 2019	**40,573**	**8,634**	**259,597**	**308,804**
Depreciation charge for the year	**1,927**	**349**	**12,627**	**14,903**
Exchange differences	**(15)**	**–**	**(294)**	**(309)**
Reclassified as right-of-use assets	**–**	**–**	**(777)**	**(777)**
Disposals	**(167)**	**–**	**(1,675)**	**(1,842)**
At 31 December 2019	**42,318**	**8,983**	**269,478**	**320,779**
Net book value				
At 1 January 2018	54,830	15,058	99,205	169,093
At 31 December 2018*	62,165	20,055	109,841	192,061
At 31 December 2019	**63,107**	**19,694**	**112,753**	**195,554**

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 24).

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

At 31 December 2018, the carrying amount of tangible fixed assets included £402,000 of land assets and £1,295,000 of plant and machinery held under finance leases. These have been reclassified as right-of-use assets on transition to IFRS 16. Group cost of land and buildings and plant and machinery includes £178,000 (2018: £1,926,000) and £3,385,000 (2018: £16,779,000) respectively for assets in the course of construction.

Capital commitments

	2019 £'000	2018 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**3,868**	4,635

Depreciation charge

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

	2019 £'000	2018 £'000
Net operating costs (Note 3)	**14,903**	14,199

10 Right-of-use assets

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
New leases recognised	**20,508**	**24,514**	**45,022**
Reclassification of finance lease assets	**402**	**1,295**	**1,697**
At 1 January 2019	**20,910**	**25,809**	**46,719**
Additions	**74**	**6,089**	**6,163**
At 31 December 2019	**20,984**	**31,898**	**52,882**
Depreciation and impairment losses			
At 1 January 2019	**–**	**–**	**–**
Depreciation change for the year	**2,057**	**10,811**	**12,868**
At 31 December 2019	**2,057**	**10,811**	**12,868**
Net book value			
At 1 January 2019	**20,910**	**25,809**	**46,719**
At 31 December 2019	**18,927**	**21,087**	**40,014**

Depreciation charge

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

	2019 £'000	2018 £'000
Net operating costs (Note 3)	**12,868**	–

Lease commitments

	2019 £'000	2018 £'000
Lease commitments that have been contracted for but have not yet commenced	**1,764**	–

11 Intangible assets

	Goodwill £'000	Customer relationships £'000	Supplier relationships £'000	Patents, trademarks and know-how £'000	Development costs £'000	Software £'000	Total £'000
Cost							
At 1 January 2018	67,817	8,914	1,629	1,760	159	14,360	94,639
Additions	1,419	–	–	–	–	1,995	3,414
Recognised on acquisition of subsidiary	18,190	3,897	–	–	–	–	22,087
At 31 December 2018*	87,426	12,811	1,629	1,760	159	16,355	120,140
At 1 January 2019	**87,426**	**12,811**	**1,629**	**1,760**	**159**	**16,355**	**120,140**
Additions	**–**	**–**	**–**	**–**	**–**	**2,420**	**2,420**
At 31 December 2019	**87,426**	**12,811**	**1,629**	**1,760**	**159**	**18,775**	**122,560**
Amortisation and impairment losses							
At 1 January 2018	8,912	2,331	857	1,432	109	8,938	22,579
Amortisation for the year	–	670	103	42	8	936	1,759
At 31 December 2018	8,912	3,001	960	1,474	117	9,874	24,338
At 1 January 2019	**8,912**	**3,001**	**960**	**1,474**	**117**	**9,874**	**24,338**
Amortisation for the year	**–**	**1,060**	**103**	**42**	**8**	**1,210**	**2,423**
At 31 December 2019	**8,912**	**4,061**	**1,063**	**1,516**	**125**	**11,084**	**26,761**
Carrying amounts							
At 1 January 2018	58,905	6,583	772	328	50	5,422	72,060
At 31 December 2018*	78,514	9,810	669	286	42	6,481	95,802
At 31 December 2019	**78,514**	**8,750**	**566**	**244**	**34**	**7,691**	**95,799**

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 24).

Notes to the Consolidated Financial Statements *continued*

11 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 2019 and 31 December 2018 the full amount of goodwill in the Group Balance Sheet related to the Landscape Products CGU. The goodwill arising on the acquisition of Edenhall is included within the Landscape Products CGU. These calculations use cash flow projections based on a combination of individual financial 3-year forecasts, containing assumptions for revenue growth and operational gearing, and appropriate long-term growth rates of 2.6 per cent. The long-term growth rate assumption reflects the long-term average growth rate for the UK economy. To prepare value-in-use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rate used to calculate the value in use was 7.4 per cent (2018: 8.2 per cent). The Directors have reviewed the recoverable amounts of the CGUs, and considered possible impacts from Brexit and other principal risks and uncertainties, 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 £1,438,000 (2018: £915,000) of own work capitalised.

Amortisation charge

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

	2019 £'000	2018 £'000
Net operating costs (Note 3)	**2,423**	1,759

12 Inventories

	2019 £'000	2018 £'000
Raw materials and consumables	**19,956**	15,925
Finished goods and goods for resale	**69,282**	68,436
	89,238	84,361

Inventories stated at a net realisable value less than cost at 31 December 2019 amounted to £3,465,000 (2018: £3,420,000). The write down of inventories made during the year amounted to £1,151,000 (2018: £1,024,000). There were £201,000 reversals of inventory write downs made in previous years in 2019 (2018: £nil).

13 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**48,039**	58,056
Other receivables	**12,123**	14,940
Prepayments and accrued income	**9,256**	7,434
	69,418	80,430

Included within other receivables is a reimbursement asset of £5,142,000 (2018: £9,418,000) which is held in escrow in relation to the acquisitions of CPM Group Limited and Edenhall Holdings Limited (Note 24).

Ageing of trade receivables

	2019 £'000	2018 £'000
Neither impaired nor past due	**24,484**	25,822
Not impaired but overdue by less than 30 days	**15,282**	20,952
Not impaired but overdue by between 30 and 60 days	**2,938**	4,148
Not impaired but overdue by more than 60 days	**5,335**	7,134
	48,039	58,056

There were no receivables due after more than 1 year (2018: £nil). All amounts disclosed above are considered recoverable and are disclosed net of a provision for expected credit losses of £533,000 (2018: £716,000). This provision has been determined using a lifetime expected credit loss calculation. Assumptions made regarding the recoverability of balances have been determined with reference to past default experiences in line with our policies and understanding. Balances are only written off if deemed irrecoverable after all credit control procedures have been exhausted.

14 Cash and cash equivalents

	2019 £'000	2018 £'000
Bank balances	**53,242**	45,694
Cash in hand	**16**	15
Cash and cash equivalents in the Consolidated Cash Flow Statement	**53,258**	45,709

15 Trade and other payables

	2019 £'000	2018* £'000
Current liabilities		
Trade payables	54,920	59,354
Taxation and social security	12,718	11,894
Other payables	26,692	23,868
Accruals	27,049	33,417
	121,379	128,533

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 24).

All trade payables are due in 6 months or less.

16 Loans

	2019 £'000	2018 £'000
Current liabilities		
Bank overdrafts	–	2,673
Bank loans	20,000	–
Finance lease liabilities	–	301
	20,000	2,974
Non-current liabilities		
Bank loans	51,274	79,528
Finance lease liabilities	–	640
	51,274	80,168

Bank loans

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

Finance lease liabilities

	2018		
	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	335	34	301
1 to 2 years	299	30	269
2 to 5 years	363	31	332
In more than 5 years	40	1	39
	1,037	96	941

17 Lease liabilities

	31 December 2019 £'000	1 January 2019 £'000
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	9,736	11,523
Amounts due for settlement after 12 months	32,224	34,997
	41,960	46,520

	2019		
	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	10,835	1,099	9,736
1 to 2 years	8,322	1,476	6,846
2 to 5 years	12,469	2,080	10,389
In more than 5 years	21,225	6,236	14,989
	52,851	10,891	41,960

Notes to the Consolidated Financial Statements *continued*

17 Lease liabilities *continued*

As at 31 December 2019, the total minimum lease payments (above) comprised property of £30,323,000 and plant, machinery and vehicles of £22,528,000.

