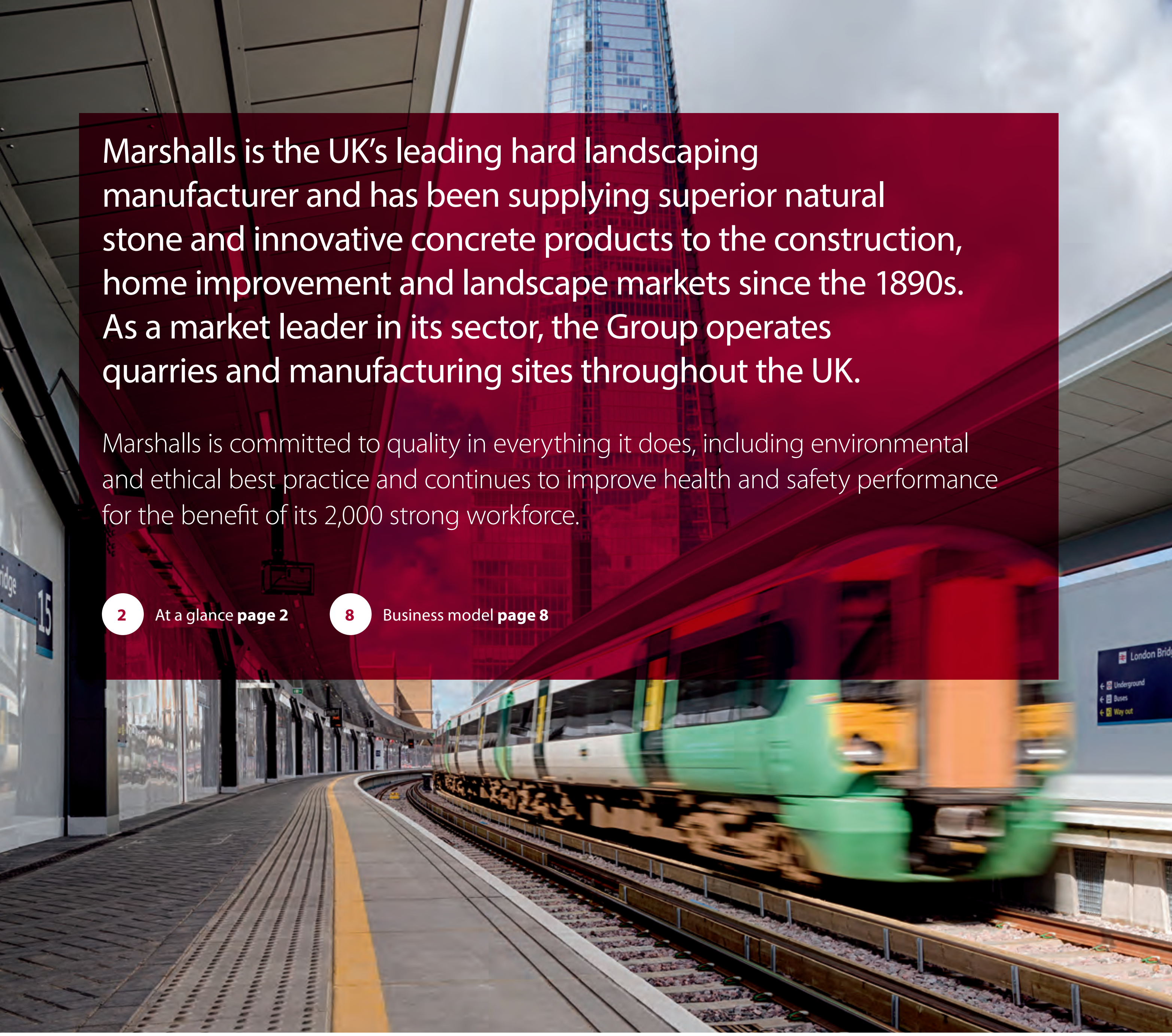
Marshalls

Annual Report and Accounts
2014



Marshalls is the UK's leading hard landscaping manufacturer and has been supplying superior natural stone and innovative concrete products to the construction, home improvement and landscape markets since the 1890s. As a market leader in its sector, the Group operates quarries and manufacturing sites throughout the UK.

Marshalls is committed to quality in everything it does, including environmental and ethical best practice and continues to improve health and safety performance for the benefit of its 2,000 strong workforce.

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Strategic Report

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Shareholder Information

Front cover – Scoutmoor Yorkstone and Pave Drain, Holborn Circus, London
Above – Keyblok Charcoal, Platform Edge Tactile, Rail Coping Unit and Birco Lite Drainage Channel, London Bridge Station

Financial highlights

- Good revenue growth of 17% to £358.5 million (2013: £307.4 million)
- Improvement in operating margins to 7.1%
- Strong profit before tax growth of 72% to £22.4 million (2013: £13.0 million)
- Return on capital employed improved 54% (440 basis points) to 12.5% (2013: 8.1%)
- EPS from continuing operations up 46% to 10.13 pence (2013: 6.94 pence)
- Final dividend increased by 14% to 4.00 pence (2013: 3.50 pence) per share

Current priorities

- To increase output to meet growing demand and to deliver benefits from operational gearing
- To further strengthen the Marshalls brand by focusing on innovation, service and new product development
- To grow our business both organically and selectively and, as appropriate, through acquisitions
- To continue to develop and invest in our strategic growth initiatives, particularly in Rail, Newbuild Housing, Water Management and Street Furniture
- To develop and grow the International business profitably

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Revenue

£358.5m *+17%*

(2013: £307.4m)

Operating profit

£25.3m *+57%*

(2013: £16.1m)

Profit before tax

£22.4m *+72%*

(2013: £13.0m)

Return on capital employed

12.5% *+54%*

(2013: 8.1%)

EPS

10.13p *+46%*

(2013: 6.94p, continuing operations)

Final dividend recommended

4.00p *+14%*

(2013: 3.50p)

Find out more online
www.marshalls.co.uk

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Find us on Facebook **MarshallsGroup**

Follow us on LinkedIn **Marshalls**

At a Glance

Our business

Marshalls believes that the better our environment, the better we can be, and strives to create products that improve landscapes and create happier and healthier communities.

Est. 1890

We have been supplying superior natural stone and innovative concrete products to the construction, home improvement and landscape markets since the 1890s.

2,000 employees

Our success depends on our people. Because of that, we are committed to the highest health and safety measures for all of our employees.

Expansion

The Company continues to focus on extending its global reach into Europe, Asia, the Middle East and North America.

Our operations

The Group operates quarries and manufacturing sites throughout the UK, with its national network of manufacturing and distribution sites, and has operations in Belgium and representation in other international markets including its US sales office and its sourcing and quality office in China.

The UK business consists of a single integrated logistics and distribution operation supplied by centrally managed production units. We produce and deliver a range of products that are sold into each end market area. The same capital equipment produces products for both the Domestic and the Public Sector and Commercial end markets and this flexibility remains a key operational objective.

The structure gives flexibility in the development of individual products under the Marshalls brand whilst providing strategic focus through the integrated national and centrally administered functions.

10 Read more in our Operational Review on **page 10**

Our customers and product ranges

Marshalls is the market-leading supplier of hard landscaping products to both the Domestic and Public Sector and Commercial end markets. We are the complete external landscaping, interior design, paving and flooring products business – from planning and engineering, to guidance and delivery.

Domestic

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

Products: Garden paving, driveways, garden paths, kerbs and edging, garden accessories and garden walling

Public Sector and Commercial

Customers: Local authorities, commercial architects, specifiers, contractors, house builders and builders merchants

Products: Block paving, natural stone, kerb, street furniture, water management, traffic calming, walling and mortars

Fairstone Sawn Versuro King Size

The Group has pioneered the ethical sourcing of natural stone paving from India, China and Vietnam. Marshalls' "Fairstone" products combine the attributes of fair trade and ethical sourcing by incorporating regular independent supply chain audits.

Our global reach

The Group has a unique national network of manufacturing and distribution sites and has a wide geographical spread. An expanding geographic coverage continues to enable Marshalls to be close to its customers.

As well as quarrying and processing significant quantities of British natural stone, Marshalls has major supplier partnerships in India and China and also imports other specialist stone from around the world. The Group continually seeks opportunities to expand reserves and geographical coverage.

Key areas of geographic focus:

Europe through Marshalls NV Belgium/France

North America through distribution agreements such as Unilock and Stone Pavers

Middle East through special projects in the UAE/Kuwait/Qatar

Our achievements

Marshalls has been voted a Business Superbrand every year since 2010. Superbrands is an annual initiative to identify and celebrate Britain's strongest consumer and business-to-business brands.

13 Read more about our achievements on **page 13**

Chairman's Statement

Andrew Allner
Chairman

Our values

Marshalls is built on four key values.

Demonstrating ***leadership.***

We believe in driving the industry forward. It is an ambition we've been acting on for 120 years.

Delivering ***excellence.***

Our products have to be innovative, our people have to be the best and our workmanship has to be perfect.

Building ***trust.***

Everyone at Marshalls acts with integrity, treating customers and their projects with care and respect.

Being ***sustainable.***

We use the world to source our products, so we have a responsibility to look after it.

Overview

I am pleased to report that 2014 has been a good year for your Company and that 2015 has started well. We have seen a significant improvement in revenue and profitability as the Group has taken full advantage of the more favourable market conditions. The new Executive team is now fully established and we have a clear strategy. Furthermore the Construction Products Association ("CPA") has continued to strengthen its forecasts during the last year and the Government's positive announcements on infrastructure projects should also provide further opportunity for growth. Our primary objective remains to improve the profitability of all our businesses and to deliver sustainable shareholder value.

Results

I am delighted to report that Marshalls' revenue is up 17 per cent to £359 million and profit before tax is up 72 per cent to £22.4. The Group's earnings per share at 10.13 pence is up 46 per cent.