Certain leased properties have been sublet by the Group. Sublease payments of £214,068 (2018: £207,779) are expected to be received during the following financial year. An amount of £229,034 (2018: £211,164) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

The Group does not face a significant liquidity risk with regard to its lease liabilities. The interest expense on lease liabilities amounted to £1,342,000 for the year ended 31 December 2019. Lease liabilities are calculated at the present value of the lease payments that are not paid at the commencement date.

For the year ended 31 December 2019, the average effective borrowing rate was 2.9 per cent. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The vast majority of lease obligations are denominated in Sterling.

18 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group's bank loans are non-equity funding instruments, further details of which are set out on pages 127 and 128.

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 2018.

Capital management

The Group defines the capital that it manages as its total equity and net debt balances. The Group manages its capital structure in light of current economic conditions and its strategic objectives to ensure that it is able to continue as a going concern whilst maximising the return to stakeholders through the optimisation of debt and equity balances.

The Group manages its medium-term bank debt to ensure continuity of funding and the policy is to arrange funding ahead of requirements and to maintain sufficient undrawn committed facilities. A key objective is to ensure compliance with the covenants set out in the Group's bank facility agreements.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's incentive schemes. Buy and sell decisions are made on a specific transaction basis by the Board.

There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2019 and 31 December 2018.

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 2 to 41. 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 pages 127 and 128.

(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.

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 £nil (2018: £nil) and is adjusted against the hedging reserve on an ongoing basis.

The period that the swaps cover is matched against the debt maturity in order to fix the impact on the Income Statement. During the year £nil (2018: £3,000) has been recognised in other comprehensive income for the year with £nil (2018: £14,000) being reclassified from equity to the Income Statement. The interest rate swaps have been fully effective in the relevant period.

With the addition of the fuel hedges (Note 18(e)) and forward contracts this gives a total of £231,000 credit (2018: £528,000 credit) recognised in other comprehensive income for the year with £113,000 credit (2018: £668,000 debit) being reclassified from equity to the Income Statement.

18 Financial instruments *continued*

Financial risks *continued*

(b) Interest rate risk *continued*

Sensitivity analysis

A change of 100 basis points in interest rates at the balance sheet date would have decreased equity and profit by the amounts shown below. The sensitivity analysis has been undertaken before the effect of tax. The sensitivity analysis of the Group's exposure to interest rate risk has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis was performed on the same basis for 2018.

	2019 £'000	2018 £'000
Increase of 100 basis points	(753)	(650)
Decrease of 100 basis points	753	650

(c) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and, where appropriate, credit insurance cover is obtained. This provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. An ageing of trade receivables is shown in Note 13 on page 122.

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 which the Group has a signed netting agreement as well as sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

(d) Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Sterling. The currencies giving rise to this risk are primarily Euros and US Dollars.

The Group's policy is to cover all significant foreign currency commitments in respect of trade receivables and trade payables by using forward foreign currency contracts. All the forward exchange contracts have maturities of less than 1 year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The Group classifies its forward exchange contracts as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £99,000 asset (2018: £30,000 liability) and is adjusted against the hedging reserve on an ongoing basis. During the year £129,000 (2018: £73,000) has been recognised in other comprehensive income for the year with £nil (2018: £nil) being reclassified from equity to the Income Statement. At 31 December 2019 all outstanding forward exchange contracts had a maturity date within 6 months.

The foreign currency profile of monetary items was:

	2019					2018				
	Sterling £'000	Euro £'000	US Dollar £'000	AED £'000	Total £'000	Sterling £'000	Euro £'000	US Dollar £'000	AED £'000	Total £'000
Cash and cash equivalents	50,049	839	2,344	26	53,258	43,644	913	1,029	123	45,709
Bank overdrafts	–	–	–	–	–	(2,673)	–	–	–	(2,673)
Trade receivables	44,553	3,206	280	–	48,039	54,536	3,319	163	38	58,056
Secured bank loans	(54,500)	(16,774)	–	–	(71,274)	(63,250)	(16,278)	–	–	(79,528)
Lease liabilities	(41,658)	(302)	–	–	(41,960)	–	–	–	–	–
Trade payables	(45,588)	(8,091)	(1,213)	(28)	(54,920)	(50,114)	(8,555)	(685)	–	(59,354)
Derivative financial instruments	521	90	9	–	620	306	(24)	(6)	–	276
Balance sheet exposure	(46,623)	(21,032)	1,420	(2)	(66,237)	(17,551)	(20,625)	501	161	(37,514)

Notes to the Consolidated Financial Statements *continued*

18 Financial instruments *continued*

Financial risks *continued*

(d) Foreign currency risk *continued*

A 10 per cent strengthening and weakening of the following currencies against the Pound Sterling at 31 December 2019 would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis was performed on the same basis for 2018:

	2019 £'000	2018 £'000
10 per cent strengthening of £ against €	**1,843**	1,833
10 per cent weakening of £ against €	**(1,508)**	(1,500)
10 per cent strengthening of £ against $	**(126)**	(45)
10 per cent weakening of £ against $	**103**	36
10 per cent strengthening of £ against Dhs	**–**	(14)
10 per cent weakening of £ against Dhs	**–**	12

(e) Pricing risks

Where appropriate the Group uses hedging instruments to mitigate the risks of significant forward price rises of fuel in relation to expected consumption. The current hedges held are in place until 31 December 2020. The Group classifies its fuel hedges as cash flow hedges and states them at fair value. The fair value of the fuel hedges is a £521,000 asset (2018: £306,000 asset) 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 £102,000 (2018: £598,000) has been recognised in other comprehensive income, with £113,000 (2018: £682,000) being reclassified from equity to the Income Statement. The fuel hedges have been fully effective in the period.

(f) Other risks

Further information about the Group's strategic and financial risks is contained in the Strategic Report on pages 24 to 29.

Effective interest rates and maturity of liabilities

At 31 December 2019 there were £41,960,000 (2018: £941,000) of Group borrowings on a fixed rate. The interest rate profile of the financial liabilities is set out below. The tables also disclose cash and cash equivalents in order to reconcile to net debt (Note 25).

	Fixed or variable rate	**Effective interest rate %**	**Total £'000**	**6 months or less £'000**	**6 – 12 months £'000**	**1 – 2 years £'000**	**2 – 5 years £'000**	**More than 5 years £'000**
31 December 2019								
Cash and cash equivalents (Note 14)	**Variable**	**1.81**	**(53,258)**	**(53,258)**	**–**	**–**	**–**	**–**
Bank overdrafts (Note 16)	**Variable**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Bank loans (Note 16)	**Variable**	**1.81**	**71,274**	**–**	**20,000**	**39,405**	**11,869**	**–**
Lease liabilities (Note 17)	**Fixed**	**2.97**	**41,960**	**4,363**	**5,373**	**6,846**	**10,389**	**14,989**
Finance lease liabilities (Note 16)	**Fixed**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
			59,976	**(48,895)**	**25,373**	**46,251**	**22,258**	**14,989**

	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2018								
Cash and cash equivalents (Note 14)	Variable	1.81	(45,709)	(45,709)	–	–	–	–
Bank overdrafts (Note 16)	Variable	3.0	2,673	2,673	–	–	–	–
Bank loans (Note 16)	Variable	1.81	79,528	–	19,820	20,000	39,708	–
Lease liabilities (Note 17)	Fixed	–	–	–	–	–	–	–
Finance lease liabilities (Note 16)	Fixed	10.9	941	135	166	269	332	39
			37,433	(42,901)	19,986	20,269	40,040	39

18 Financial instruments *continued*

Financial risks *continued*

(f) Other risks *continued*

Effective interest rates and maturity of liabilities *continued*

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

	Fixed or variable rate	Carrying value £'000	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2019								
Bank overdrafts	**Variable**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Bank loans	**Variable**	**71,274**	**72,658**	**522**	**20,369**	**39,842**	**11,925**	**–**
Trade payables	**Variable**	**54,920**	**54,920**	**54,920**	**–**	**–**	**–**	**–**
Lease liabilities	**Fixed**	**41,960**	**52,851**	**4,888**	**5,947**	**8,322**	**12,469**	**21,225**
Derivative financial assets	**Fixed**	**(620)**	**(620)**	**(487)**	**(133)**	**–**	**–**	**–**
		167,534	**179,809**	**59,843**	**26,183**	**48,164**	**24,394**	**21,225**

	Fixed or variable rate	Carrying value £'000	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2018								
Bank overdrafts	Variable	2,673	2,673	2,673	–	–	–	–
Bank loans	Variable	79,528	82,347	595	20,318	20,811	40,623	–
Trade payables	Variable	59,354	59,354	59,354	–	–	–	–
Lease liabilities	Fixed	–	–	–	–	–	–	–
Finance lease liabilities	Fixed	941	1,037	152	183	299	363	40
Derivative financial assets	Fixed	(276)	(276)	(249)	(27)	–	–	–
		142,220	145,135	62,525	20,474	21,110	40,986	40

Borrowing facilities

The total bank borrowing facilities at 31 December 2019 amounted to £155.0 million (2018: £140.0 million), of which £83.7 million (2018: £60.5 million) remained unutilised. There are additional seasonal bank working capital facilities of £10.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2019, in respect of which all conditions precedent had been met, were as follows:

	2019 £'000	2018 £'000
Committed:		
Expiring in more than 5 years	**–**	25,000
Expiring in more than 2 years but not more than 5 years	**68,726**	20,292
Expiring in 1 year or less	**–**	180
Uncommitted:		
Expiring in 1 year or less	**15,000**	15,000
	83,726	60,472

On 6 August 2019, the Group renewed its short-term working capital facilities of £25.0 million and took out an additional committed facility of £35.0 million with a 2023 maturity date. The committed facilities are all revolving credit facilities with interest charged at variable rates based on LIBOR. The Group's bank facilities continue to be aligned with the current strategy to ensure that headroom against available facilities remains at appropriate levels.

Notes to the Consolidated Financial Statements *continued*

18 Financial instruments *continued*

Borrowing facilities *continued*

The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium-term debt. The current facilities are set out as follows:

	Facility £'000	Cumulative facility £'000
Committed facilities		
Q1: 2024	25,000	25,000
Q3: 2023	55,000	80,000
Q3: 2022	20,000	100,000
Q3: 2021	20,000	120,000
Q3: 2020	20,000	140,000
On-demand facilities		
Available all year	15,000	155,000
Seasonal (February to August inclusive)	10,000	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 2019 is shown below:

	2019		2018*	
	Book amount £'000	Fair value £'000	Book amount £'000	Fair value £'000
Trade and other receivables	60,162	60,162	71,710	71,710
Cash and cash equivalents	53,258	53,258	45,709	45,709
Bank overdrafts	–	–	(2,673)	(2,673)
Bank loans	(71,274)	(69,936)	(79,528)	(77,931)
Lease liabilities	(41,960)	(52,851)	–	–
Finance lease liabilities	–	–	(941)	(1,037)
Trade payables, other payables and provisions	(108,621)	(108,621)	(115,135)	(115,135)
Interest rate swaps, forward contracts and fuel hedges	620	620	276	276
Contingent consideration	(2,420)	(2,420)	(2,420)	(2,420)
Financial instrument assets and liabilities – net	(110,235)		(83,002)	
Non-financial instrument assets and liabilities – net	406,001		349,717	
	295,766		266,715	

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 24).

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table. Other than contingent consideration, which uses a level 3 basis, all use level 2 valuation techniques.

(a) Derivatives

Derivative contracts are either marked to market using listed market prices or by discounting the contractual forward price at the relevant rate and deducting the current spot rate. For interest rate swaps, broker quotes are used.

(b) Interest-bearing loans and borrowings

Fair value is calculated based on the expected future principal and interest cash flows discounted at the market rate of interest at the balance sheet date.

(c) Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

(d) Trade and other receivables / payables

For receivables / payables with a remaining life of less than 1 year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

(e) Contingent consideration

The basis of calculating contingent consideration is set out in Note 24 on page 136.

(f) 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.

18 Financial instruments *continued*

Borrowing facilities *continued*

Estimation of fair values *continued*

(f) Fair value hierarchy *continued*

- 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 2019				
Derivative financial assets	**–**	**620**	**–**	**620**
31 December 2018				
Derivative financial assets	–	276	–	276

19 Employee benefits

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

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

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

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

The defined benefit section of the Scheme is subject to regular actuarial valuations, which are usually carried out every 3 years. The next actuarial valuation is expected to be carried out with an effective date of 5 April 2021. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures which are determined using best estimate assumptions.

A formal actuarial valuation was carried out as at 5 April 2018. The results of that valuation have been projected to 31 December 2019 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method.

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

	2019 £'000	2018 £'000	2017 £'000
Present value of Scheme liabilities	**(353,136)**	(330,222)	(350,554)
Fair value of Scheme assets	**368,857**	343,738	354,681
Net amount recognised at the year end (before any adjustments for deferred tax)	**15,721**	13,516	4,127

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

	2019 £'000	2018 £'000
Net interest expense recognised in the Consolidated Income Statement	**642**	596
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	**(33,362)**	7,872
Loss / (gain) arising from changes in financial assumptions	**38,367**	(16,326)
Gain arising from changes in demographic assumptions	**(13,017)**	(1,531)
Experience loss	**5,165**	–
Credit recorded in other comprehensive income	**(2,847)**	(9,985)
Total defined benefit credit	**(2,205)**	(9,389)

Notes to the Consolidated Financial Statements *continued*

19 Employee benefits *continued*

The principal actuarial assumptions used were:

	2019 £'000	2018 £'000
Liability discount rate	**2.10%**	2.75%
Inflation assumption – RPI	**2.95%**	3.15%
Inflation assumption – CPI	**2.05%**	2.15%
Rate of increase in salaries	**n/a**	n/a
Revaluation of deferred pensions	**2.10%**	2.15%
Increases for pensions in payment:		
CPI pension increases (maximum 5% p.a.)	**2.10%**	2.15%
CPI pension increases (maximum 5% p.a., minimum 3% p.a.)	**3.20%**	3.20%
CPI pension increases (maximum 3% p.a.)	**1.90%**	1.95%
Proportion of employees opting for early retirement	**0%**	0%
Proportion of employees commuting pension for cash	**80%**	50%
Mortality assumption – before retirement	**Same as post retirement**	Same as post retirement
Mortality assumption – after retirement (males)	**S2PXA tables**	S2PXA tables
Loading	**110%**	105%
Projection basis	**Year of birth**	Year of birth
	CMI_2018 1.0%	CMI_2017 1.0%
Mortality assumption – after retirement (females)	**S2PXA tables**	S2PXA tables
Loading	**110%**	105%
Projection basis	**Year of birth**	Year of birth
	CMI_2018 1.0%	CMI_2017 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	**85.6**	86.1
Female aged 65 at year end	**87.5**	88.0
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	**86.6**	87.1
Female aged 45 at year end	**88.7**	89.2

Changes in the present value of assets over the year

	2019 £'000	2018 £'000
Fair value of assets at the start of the year	**343,738**	354,681
Interest income	**9,228**	8,729
Return on assets (excluding amount included in net interest expense)	**33,362**	(7,872)
Benefits paid	**(16,457)**	(11,094)
Administration expenses	**(1,014)**	(706)
Fair value of assets at the end of the year	**368,857**	343,738
Actual return on assets over the year	**42,590**	857

Changes in the present value of liabilities over the year

	2019 £'000	2018 £'000
Liabilities at the start of the year	**330,222**	350,554
Past service cost	**–**	(7)
Interest cost	**8,856**	8,626
Remeasurement losses / (gains):		
Actuarial losses / (gains) arising from changes in financial assumptions	**38,367**	(16,326)
Actuarial gains arising from changes in demographic assumptions	**(13,017)**	(1,531)
Experience loss	**5,165**	–
Benefits paid	**(16,457)**	(11,094)
Liabilities at the end of the year	**353,136**	330,222

19 Employee benefits *continued*

The split of the Scheme's liabilities by category of membership is as follows:

	2019 £'000	2018 £'000
Deferred pensioners	**185,341**	182,701
Pensioners in payment	**167,795**	147,521
	353,136	330,222
Average duration of the Scheme's liabilities at the end of the year (in years)	**18**	18

The major categories of Scheme assets are as follows:

	2019 £'000	2018 £'000
Return-seeking assets		
UK equities	**2,019**	20,747
Overseas equities	**35,172**	9,767
Other equity type investments	**34,796**	37,976
Total return-seeking assets	**71,987**	68,490
Other		
Insured pensioners	**679**	760
Cash	**5,161**	2,335
Liability-driven investments and bonds	**291,030**	272,153
Total matching assets	**296,870**	275,248
Total market value of assets	**368,857**	343,738

The return-seeking assets and LDI assets have quoted prices in active markets. The valuation of the insured pensions has been taken as the value of the corresponding liabilities assessed using the assumptions set out above.