Dividends

We recognise the importance of dividends to our shareholders. The Group has a progressive dividend policy with the objective of achieving up to 2 times dividend cover over the business cycle. As earnings increase we plan to share the increase between strengthening cover and progressively raising the rate of dividend. Accordingly the Board is recommending a final dividend of 4.00 pence (2013: 3.50 pence) per share which, together with the interim dividend of 2.00 pence (2013: 1.75 pence) per share, makes a combined dividend of 6.00 pence (2013: 5.25 pence) per share. This represents dividend cover of 1.7 times (2013: 1.3 times) and an increase in the total dividend for the year of 14 per cent.

Strategy

As your Chairman, it is my responsibility to lead and manage the Board in its key task of debating and formulating strategy.

The Marshalls brand remains central and the Group has again received "Superbrand" status for 2015. Marshalls is a benchmark for excellence in the industry and the 3 cornerstone themes of customer service, quality and sustainability remain essential to the brand and put the customer at the very heart of our business.

Continual innovation is a key focus and it has been particularly encouraging to see the success of new products in areas such as drainage and water management and rail.

A full explanation of our strategic objectives is set out in our Strategy Report on pages 14 and 15.

Governance

I and the Board are committed to promoting the highest standards of corporate governance and ensuring effective communication with shareholders.

This year's Annual Report has a fresh new feel and incorporates a number of features to make it easier to read and understand. We hope this will provide shareholders with a clearer picture of the Group's business model, its objectives and key strategic themes and will ensure a fair, balanced and understandable assessment of the Group's position and prospects.

Board development is a constant priority and we continue to challenge the effectiveness of the Board against detailed and continually developing performance criteria. In my report last year I set out a number of specific Board actions for 2014 including diversity in the context of Board succession planning, enhanced Board reporting and creation of opportunities to add value from the experience and expertise of the Non-Executive Directors.

I am pleased to report good progress against all these actions. In particular, we have agreed a framework for succession planning for the Non-Executive Directors, including the Chairman, over the next few years. The first step of this plan is the appointment of a new female Non-Executive Director and we hope to make an announcement on this shortly.

During the year, a detailed internal evaluation of Board performance was again carried out by the Company Secretary. The review sought to improve the effectiveness of the Board as a whole and of individual Directors. We have worked hard at Marshalls to ensure that the Board culture is open and transparent and that there are no restrictions or pressures on Board members which result in views or opinions not being expressed. Against this background I believe an internal review works well.

I am pleased to report that no areas of material concern were highlighted from this evaluation though, of course, a number of new areas were identified for improvement during 2015. These include allowing time for deeper debate on strategic issues, increasing focus on dynamic risk reporting, identifying particular business areas for closer review and increasing opportunities for Non-Executive Directors to meet senior management below Board level through an extended programme of site visits. I also plan to increase my own contact with shareholders to ensure that shareholder views continue to be fully understood. I will report on progress against these initiatives next year.

I am also pleased that, under our Remuneration Policy, management receives a large proportion of their remuneration in shares which must be retained for up to 5 years. This ensures a strong alignment between the interests of management and our shareholders.

Board changes

The transition of the senior executive team is now complete. Martyn Coffey is firmly established as Chief Executive. Jack Clarke became Group Finance Director on 1 October 2014, joining us from AMEC plc, where he was Executive Vice President and Director of Change Management. He is already making a difference and bringing a more operationally focused approach to the finance function.

Both David Sarti and Ian Burrell retired from the Board during the year. I would like to thank them both for their significant contributions to Marshalls over many years and for their support in ensuring a smooth transition to the new team.

People

Marshalls' success is critically dependent on the positive interaction between the Group's employees, customers, suppliers and other stakeholders. We have an outstanding group of employees and, on behalf of the Board, I would like to thank all of them for their hard work, professionalism, and ongoing support and commitment to Marshalls.

Outlook

2015 has started well. We are planning for good further progress in 2015 against a background of continuing favourable market conditions.

Andrew Allner
Chairman

Chief Executive's Statement

Summary

The Group's current priorities are:

Increase ***output.***

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

Grow our ***business.***

To grow our business both organically and selectively through acquisitions.

Further ***strengthen.***

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

Continue to ***develop.***

To continue to develop and invest in our strategic growth initiatives.

Develop and ***grow.***

To develop and grow the International business profitably.

Introduction

2014 has been a strong year for Marshalls with significant revenue and profit growth. Trading conditions remain positive and the Group continues to experience strong order intake and sales growth in all its end markets. Marshalls' operating flexibility has enabled manufacturing output to be increased without significant increase in the Group's cost base and this is delivering benefits from our operational gearing. The Group's underlying operating margin has increased from 5.2 per cent to 7.6 per cent during the year and volume growth of 13 per cent in 2014 has been significantly ahead of CPA market forecasts.

Marshalls is a leading, trusted brand with a strong market position and maintains clear values and excellent sustainability and environmental credentials. The Group has maintained its national geographic coverage and retains lowest cost to market and industry-leading customer service.

I am particularly pleased to report that there has been a significant performance improvement in our smaller UK businesses during 2014 and they have collectively delivered volume revenue growth of £9.3 million and related profit growth of £2.7 million. These businesses include Street Furniture, Mineral Products and Stone Cladding. Stone Cladding is a particular growth area and Marshalls has been supplying stone for a prestigious office building in the City of London.