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

The Company expects to pay no contributions to the defined benefit section of the Scheme during the year ended 31 December 2020.

Sensitivity of the liability value to changes in the principal assumptions

If the discount rate were 0.5 per cent higher / (lower), the defined benefit section Scheme liabilities would decrease by approximately £30.5 million (increase by £31.5 million) if all the other assumptions remained unchanged.

If the inflation assumption were 0.1 per cent higher / (lower), the Scheme liabilities would increase by £2.0 million (decrease by £3.4 million). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is salary, the deferred pension and pension in payment increases. The other assumptions remain unchanged.

If life expectancies were to increase / (decrease) by 1 year, the Scheme liabilities would increase by £16.3 million (decrease by £15.6 million) if all the other assumptions remained unchanged.

Management Incentive Plan ("MIP")

Share-based payment awards have been made during the year in accordance with the rules of the MIP. Full details of the performance criteria and the basis of operation of the MIP are set out in the Remuneration Committee Report on pages 55 to 86.

Equity settled awards are settled by physical delivery of shares. The following equity settled awards have been granted:

	Number of instruments	£'000	Plan year	Vesting date
Equity settled awards granted to Directors of Marshalls plc	235,541	677	2016	March 2020
Equity settled awards granted to other employees	236,092	679	2016	March 2020
Equity settled awards granted to Directors of Marshalls plc	193,939	976	2017	March 2021
Equity settled awards granted to other employees	207,387	1,051	2017	March 2021
Equity settled awards granted to Directors of Marshalls plc	223,795	1,233	2018	March 2022
Equity settled awards granted to other employees	282,124	1,556	2018	March 2022
Equity settled awards granted to Directors of Marshalls plc	161,586	1,327	2019	March 2023
Equity settled awards granted to other employees	226,654	1,862	2019	March 2023
	1,767,118	9,361		

Notes to the Consolidated Financial Statements *continued*

19 Employee benefits *continued*

Sensitivity of the liability value to changes in the principal assumptions *continued*

Management Incentive Plan ("MIP") *continued*

Analysis of closing balance (deferred into shares):

	2019		2018	
	£'000	Shares	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	4,217	815,390	3,584	943,554
Equity settled awards granted to other employees	5,153	948,021	4,656	1,223,297
	9,370	1,763,411	8,240	2,166,851

	2019		2018	
	Value £'000	Number of options	Value £'000	Number of options
Outstanding at 1 January	8,240	2,166,851	10,364	2,931,066
Granted	3,246	395,104	2,896	648,016
Change in value of notional shares	1,602	195,052	203	48,293
Lapsed	(168)	(54,585)	–	–
Element released	(3,550)	(939,011)	(5,223)	(1,460,524)
Outstanding at 31 December	9,370	1,763,411	8,240	2,166,851

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

	2019 £'000	2018 £'000
Awards granted and total expense recognised as employee costs	3,846	3,349

Further details in relation to the Directors are set out in the Remuneration Committee Report on pages 55 to 86. Included in the total expense of £3,846,000 (2018: £3,349,000) is an amount of £1,696,000 (2018: £2,422,000) which is expected to be settled as interim cash payments under the terms of the Scheme and which has been included within wages and salaries in Note 3 and accruals in Note 15.

Employee Bonus Share Plan

A Bonus Share Plan was approved by shareholders in May 2015 under which a number of senior management employees were granted performance related bonuses with an element of this bonus being in the form of shares. The bonus performance criteria are the same as those applicable to the MIP awards. The bonus shares take the form of nil-cost options to acquire shares at the end of a 3-year vesting period from the date of grant, and vesting is conditional on continued employment at the end of the vesting period. Awards are made to participants following publication of the Group's year-end results. In addition, special Bonus Share Awards were granted to qualifying CPM employees following its acquisition on 19 October 2017 and to qualifying Edenhall employees following its acquisition on 11 December 2018. These took the form of nil-cost options to acquire Ordinary Shares in Marshalls plc at the end of a 3-year period. Awards outstanding at 31 December 2019 were over 840,096 shares (31 December 2018: 352,117). The total expenses recognised for the year arising from share-based payments were £874,000 (2018: £563,000).

All-employee Sharesave ("SAYE") scheme

On 5 October 2015 options were granted over up to 1,000,000 shares to employees who had subscribed to the SAYE scheme. The option price was 291 pence, a discount of 20 per cent to the market price on the date of grant. The options were exercisable by relevant employees after a period of 3 years and accordingly reached maturity and became exercisable during 2018. A total of 692,143 Ordinary Shares were exercised, of which 77,465 were exercised in 2019 and 614,678 were exercised in 2018 of the 77,465 shares exercised in 2019, 58,724 were newly issued shares and 18,741 shares were transferred from the employee benefit trust. SAYE options that were not exercised lapsed on 1 June 2019. The total expense recognised for the year arising from share-based payments was £nil (2018: £275,000).

Employee profit sharing scheme

At 31 December 2019 the scheme held 42,287 (2018: 42,329) Ordinary Shares in the Company.

20 Provisions

	Legal and regulatory provisions £'000
At 1 January 2018	8,200
Utilised in the year	(1,912)
On acquisition of subsidiary undertaking	1,000
At 1 January 2019 as previously reported	7,288
Restatement (Note 24)	647
At 1 January 2019 as restated	7,935
Utilised in the year	(5,086)
Additional provisions made in the period	800
Unused amounts reversed during the period	(1,000)
At 31 December 2019	**2,649**

20 Provisions *continued*

Provisions were made for the estimated cost of settlement of certain legal and regulatory matters relating to the CPM business acquired on 19 October 2017, reflecting the Directors' estimate of the likely outflow from settlement of these matters. In addition, provisions of £1,647,000 were made for the estimated cost of settlement of certain legal and regulatory matters relating to the Edenhall business acquired on 11 December 2018. The majority of these provisions are expected to be settled within the next 2 years.

21 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Property, plant and equipment	**–**	–	**(11,321)**	(10,924)
Intangible assets	**–**	–	**(1,909)**	(1,985)
Inventories	**–**	–	**(337)**	(337)
Employee benefits	**–**	–	**(2,674)**	(2,299)
Equity settled share-based payments	**2,550**	1,406	**–**	–
IFRS 16 transition adjustment	**397**	–	**–**	–
Other items	**–**	–	**(2,066)**	(2,008)
Tax assets / (liabilities)	**2,947**	1,406	**(18,307)**	(17,553)

The March 2016 Budget announced that the UK corporation tax rate will reduce to 17 per cent by April 2020. The reduction in the rate to 17 per cent (effective April 2020) was substantively enacted at the balance sheet date. This will reduce the Group's future current tax charge accordingly. The deferred taxation liability at 31 December 2019 has been calculated based on the rate at which the deferred tax is expected to unwind in the future using rates enacted at the balance sheet date.

The deferred taxation liability of £2,674,000 (2018: £2,299,000) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £15,721,000 (2018: £13,516,000) (Note 19) calculated at 17 per cent (2018: 17 per cent).

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

Movement in temporary differences

Year ended 31 December 2019

	1 January 2019 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	On acquisition of subsidiary undertaking £'000	**31 December 2019 £'000**
Property, plant and equipment	(10,924)	(397)	–	–	–	**(11,321)**
Intangible assets	(1,985)	76	–	–	–	**(1,909)**
Inventories	(337)	–	–	–	–	**(337)**
Employee benefits	(2,299)	109	(484)	–	–	**(2,674)**
Equity settled share-based payments	1,406	(75)	–	1,219	–	**2,550**
IFRS 16 transition adjustment	–	(18)	–	415	–	**397**
Other items	(2,008)	–	(58)	–	–	**(2,066)**
	(16,147)	(305)	(542)	1,634	–	**(15,360)**

Year ended 31 December 2018

	1 January 2018 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	On acquisition of subsidiary undertaking £'000	31 December 2018 £'000
Property, plant and equipment	(10,545)	79	–	–	(458)	(10,924)
Intangible assets	(1,351)	28	–	–	(662)	(1,985)
Inventories	(368)	31	–	–	–	(337)
Employee benefits	(702)	101	(1,698)	–	–	(2,299)
Equity settled share-based payments	2,775	(1,198)	–	(171)	–	1,406
Other items	(2,020)	(15)	27	–	–	(2,008)
	(12,211)	(974)	(1,671)	(171)	(1,120)	(16,147)

Deferred taxation liabilities represent sums that might become payable as tax in future years as a result of transactions that have occurred in the current year. The explanation as to why such liabilities may arise is included in the notes to the tax reconciliation (Note 6).

Notes to the Consolidated Financial Statements *continued*

21 Deferred taxation *continued*

Movement in temporary differences *continued*

The deferred tax balances on short-term timing differences are expected to reverse within 1 to 3 years.

Based on the current investment programme of the Group and assuming that current rates of capital allowances on fixed asset expenditure continue into the future, there is little prospect of any significant part of the deferred taxation liability of the Company becoming payable over the next 3 years. It is not realistic to make any projection after a 3-year period.

The deferred tax liabilities disclosed in the year ended 31 December 2019 include the deferred tax relating to the Group's pension scheme assets. Deferred tax assets on capital losses and overseas trading losses have not been recognised due to uncertainty around the future use of the losses.

22 Capital and reserves

Called-up share capital

Ordinary Shares	2019 Number	2019 nominal value £'000	2018 Number	2018 nominal value £'000
At 1 January	**199,993,433**	**49,998**	199,378,755	49,845
Issued in year	**58,724**	**15**	614,678	153
At 31 December	**200,052,157**	**50,013**	199,993,433	49,998

On 5 October 2015 options were granted up to 1,000,000 shares to employees who had subscribed to the SAYE Scheme (Note 19). The options were exercisable by relevant employees after a period of 3 years and consequently during the year 58,724 (2018: 614,678) Ordinary Shares were issued to those employees whose options had reached maturity.

Consolidation reserve

On 8 July 2004 Marshalls plc was introduced as the new holding company of the Group by way of a court-approved Scheme of Arrangement under Section 425 of the Companies Act 1985. The restructuring was accounted for as a capital reorganisation and accounting principles were applied as if the Company had always been the holding company of the Group. The difference between the aggregate nominal value of the new shares issued by the Company and the called-up share capital, capital redemption reserve and share premium account of Marshalls Group plc (the previous holding company) was transferred to a consolidation reserve.

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging, principally from the Group's interest rate swaps, energy price contracts and forward exchange contracts.

Dividends

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided for and there were no income tax consequences.

	2019 £'000	2018 £'000
9.65 pence final dividend (2018: 8.00 pence) per Ordinary Share	**19,142**	15,860
4.00 pence supplementary dividend (2018: 4.00 pence) per Ordinary Share	**7,934**	7,930
	27,076	23,790

23 Non-controlling interests

	2019 £'000	2018 £'000
At 1 January	**1,094**	1,459
Share of loss for the year	**(329)**	(330)
Foreign currency transaction differences	**(42)**	(35)
At 31 December	**723**	1,094

24 Acquisition of subsidiary

On 11 December 2018, Marshalls Mono Limited acquired 100 per cent of the issued share capital of Edenhall Holdings Limited, a concrete brick manufacturer. Edenhall Holdings Limited operates within the UK and is registered in England and Wales.

	2018 Edenhall fair values acquired (as restated) £'000
Land and buildings	3,962
Plant, machinery and vehicles	8,139
Identifiable intangible assets	3,897
Inventories	2,105
Trade and other receivables	5,726
Cash and cash equivalents	33
Trade and other payables	(18,772)
Provisions	(1,647)
Borrowings	(3,959)
Finance leases	(783)
Corporation tax	(692)
Deferred tax	(1,120)
Total identifiable net liabilities	(3,111)
Goodwill	18,190
Total consideration	
Satisfied by:	
Cash consideration	10,759
Deferred consideration	1,900
Contingent consideration	2,420
Total cost of investment	15,079
Monies paid into escrow	1,000
	16,079
Analysis of amounts paid in connection with the acquisition	
Total cash payments	11,759
Net cash acquired	(33)
Total cash outflow in connection with the acquisition	11,726

Notes to the Consolidated Financial Statements *continued*

24 Acquisition of subsidiary *continued*

Acquisition of Edenhall Holdings Limited

Initial cash consideration paid to the vendors was £10,759,000 and, in addition, a further £1,000,000 was paid into an escrow account in relation to certain ongoing legal and regulatory matters identified during the course of due diligence carried out prior to concluding the acquisition. The Group has a right to be reimbursed from amounts held in escrow to the extent that any liability crystallises in respect of these ongoing legal and regulatory matters, up to the full value of the £1,000,000 held in escrow and consequently a reimbursement asset of £1,000,000 was recognised within other debtors. To the extent that any such liabilities are resolved at a lower value than the escrow balances, the excess balance remaining in escrow is payable to the vendors as additional consideration.

The Group has agreed to pay the vendors deferred consideration of £1,900,000 which is payable on 11 December 2021. This is not dependent on performance. Additional consideration is also payable dependent on the achievement of performance targets in the periods post acquisition. These performance periods are up to 3 years in duration and will be settled in cash on their payment date on achieving the relevant targets. The range of the additional consideration payment is estimated to be between £nil and £2,420,000. The Group has included £2,420,000 as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date and at the year end. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities.

As part of the ongoing review of the fair value of assets and liabilities acquired, adjustments were made to certain accruals and provisions during the period, These had the effect of decreasing the fair value of the net assets acquired under the acquisition by £6,157,000, which has given rise to an increase in goodwill of a similar amount. Goodwill, land and buildings, plant and machinery, trade and other payables and provisions have been restated accordingly in respect of the reported 31 December 2018 balance sheet.

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

The goodwill arising from the acquisition represents the opportunity to grow by utilising the capabilities and technical expertise of the acquired workforce and by developing synergistic opportunities.

The goodwill arising from the acquisition is not expected to be deductible for income tax purposes.

Transaction costs incurred on acquisition were £375,000 and these were fully expensed in the period to 31 December 2018 (Note 3).

25 Analysis of net debt

	1 January 2019 £'000	IFRS 16 on transition £'000	Cash flow £'000	New leases £'000	Other changes £'000	**31 December 2019 £'000**
Cash at bank and in hand	45,709	–	7,649	–	(100)	**53,258**
Debt due within 1 year	(22,493)	–	10,927	–	(8,434)	**(20,000)**
Debt due after 1 year	(59,708)	–	–	–	8,434	**(51,274)**
Finance leases	(941)	941	–	–	–	**–**
Lease liabilities	–	(46,520)	12,723	(8,163)	–	**(41,960)**
	(37,433)	(45,579)	31,299	(8,163)	(100)	**(59,976)**

Reconciliation of net cash flow to movement in net debt

	2019 £'000	2018 £'000
Net increase in cash equivalents	**7,649**	25,779
Leases recognised on adoption of IFRS 16	**(45,579)**	–
Cash outflow/(inflow) from decrease/(increase) in bank borrowings	**10,927**	(34,164)
Cash outflow from lease repayments	**12,723**	101
Repayment of borrowings following acquisition of subsidiaries	**–**	(4,742)
New leases entered into	**(8,163)**	–
Effect of exchange rate fluctuations	**(100)**	(110)
Movement in net debt in the year	**(22,543)**	(13,136)
Net debt at 1 January	**(37,433)**	(24,297)
Net debt at 31 December	**(59,976)**	(37,433)

26 Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's Consolidated Cash Flow Statement as cash flows from financing activities.

			Non-cash changes			
	1 January 2019 £'000	Financing cash flows (i) £'000	Acquisition of subsidiary (Note 24) £'000	Other changes (ii) £'000	IFRS 16 Transition £'000	**31 December 2019 £'000**
Bank overdrafts (Note 16)	(2,673)	2,673	–	–	–	**–**
Bank loans (Note 16)	(79,528)	8,254	–	–	–	**(71,274)**
Finance lease liabilities (Note 16)	(941)	–	–	–	941	**–**
Lease liabilities (Note 17)	–	12,723	–	(8,163)	(46,520)	**(41,960)**
Total liabilities from financing activities	(83,142)	23,650	–	(8,163)	(45,579)	**(113,234)**

			Non-cash changes		
	1 January 2018 £'000	Financing cash flows (i) £'000	Acquisition of subsidiary (Note 24) £'000	Other changes (ii) £'000	31 December 2018 £'000
Bank overdrafts (Note 16)	–	(1,122)	(1,551)	–	(2,673)
Bank loans (Note 16)	(43,883)	(34,539)	(911)	(195)	(79,528)
Finance lease liabilities (Note 16)	(259)	101	(783)	–	(941)
Total liabilities from financing activities	(44,142)	(35,560)	(3,245)	(195)	(83,142)

(i) The cash flows from bank loans, overdrafts and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the Cash Flow Statement.