Jack Clarke joined Marshalls as Group Finance Director on 1 October 2014. Most recently, Jack has been Executive Vice President and Director of Change Management at AMEC plc, having previously served as CFO of AMEC's £850 million power and process division and its US$1.5 billion environment and infrastructure division. His extensive experience is already contributing to the Board and the Executive.

2014 trading summary

Marshalls' revenue, from continuing operations, for the year ended 31 December 2014 was up 17 per cent at £358.5 million (2013: £307.4 million). Revenue for the six months ended 31 December 2014 was up 18 per cent compared with the second half of 2013. This continued growth in the second half has been seen in the Public Sector and Commercial and also the Domestic end markets.

The strategic focus is now firmly on growth.

Continued emphasis is being placed on innovation and growth initiatives and the further development of the Marshalls brand across all the Group's businesses.

Sales to the Public Sector and Commercial end market, which represent approximately 64 per cent of Group sales, were up 20 per cent for the year, on a continuing basis, compared with 2013.

Sales to the UK Domestic end market, which represent approximately 30 per cent of Group sales, were up 9 per cent compared with the prior year. The survey of domestic installers at the end of February 2015 revealed order books of 9.0 weeks (2014: 9.3 weeks).

International revenue grew by 27 per cent during 2014 and is now 6 per cent of Group sales. Activity levels in Belgium have been encouraging despite the subdued market background in mainland Europe. During the second half we have acted to ensure that the operations in Belgium are better aligned with market opportunities and this has resulted in a charge of £2 million in relation to the restructuring of Marshalls NV.

Operating profit from continuing operations was £25.3 million (2013: £16.1 million). EBITDA from continuing operations was £38.5 million (2013: £30.2 million).

Basic EPS from continuing operations was 10.13 pence (2013: 6.94 pence), an increase of 46 per cent. Reported EPS from total operations was 10.13 pence (2013: 7.20 pence).

Current priorities

The Group has a number of current priorities that will grow and develop the business this year and into the future. The current focus for Marshalls is to maximise the benefits from the improved market conditions in order to generate volume growth and benefit from operational gearing. We have already seen operating margins improve during 2014 and a key objective will be to deliver further improvement in profit margins in all businesses and end markets. We continue to experience strong growth in a number of key areas, for example, Rail, Newbuild Housing, Water Management and Street Furniture.

The key priorities remain service, quality, design, innovation and a commitment to research and development, sustainability and an integrated product offer. The Group's key strategic initiatives are set out in detail in the Strategic Report on pages 14 and 15.

Health and safety is a key priority and Marshalls remains committed to improving the quality and safety of the working environment by maintaining the highest health and safety standards. During 2014 there was a 30 per cent reduction in days lost from workplace incidents, which is comfortably ahead of the Group's headline target of 10 per cent.

The Group is well positioned to grow both organically and through acquisition. We will put increasing focus on our growth objectives in 2015 and 2016.

Marshalls continues to have customer service as a key KPI and maintains industry leading standards of product quality, availability and "on time" delivery. The combined customer service measure continued to be in excess of 97 per cent throughout 2014.

The Group has continued to focus on innovation and new product development to drive sales growth in areas of particular opportunity and to further strengthen and differentiate the Marshalls brand. The Group intends to invest further resource over the medium term to drive further innovation and new product development. One specific area of opportunity is "intelligent street furniture," which would see the incorporation of new technology into street lighting systems and items such as bollards and bins. The technology facilitates the communication of information; for example, bins that can signal when they need emptying and bollards that can inform pedestrians where to go.

Developing the International market is also a key priority and the Group will continue to invest in its International structures in order to grow this part of the business profitably and to develop opportunities to promote growth.

Martyn Coffey
Chief Executive

Business Model

How we do business

Marshalls' principal goal is to create value through creating better landscapes.

We place a strong emphasis on product innovation and service delivery initiatives. We offer flexibility in our product mix, providing exceptional customer service and manufacturing expertise. We are also driven by a commitment to our values which, in turn, make us an industry leader when it comes to sustainable practices.

How we operate

Sourcing

- International supply chain – natural sandstone, granite and limestone from India, China and Vietnam;
- UK sourcing of natural stone and aggregates from own quarries and third parties; and
- UK sourcing of other raw materials.

The Group has **extensive reserves of UK natural stone** and through its ongoing commitment to the Ethical Trading Initiative ("ETI") Base Code has pioneered the ethical sourcing of natural stone from India, China and Vietnam.

Manufacture

- Centrally directed and locally managed production units;
- Operating assets produce for each "end market";
- Landscape, driveway and garden products; and
- Horizontal and vertical and external and internal.

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

Distribution

- Single integrated logistics and distribution operation;
- Own fleet with over 150 specialist vehicles; and
- National geographic coverage.

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

Operational gearing

As markets improve, there continues to be a real opportunity to benefit from improved operational gearing derived from efficient sales and production levels and from the lower cost base. Continued emphasis on value added products and improving product availability should generate further improvements in operating margins.