(ii) New leases.

27 Operating leases

The Group had non-cancellable total minimum lease payments to be paid in respect of operating leases on property, plant, machinery and vehicles as follows:

31 December 2018	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
Expiring:						
Within 1 year	1,652	1,256	396	–	–	–
Between 1 and 5 years	31,939	5,583	5,555	9,811	10,990	–
In more than 5 years	32,917	891	897	1,800	5,400	23,929
	66,508	7,730	6,848	11,611	16,390	23,929

As at 31 December 2018, the total minimum lease payments under non-cancellable operating leases (above) comprised property of £34,831,000) and plant, machinery and vehicles of £31,677,000.

Notes to the Consolidated Financial Statements *continued*

28 Contingencies

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self-insurance for employer's liability and vehicle insurance:

Beneficiary	Amount	Period	Purpose
M S Amlin Limited	£675,000	23 Dec 2011 to 30 Oct 2020	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 29 Oct 2020	Vehicle insurance
M S Amlin Limited	£750,000	30 Oct 2016 to 30 Oct 2020	Vehicle insurance

29 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 plc has the appropriate expertise and experience for the management of its business.

Directors of the Company and their immediate relatives control 0.2428 per cent (2018: 0.2202 per cent) of the voting shares of the Company.

In addition to their salaries and pension allowances, the Group also provides non-cash benefits to Directors. Further details in relation to Directors are disclosed in the Remuneration Committee Report on pages 55 to 86.

30 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 114. As stated in the accounting policies, revenue is disclosed net of rebates. Whilst the Directors do not regard the determination of accruals for rebates as a key area of estimation uncertainty, the estimation of appropriate accruals for rebates requires commercial assessment. Note 12 contains details of the Group's inventory. Whilst not considered by the Directors to be a key source of estimation uncertainty, the carrying value of the Group's finished goods inventory has been reviewed using commercial judgement with regard to the assessment of the appropriate level of provisioning against inventory obsolescence and for net realisable value. The Directors consider the following to be the only key source of estimation uncertainty:

- Note 19 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 19 on page 131.

The Directors have concluded that there were no critical accounting judgements required in the preparation of the Financial Statements.

Parent Company Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Current year							
At 1 January 2019	**49,998**	**24,326**	**(888)**	**75,394**	**9,304**	**44,594**	**202,728**
Total comprehensive income for the year							
Profit for the financial year	–	–	–	–	–	190,796	190,796
Total comprehensive income for the year	–	–	–	–	–	190,796	190,796
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	–	–	–	–	2,013	1,011	3,024
Deferred tax on share-based payments	–	–	–	–	(537)	–	(537)
Dividends to equity shareholders	–	–	–	–	–	(33,203)	(33,203)
Shares issued	15	156	54	–	–	–	225
Purchase of own shares	–	–	(1,470)	–	–	–	(1,470)
Disposal of own shares	–	–	913	–	–	(913)	–
Total contributions by and distributions to owners	15	156	(503)	–	1,476	(33,105)	(31,961)
Total transactions with owners of the Company	15	156	(503)	–	1,476	157,691	158,835
At 31 December 2019	50,013	24,482	(1,391)	75,394	10,780	202,285	361,563

There were no items of other comprehensive income / (expense) in the year other than the profit for the financial year recorded above.

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Current year							
At 1 January 2018	49,845	22,695	(2,359)	75,394	8,020	85,347	238,942
Total comprehensive loss for the year							
Loss for the financial year	–	–	–	–	–	(7,317)	(7,317)
Total comprehensive loss for the year	–	–	–	–	–	(7,317)	(7,317)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	–	–	–	–	1,355	(1,505)	(150)
Deferred tax on share-based payments	–	–	–	–	(71)	–	(71)
Dividends to equity shareholders	–	–	–	–	–	(29,250)	(29,250)
Shares issued	153	1,631	–	–	–	–	1,784
Purchase of own shares	–	–	(1,210)	–	–	–	(1,210)
Disposal of own shares	–	–	2,681	–	–	(2,681)	–
Total contributions by and distributions to owners	153	1,631	1,471	–	1,284	(33,436)	(28,897)
Total transactions with owners of the Company	153	1,631	1,471	–	1,284	(40,753)	(36,214)
At 31 December 2018	49,998	24,326	(888)	75,394	9,304	(44,594)	(202,728)

There were no items of other comprehensive income / (expense) in the year other than the loss for the financial year recorded above.

Company Balance Sheet

at 31 December 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Investments	34	**349,153**	347,140
Deferred taxation assets	35	**1,464**	735
		350,617	347,875
Current assets			
Debtors	36	**10,946**	1,830
Current liabilities			
Creditors	37	**–**	(146,977)
Net current assets / (liabilities)		**10,946**	(145,147)
Net assets		**361,563**	202,728
Capital and reserves			
Called-up share capital	38	**50,013**	49,998
Share premium account		**24,482**	24,326
Own shares		**(1,391)**	(888)
Capital redemption reserve		**75,394**	75,394
Equity reserve		**10,780**	9,304
Profit and loss account		**202,285**	44,594
Equity shareholders' funds		**361,563**	202,728

The Company reported a profit for the financial year ended 31 December 2019 of £190,796,000 (2018: loss of £7,317,000).

Approved at a Directors' meeting on 12 March 2020.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 141 to 146 form part of these Company Financial Statements.

Notes to the Company Financial Statements

31 Accounting policies

The following paragraphs summarise the main accounting policies of the Company, which have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements. The Company is exempt from the requirement to give its own disclosures as the entity forms part of the Consolidated Financial Statements of Marshalls plc, which has included disclosures under IFRS 7 *"Financial Instruments: Disclosures"*.

(a) Authorisation of Financial Statements and Statement of Compliance with FRS 101

The Parent Company Financial Statements of Marshalls plc for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 12 March 2020. Marshalls plc is a public limited company that is incorporated and domiciled and has its registered office in England and Wales. The Company's Ordinary Shares are publicly traded on the London Stock Exchange and the Company is not under the control of any single shareholder.

These Financial Statements were prepared in accordance with the historical cost basis of accounting and Financial Reporting Standard 101 *"Reduced Disclosure Framework"* ("FRS 101").

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

(b) Basis of preparation

The Company has adopted FRS 101 from the UK Generally Accepted Accounting Practice for all periods presented.

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31 December 2019.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraphs 45(b) and 46 – 52 of IFRS 2 *"Share-based Payments"*;
- the requirements of IFRS 7 *"Financial Instruments: Disclosures"*;
- the requirements of paragraphs 91 – 99 of IFRS 13 *"Fair Value Measurement"*;
- the requirement in paragraph 38 of IAS 1 *"Presentation of Financial Statements"* to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 39(c), 40A, 40B, 40C, 40D, 111 and 134 – 136 of IAS 1 *"Presentation of Financial Statements"*;
- the requirements of IAS 7 *"Statement of Cash Flows"*;
- the requirements of paragraphs 30 and 31 of IAS 8 *"Accounting Policies, Changes in Accounting Estimates and Errors"*;
- the requirements of paragraph 17 of IAS 24 *"Related Party Disclosures"*;
- the requirements in IAS 24 *"Related Party Disclosures"* to disclose related party transactions entered into between 2 or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d) – 134(f) and 135(c) – 135(e) of IAS 36 *"Impairment of Assets"*.

The Company also intends to take advantage of these exemptions in the Financial Statements to be issued in the following year. Objections may be served in the Company by shareholders holding in aggregate 5 per cent or more of the total allocated shares in the Company. Where required, additional disclosures are given in the Consolidated Financial Statements.

(c) Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment. The Directors consider annually whether a provision against the value of investments on an individual basis is required.

(d) Share capital

(i) Share capital

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

(e) Pension schemes

(i) Defined benefit scheme

The Company participates in a Group-wide pension scheme providing benefits based on final pensionable pay. The defined benefit section of the Scheme was closed to future service accrual in July 2006.