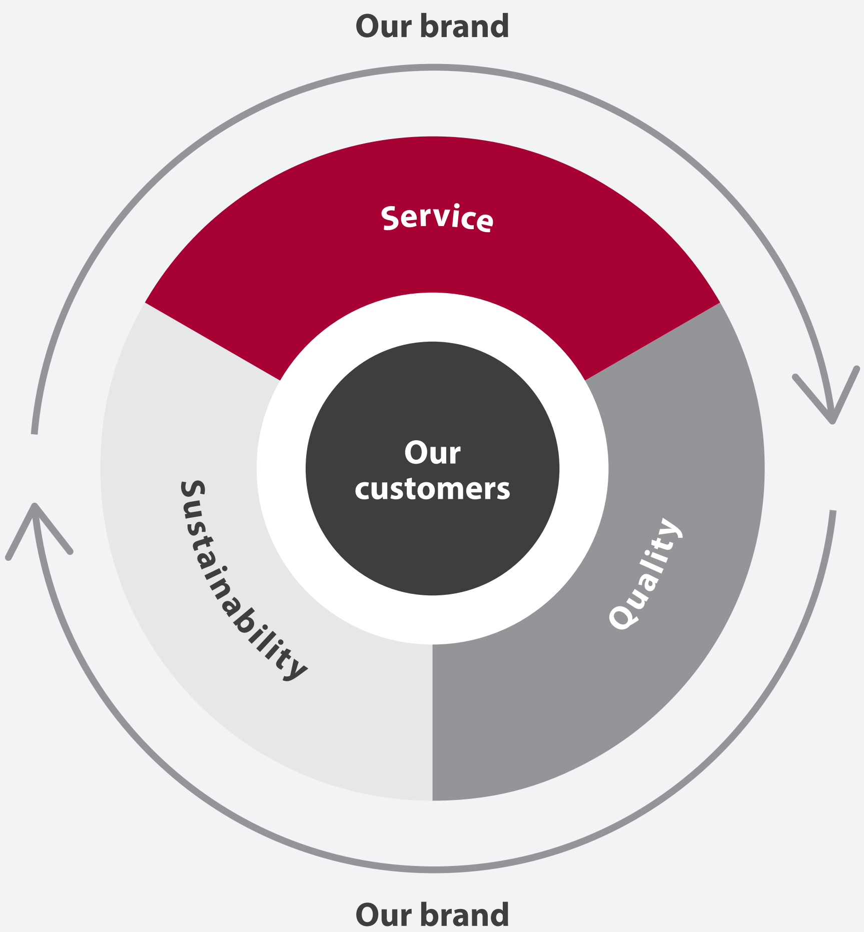
6 Read more in the Chief Executive's Statement on **page 6**

Innovation

Innovation remains a key element of the Group's business model both in terms of new product development and through machinery design and installation. Additional resources continue to be invested in research and development.

How we add value

Creating better spaces through continual innovation and product development.



Our customers are at the heart of our business. Our priority is to provide them with high quality products, exceptional service and trust in our sustainable practices. Reinforcing those core elements is the Marshalls brand, driven by our strong values, which ensures that Marshalls is synonymous with "Creating Better Landscapes".

14 Strategy **page 14**

16 KPIs **page 16**

Our customers

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

Service

We pride ourselves on our customer service and technical advice across both our Domestic/Homeowner products and our Commercial products. The Group sets industry leading standards of product quality, availability and "on-time" delivery.

Quality

We are committed to producing new products that better any existing market offering and to make them from the best materials we can source. The Group maintains its technical expertise in all areas.

Sustainability

We believe in conducting our business in a manner that achieves sustainable growth whilst incorporating and demonstrating a high degree of social responsibility.

THE GLOBAL COMPACT WE SUPPORT

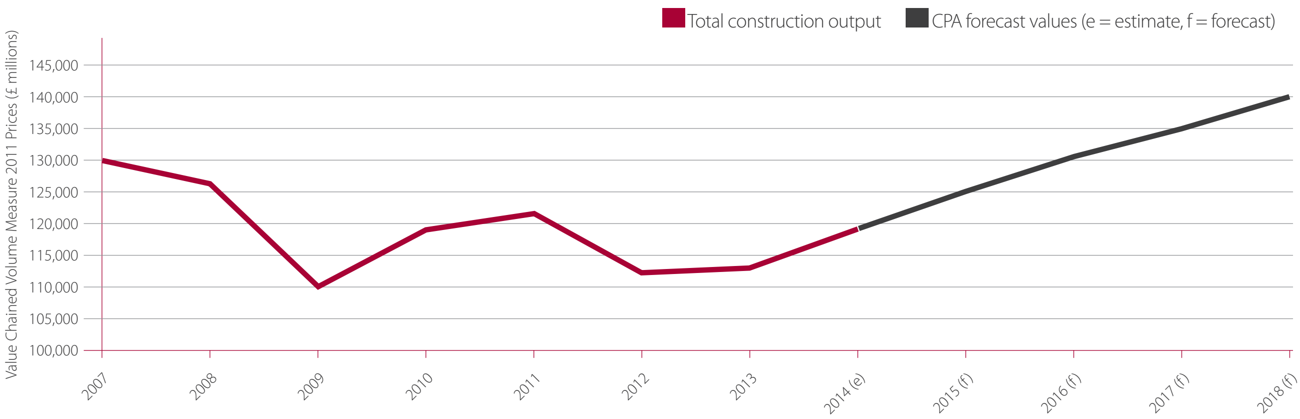
Our brand

Marshalls is a benchmark for excellence. We have been voted a Business Superbrand every year since 2010. Emphasis is being placed on the further extension of the Marshalls brand across all areas of hard landscaping.

Operational Review

Indian Basalt at Leadenhall Building, London

Construction Output Forecast Chart



Economic market background

The construction market has seen positive growth over the last 23 months. The Office for National Statistics reported construction output growth of 5.9 per cent in the 12 months to November 2014, compared to the previous 12 months and the CPA is now estimating growth of 7.4 per cent for 2014. The CPA continued to strengthen its forecasts during 2014 and background economic conditions in the UK have continued to improve.

In January 2015, the Office for National Statistics estimated that GDP in 2014 as a whole was 2.6 per cent higher than in 2013 and that in Q4 2014, GDP was estimated to have been 3.4 per cent higher than the pre-economic downturn peak in Q1 2008. The CPA's GDP forecast for 2015 is for 2.7 per cent growth.

Outlook remains strong with the CPA's current forecast for construction output standing at 5.3 per cent growth in 2015 and 4.2 per cent, 3.4 per cent and 3.9 per cent in the following three years.

In the UK Domestic end market the CPA estimates that Private Housing Repair, Maintenance and Improvement expenditure, a proxy for Domestic end market demand, will increase by 11.5 per cent in 2014. Growth of 4.0 per cent is expected in 2015 with increases of 4.0 per cent and 3.0 per cent forecast for 2016 and 2017. GfK's Consumer Confidence index has improved significantly in the last 18 months and has stabilised at a roughly neutral position for the last 6 months.

The prospects for the Eurozone continue to remain more subdued. Consumer price inflation is likely to be around 1.9 per cent in 2015, which compares with 1.8 per cent in 2014.

Market

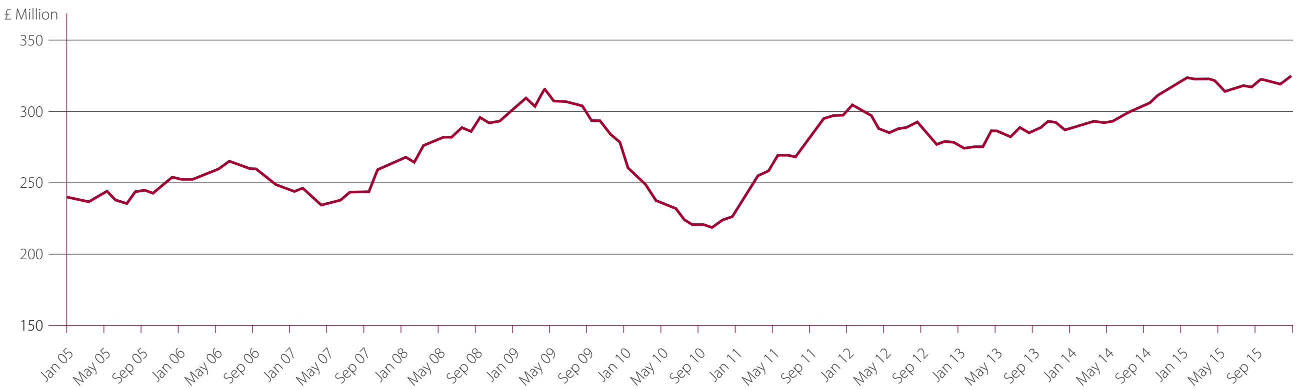
In the Public Sector and Commercial end market Marshalls focuses on developing products which help architects, local authorities, housebuilders and contractors to "Create Better Spaces", whether in street furniture, natural stone paving for the internal or external environment, concrete block paving, water management or anti-terrorist products.

Marshalls continues to be the only landscape products company able to provide a fully integrated product offer to the Public Sector and Commercial end market.

Economic conditions in the UK have continued to improve.

Outlook remains strong with the CPA's current forecast for construction output standing at 5.3 per cent growth in 2015 and 4.2 per cent, 3.4 per cent and 3.9 per cent in the following three years.

Contracts awarded (12 Month Rolling Average) of hard landscape value
(Barbour ABI with 12 Month Lag)



Marshalls continues to invest in products, sales and technical resource for those parts of the market where it anticipates growth, in particular in rail infrastructure, house building and water management.

The CPA's overall view is that in the short term it is private housing and infrastructure that are driving the upturn in construction output.

Rail infrastructure spend is being particularly boosted by Network Rail's nationwide work programme supported by a few major projects, including Crossrail. As a consequence output from rail infrastructure spending is forecast to grow by 8 per cent in 2015.

Private housing has driven a significant part of the recovery of construction output, which is being partly boosted by Government schemes such as "Help to Buy" and the "Funding for Lending Scheme". Private housing starts are estimated to have grown by 14 per cent in 2014 and further growth of 8 per cent is currently forecast by the CPA for 2015. In the light of this, Marshalls has dedicated sales support in the housebuilding sector and has secured framework agreements with 13 of the top 25 house builders.