The assets of the Scheme are held separately from those of the Company. The defined benefit cost and contributions payable are borne by Marshalls Group Limited and, therefore, the defined benefit surplus or deficit is recorded in Marshalls Group Limited. Full details are provided in Note 19 on pages 129 to 131.

(ii) Defined contribution scheme

Obligations for contributions to defined contribution schemes are recognised as an expense as incurred.

Notes to the Company Financial Statements *continued*

31 Accounting policies *continued*

(f) Share-based payment transactions

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

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

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

(g) Own shares held by the Employee Benefit Trust

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

(h) Trade and other payables

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

(i) Income tax

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

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

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

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

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

32 Operating costs

The audit fee for the Company was £30,000 (2018: £30,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditor for services other than the statutory audit of the Company are not disclosed in the notes to the Company Financial Statements since the consolidated accounts of the Group are required to disclose non-audit fees on a consolidated basis.

Details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed on pages 55 to 86 of the Remuneration Committee Report.

The average monthly number of employees of Marshalls plc (including Executive Directors) in the year ended 31 December 2019 was 188 (2018: 176). The personnel costs for the majority of these employees are borne by Marshalls Group Limited. The personnel costs charged to Marshalls plc in the year were £4,214,000 (2018: £4,093,000) in relation to 17 employees (2018: 17), including the Directors.

33 Ordinary dividends: equity shares

	2019		2018	
	Pence per share	**£'000**	Pence per share	£'000
2018 final: paid 28 June 2019	**8.00**	**15,860**	6.80	13,439
2018 supplementary: paid 28 June 2019	**4.00**	**7,930**	4.00	7,905
2019 interim: paid 4 December 2019	**4.70**	**9,323**	4.00	7,906
	16.70	**33,113**	14.80	29,250

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.

	2019 £'000	2018 £'000
2019 final: 9.65 pence (2018: 8.00 pence) per Ordinary Share	**19,142**	15,860
2019 supplementary: 4.00 pence (2018: 4.00 pence) per Ordinary Share	**7,934**	7,930
	27,076	23,790

34 Investments

	£'000
At 1 January 2019	**347,140**
Additions	**2,013**
At 31 December 2019	**349,153**

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 £2,013,000 represents adjustments to the number of shares expected to vest in respect of share-based payment awards granted to employees of Marshalls Group Limited.

Pursuant to Sections 409 and 410(2) of the Companies Act 2006, the subsidiary undertakings of Marshalls plc at 31 December 2019 are set out below.

Subsidiaries	Principal activities	Class of share	% ownership
Acraman (418) Limited	Non-trading	Ordinary / preference	100
Alton Glasshouses Limited	Non-trading	Ordinary	100
Bollards Direct Limited	Non-trading	Ordinary	100
Capability Brown Garden Centres Limited	Non-trading	Ordinary	100
Capability Brown Landscaping Limited	Non-trading	Ordinary	100
Classical Flagstones Limited	Non-trading	Ordinary	100
CPM Group Limited	Landscape products manufacturer	Ordinary	100
Dalestone Concrete Products Limited	Non-trading	Ordinary	100
Edenhall Limited	Non-trading	Ordinary	100
Edenhall Building Products Limited	Non-trading	Ordinary	100
Edenhall Concrete Limited	Non-trading	Ordinary	100
Edenhall Concrete Products Limited	Non-trading	Ordinary	100
Edenhall Holdings Limited	Non-trading	Ordinary / preference	100
Edenhall Technologies Limited	Non-trading	Ordinary	100
Locharbriggs Sandstone Limited	Non-trading	Ordinary	100
Lloyds Quarries Limited	Non-trading	Ordinary	100
Marshalls Building Materials Limited	Non-trading	Ordinary	100
Marshalls Building Products Limited	Property management	Ordinary	100
Marshalls Concrete Products Limited	Non-trading	Ordinary	100
Marshalls Directors Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 30 Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 31 Limited	Non-trading	Ordinary	100
Marshalls EBT Limited*	Non-trading	Ordinary	100
Marshalls Estates Limited	Non-trading	Ordinary	100
Marshalls Group Limited*	Intermediate holding company	Ordinary	100
Marshalls Landscape Products Limited	Non-trading	Ordinary	100
Marshalls Landscape Products (branch)	Representative office – Dubai	N/A	N/A
Marshalls Landscape Products (North America) Inc.	Landscape products supplier	Ordinary	100
Marshalls Mono Limited	Landscape products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products	Ordinary	100
Marshalls Natural Stone Limited	Non-trading	Ordinary	100
Marshalls NV	Landscape products manufacturer and supplier	Ordinary	66.7
Marshalls Profit Sharing Scheme Limited	Non-trading	Ordinary	100
Marshalls Properties Limited	Property management	Ordinary	100
Marshalls Register Limited	Non-trading	Ordinary	100
Marshalls Stone Products Limited	Non-trading	Ordinary	100
Marshalls Street Furniture Limited	Non-trading	Ordinary	100

Notes to the Company Financial Statements *continued*

34 Investments *continued*

Subsidiaries	Principal activities	Class of share	% ownership
Ollerton Limited	Non-trading	Ordinary	100
Panablok (UK) Limited	Non-trading	Ordinary	100
Paver Systems (Carluke) Limited	Non-trading	Ordinary	100
Paver Systems Limited	Non-trading	Ordinary	100
PD Edenhall Holdings Limited	Intermediate holding company	Ordinary	100
PD Edenhall Limited	Manufacture and sale of concrete products for the building industry	Ordinary	100
Premier Mortars Limited	Non-trading	Ordinary	100
Quarryfill Limited	Non-trading	Ordinary	100
Rhino Protec Limited	Non-trading	Ordinary	100
Robinson Associates Stone Consultants Limited	Non-trading	Ordinary	100
Robinsons Greenhouses Limited	Non-trading	Ordinary	100
Rockrite Limited	Non-trading	Ordinary	100
S Marshall & Sons Limited	Non-trading	Ordinary	100
Scenic Blue Limited	Non-trading	Ordinary	100
Scenic Blue Landscape Franchise Limited	Non-trading	Ordinary	100
Scenic Blue (UK) Limited	Non-trading	Ordinary	100
Stancliffe Stone Company Limited	Non-trading	Ordinary	100
Stoke Hall Quarry Limited*	Non-trading	Ordinary	100
Stone Shippers Limited	Non-trading	Ordinary	100
Stonemarket (Concrete) Limited	Non-trading	Ordinary	100
Stonemarket Limited	Non-trading	Ordinary	100
The Great British Bollard Company Limited	Non-trading	Ordinary	100
The Stancliffe Group Limited	Non-trading	Ordinary	100
The Yorkshire Brick Co. Limited	Non-trading	Ordinary	100
Town & Country Paving Limited	Non-trading	Ordinary	100
Urban Engineering Limited	Non-trading	Ordinary	100
Woodhouse Group Limited	Non-trading	Ordinary	100
Woodhouse UK Limited	Non-trading	Ordinary	100
Xiamen Marshalls Import Export Company Limited	Sourcing and distribution of natural stone products	Ordinary	100

* Held by Marshalls plc. All others held by subsidiary undertakings.

Marshalls NV is largely dependent on the continued support of Marshalls Mono Limited, which has indicated that it intends to continue providing this support for the foreseeable future.

All the other companies excluding the ones below operate within the United Kingdom and are registered in England and Wales at the following address: Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT. 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. The Marshalls Landscape Products office in Dubai is now a branch of Marshalls Mono Limited. Paver Systems Limited, Paver Systems (Carluke) Limited and Locharbriggs Sandstone Limited are registered in Scotland. The respective registered offices are:

Acraman (418) Limited, PD Edenhall Holdings Limited, PD Edenhall Limited, Edenhall Building Products Limited, Edenhall Concrete Limited, Edenhall Concrete Products Limited, Edenhall Holdings Limited and Edenhall Technologies Limited operate within the United Kingdom and are registered in England and Wales at the following address: Danygraig Road, Risca, Newport NP11 6DP.