Outside of housebuilding and infrastructure, construction output continues to gain strength; the CPA estimates that Other New Work (excluding Infrastructure), a proxy for demand, was up 0.4 per cent in 2014 and forecasts an increase of 5.9 per cent in 2015. Growth of 5.8 per cent and 5.7 per cent is currently forecast for 2016 and 2017 respectively.

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

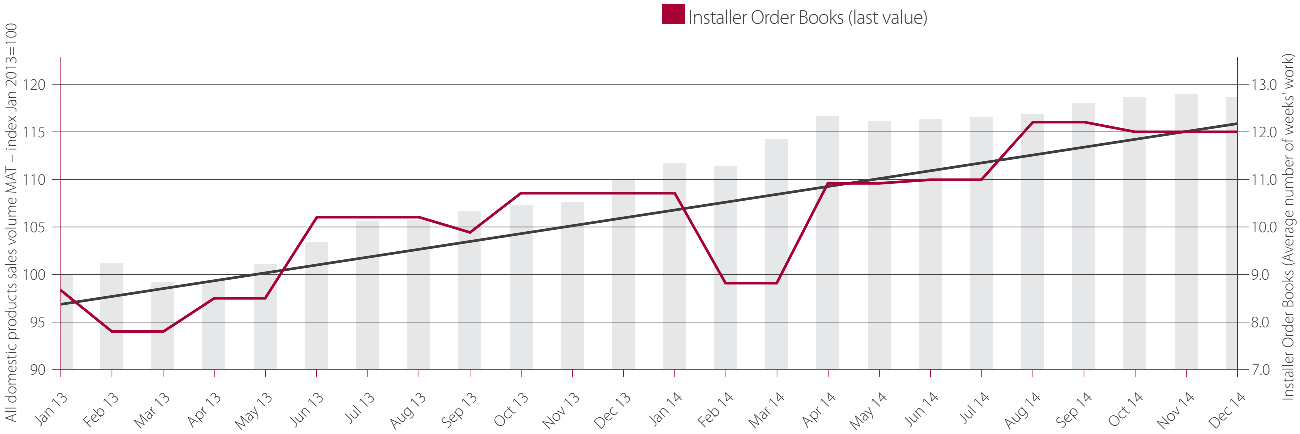
Relationships with clients, architects and contractors and the development of systems to identify projects are a key priority. The visibility of projects through externally measured sources such as Barbour ABI gives a measure of control over securing future volume. This approach continues to deliver good growth in bespoke street furniture, natural stone paving and sustainable urban drainage products.

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

Operational Review *continued*

Fletcher Bank Sandstone at St Paul's School, London

Installer order books and Domestic sales volume



Market *continued*

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

Marshalls offers homeowners the inspiration and product ranges needed to create gardens and driveways that integrate effortlessly with people's lifestyles.

The target customer groups for installed patios and driveways occupy 9.1 million homes, a far bigger potential market than new build. These customers are generally older, have equity in their property, earn more and often have savings. An ageing population is combining with a lifestyle trend towards more outdoor living and the "outdoor room". Through marketing and product development the Group continues to promote solutions to meet the aspirations of these customer groups.

The Group's Domestic strategy is to drive more sales through quality installers. In 2014, Marshalls increased its membership of the Register and has plans in place to further increase this membership in 2015. The Marshalls Register remains the largest installer scheme in the UK.

The Group is committed to increasing the marketing support to the installer base and the Marshalls Register through increased training, marketing materials and sales support. The Group has also continued to focus on product innovation in order to assist installers with significantly increased order books.

Internationally Marshalls has placed a key geographic focus on northern Europe, North America and the Middle East.

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

In 2014, a £2 million restructuring provision was undertaken at Marshalls NV which will allow for a reduction in the cost of manufacturing at its sites.

Marshalls now has a sales presence in North America and is supplying natural stone to commercial projects via distribution relationships with US companies such as Unilock and Stone Paving.

Marshalls continues to supply a number of high profile projects in the Middle East, in particular focusing on driving sales in the United Arab Emirates, Kuwait and Qatar. In 2014, Marshalls supplied King Abdulaziz International Airport in Saudi Arabia with £1 million of bespoke lighting, as well as paving to the world's largest shopping centre in Kuwait.

Operations

The Group operates its own concrete production facilities as well as quarries throughout the United Kingdom producing paving, walling, masonry and cladding products and is supported by a centrally managed logistics and distribution operation. The structure gives the Group operational flexibility through the optimisation of the production and logistics footprint to provide nationwide lowest cost to market products.

in the UK, the Group has a unique manufacturing network of 13 concrete manufacturing sites with enough capacity to absorb medium term demand and the flexibility for further capacity and capability investment.

The well invested capital equipment provides the flexibility to manufacture products for both the Public Sector and Commercial and the Domestic end markets and this operational flexibility remains a key objective. Manufactured products from this network are combined with ethically sourced natural stone products imported from India, China and Vietnam and are supplied to distributors' depots or, at their request, direct to site.

The Group operates its own fleet of 44-tonne delivery vehicles equipped with crane offloading capability and is in the process of expanding this further in 2015 in order to continue to guarantee continuity of our high service levels as the construction industry is currently experiencing shortages of both vehicles and drivers.