Paver Systems Limited and Paver Systems (Carluke) Limited
Roadmeetings, Carluke, Lanarkshire ML8 4QG

Locharbriggs Sandstone Limited
Locharbriggs, Dumfries, Dumfriesshire DG1 1QS

Marshalls Landscape Products (branch)
LB181002W520, Jebel Ali, Dubai, United Arab Emirates

Marshalls Landscape Products (North America) Inc.
1209 Orange Street, Wilmington, County of New Castle, Delaware 19801, USA

Marshalls NV
Nieuwstraat 4, 2840 Rumst, Belgium

Xiamen Marshalls Import Export Company Limited
12 A4, Xiangyu Building, No. 22, 4th Xiangxing Road, Xiangyu Free Trade Zone, Xiamen, China

35 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Equity settled share-based payments	**1,464**	735	**–**	–

Movement in temporary differences

	1 January 2019 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	**31 December 2019 £'000**
Equity settled share-based payments	735	192	537	**1,464**

36 Debtors

	2019 £'000	2018 £'000
Corporation tax	**1,348**	1,830
Amounts owed from subsidiary undertakings	**9,598**	–
	10,946	1,830

No debtors were due after more than 1 year.

37 Creditors

	2019 £'000	2018 £'000
Amounts owed to subsidiary undertakings	**–**	146,977

38 Capital and reserves

Called-up share capital

As at 31 December 2019, the issued and fully paid up Ordinary Share capital was as follows:

Ordinary	**2019 Number**	**2019 nominal value £'000**	2018 Number	2018 nominal value £'000
At 1 January	**199,993,433**	**49,998**	199,378,755	49,845
Issued in the period	**58,724**	**15**	614,678	153
At 31 December	**200,052,157**	**50,013**	199,993,433	49,998

On 5 October 2015 options were granted up to 1,000,000 shares to employees who had subscribed to the SAYE Scheme (Note 19). The options were exercisable by relevant employees after a period of 3 years and during the year 58,724 (2018: 614,678) Ordinary Shares were issued to those employees whose options had reached maturity. During the year a further 18,741 shares were transferred from the employee benefit trust.

Distributable reserves

The Company's distributable reserves amount to £202 million (2018: £44 million) at the end of the period. Upstream dividends of £197,145,000 were received during 2019 in order to increase the distributable reserves in Marshalls plc.

Equity reserve

The equity reserve represents the number of shares expected to vest in respect of share-based payment awards granted to employees of the Company.

39 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2019 or 31 December 2018.

40 Bank facilities

The Group's banking arrangements are in respect of Marshalls plc, Marshalls Group Limited and Marshalls Mono Limited with each company being nominated borrowers. The operational banking activities of the Group are undertaken by Marshalls Group Limited and the Group's bank debt is largely included in Marshalls Group Limited's balance sheet.

Notes to the Company Financial Statements *continued*

41 Contingent liabilities
Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self-insurance for employer's liability and vehicle insurance:

Beneficiary	Amount	Period	Purpose
M S Amlin Limited	£675,000	23 Dec 2011 to 30 Oct 2020	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 29 Oct 2020	Vehicle insurance
M S Amlin Limited	£750,000	30 Oct 2016 to 30 Oct 2020	Vehicle insurance

42 Pension scheme
The Company is the sponsoring employer of the Marshalls plc pension scheme (the "Scheme") which is primarily a closed defined benefit scheme with a small defined contribution element (mainly AVCs). The assets of the Scheme are held in separately managed funds which are independent of the Group's finances.

Full details of the Scheme are provided in Note 19. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis.

The latest funding valuation of the defined benefit section of the Scheme was carried out as at 5 April 2018 and was updated for the purposes of the 31 December 2019 Financial Statements by a qualified independent actuary.

43 Accounting estimates and judgements
The preparation of the Financial Statements requires management to make judgements, estimates and assumptions. Although these judgements and estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are disclosed below.

There are no critical accounting judgements or key sources of estimation uncertainty.

44 Related parties
Related party relationships exist with other members of the Group. All operating costs are borne by Marshalls Group Limited and are recharged to Marshalls plc in respect of specifically attributable costs. All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Financial History – Consolidated Group

	Year ended 31 December 2015 £'000	Year ended 31 December 2016 £'000	Year ended 31 December 2017 £'000	Year ended 31 December 2018 £'000	**Year ended** 31 December 2019 £'000**
Consolidated Income Statement					
Revenue	386,204	396,922	430,194	490,988	**541,832**
Net operating costs	(348,752)	(349,283)	(376,755)	(426,154)	**(468,151)**
Operating profit	37,452	47,639	53,439	64,834	**73,681**
Financial income and expenses (net)	(2,174)	(1,593)	(1,388)	(1,899)	**(3,828)**
Profit before tax	35,278	46,046	52,051	62,935	**69,853**
Income tax expense	(7,387)	(8,539)	(9,925)	(11,307)	**(11,942)**
Profit for the financial year	27,891	37,507	42,126	51,628	**57,911**
Profit for the year attributable to:					
Equity shareholders of the Parent	28,149	37,350	42,503	51,958	**58,240**
Non-controlling interests	(258)	157	(377)	(330)	**(329)**
	27,891	37,507	42,126	51,628	**57,911**
EBITA[1]	38,774	48,648	54,581	66,593	**76,104**
EBITDA[1]	51,828	60,794	67,895	80,792	**103,875**
Basic earnings per share (pence)	14.32	18.95	21.52	26.29	**29.36**
Dividends per share (pence) – IFRS	6.25	9.65	12.20	14.80	**16.70**
Dividend cover (times) – IFRS	2.3	2.0	1.8	1.8	**1.8**
Dividends per share (pence) – traditional	7.00	8.70	10.20	12.00	**14.35**
Dividends per share (pence) – supplementary	2.00	3.00	4.00	4.00	**4.00**
Dividend cover (times) – traditional	1.6	1.6	1.5	1.6	**1.6**
Year-end share price (pence)	325.0	292.5	454.9	464.8	**860.0**
Tax rate (%)	20.9	18.5	19.1	18.0	**17.1**

1 EBITA is defined as earnings before interest, tax and amortisation of intangibles. EBITDA is defined as earnings before interest, tax and amortisation of intangibles and depreciation.

	2015 £'000	2016 £'000	2017* £'000	2018* £'000	**2019** £'000**
Consolidated Balance Sheet					
Non-current assets	192,815	193,393	248,055	302,785	**350,035**
Current assets	137,017	139,685	166,372	210,776	**212,534**
Total assets	329,832	333,078	414,427	513,561	**562,569**
Current liabilities	(87,071)	(87,068)	(109,507)	(141,190)	**(162,349)**
Non-current liabilities	(50,043)	(28,889)	(67,293)	(105,656)	**(104,454)**
Net assets	192,718	217,121	237,627	266,715	**295,766**
Net borrowings	(11,462)	5,413	(24,297)	(37,433)	**(59,976)**
Gearing ratio	6.0%	(2.5%)	10.2%	14.0%	**20.3%**

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 24).

** The Group applied IFRS 16 "*Leases*" with effect from 1 January 2019 and consequently the information disclosed above for the year ended 31 December 2019 includes the impact of adoption.

Shareholder Information

Shareholder analysis at 31 December 2019

Size of shareholding	Number of shareholders	%	Number of Ordinary Shares	%
1 to 500	1,835	45.84	263,306	0.13
501 to 1,000	498	12.44	375,742	0.19
1,001 to 2,500	592	14.79	1,002,305	0.50
2,501 to 5,000	356	8.89	1,272,192	0.64
5,001 to 10,000	224	5.60	1,587,208	0.79
10,001 to 25,000	161	4.02	2,600,836	1.30
25,001 to 100,000	147	3.67	7,617,219	3.81
100,001 to 250,000	66	1.65	10,444,113	5.22
250,001 to 500,000	40	1.00	14,411,662	7.20
500,001 and above	84	2.10	160,477,574	80.22
	4,003	100.00	200,052,157	100.00

Financial calendar

Preliminary announcement of results for the year ended 31 December 2019	Announced	12 March 2020
Final dividend for the year ended 31 December 2019	Payable	30 June 2020
Half yearly results for the year ending 31 December 2020	Announcement	13 August 2020
Half yearly dividend for the year ending 31 December 2020	Payable	2 December 2020
Results for the year ending 31 December 2020	Announcement	Early March 2021

Advisers

Stockbrokers
Numis Securities Limited
Peel Hunt

Auditor
Deloitte LLP

Legal advisers
Herbert Smith Freehills LLP
Pinsent Masons LLP

Financial adviser
N M Rothschild & Sons Limited

Bankers
HSBC Bank plc
Lloyds Bank plc
Royal Bank of Scotland plc

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

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