This manufacturing, sourcing and distribution network enables the Group to supply products to 97 per cent of its customers within a 2 hour drive. The proximity to our customers enables costs to be controlled and unparalleled service levels to be maintained.

Marshalls has a world class Manufacturing, Innovation and Development team of engineers and technicians which is integrated to provide competitive advantage through combining machinery design and installation with process improvement. This capability and competency is a key component of the Group's success and will be invested in further to accelerate new product development across the business in 2015.

Product innovation

Marshalls is committed to producing new and innovative products that better any existing market offering.

In 2014, the Commercial side of the business extended its water management range with a number of innovative new drainage products, including Mono Beany, a market-first concrete combined kerb and drainage product. Marshalls has also continued to develop its range of market-leading permeable paving products.

On the Domestic side there has been a contemporary extension to the Drivesys range of patented driveway products, as well as the launch of Pavesys, the patio version of this product range. As well as being technically superior, these products are 50 per cent quicker to install assisting installers with lengthy order books.

Marshalls has added a new material to its Domestic range with vitrified paving. As well as being aesthetically pleasing this material is exceptionally hard wearing and has ultra low water absorbency qualities meaning that it will not become discoloured. This product is already proving to be exceptionally popular in northern Europe.

Achievements

Marshalls remains at the forefront of sustainable business. It was the first company in the hard landscaping industry to belong to the Ethical Trading Initiative ("ETI"). Marshalls is committed to the implementation of the ETI Base Code, pioneering the ethical sourcing of natural stone paving from India and China.

Building on its work with the ETI, in 2013 Marshalls announced a 3 year partnership with UNICEF aimed at tackling child labour in India's quarrying sector and furthering children's rights in China and Vietnam. As part of this partnership Marshalls donates £1 per square metre sold of its ethically sourced natural stone paving to the charity.

Following its acceptance in 2009, Marshalls remains a signatory of the United Nations Global Compact ("UNGC") and its Group Marketing Director is Chair of the UNGC UK network.

In addition, The Carbon Trust has reaccredited Marshalls 3 times. Since 2009, the Group has reduced its relative carbon footprint by more than 24 per cent and has made a commitment to reduce its carbon emissions by over 3 per cent per year until 2020.

Marshalls remains the only organisation in the world to have carbon labelled its entire domestic range. It continues to be a constituent member of the FTSE4Good UK Index and an active member of Business in the Community ("BITC").

In 2014, Marshalls is proud to have been accredited by the Living Wage Foundation as a Living Wage employer. Marshalls also received a "Very Good" in the BRE standard BES 6001 Sustainable Sourcing of Construction Product Certification for each and every one of its concrete product and stone manufacturing facilities in the UK. Marshalls was the first business in its sector to receive this certificate under BRE's new and more stringent standard.

For more information on Marshalls' sustainability work please see its United Nations Global Compact Communication on Progress ("UNGCCoP"), available to download from the Sustainability section of the Marshalls website.

UNGCCoP
www.marshalls.co.uk/ UNGCCoP2015

Strategy

Focused on growth

The Group's focus is to grow the business organically and selectively through acquisitions. The strategic objectives include the improvement of profit margins in all businesses and to increase the Group's return on capital employed.

Long-term strategy

Shareholder ***value.***

To deliver sustainable shareholder value by improving the profitability of the Group's operations and optimising the operating performance of the business.

Sustainable ***profitability.***

To maintain a strong market position and sustainable profitability with the national builders' merchants and the Public Sector and Commercial end market and to improve market share in other target markets.

Develop ***relationships.***

To develop relationships with installers to deliver more effective penetration of the key domestic routes to market and to improve product mix.

Organic ***expansion.***

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

Corporate

Key strategic initiatives

— To strengthen and extend the Marshalls brand focusing on innovation, service and new product development;

— To develop "strategic growth initiatives" for targeted investment and focus; and

— To continue the tight control of inventory, monetary working capital and capital expenditure.

Progress in 2014

The Marshalls brand remains central to the Group's strategy and we have attained "Superbrand" status again for 2015. The Marshalls brand has now been fully integrated across the Group's businesses. Specific growth initiatives currently include Rail, Newbuild Housing, Water Management and Street Furniture. Net debt has been reduced to £30.5 million and stock turnover has continued to improve in 2014.

Objectives and targets

A key strategic objective is to improve Return on Capital Employed ("ROCE") and in 2014 ROCE increased by 54 per cent to 12.5 per cent. The Group has re-affirmed the objective of having a progressive dividend policy and, throughout its operations, Marshalls' aim is to demonstrate a high degree of Social Responsibility.

Operational

Key strategic initiatives

— To ensure resources are in place to meet the expected cyclical increase in demand without significant additional investment; and

— To increase output to meet growing demand and to deliver benefits from operational gearing.

Progress in 2014

The Group's underlying operating margin has increased during 2014 from 5.2 per cent to 7.6 per cent and volume growth has been significantly ahead of CPA forecasts. This improvement has been due to the benefits of operational gearing which has been enhanced by efficient manufacturing and reductions in the Group's fixed cost base in recent years.

Objectives and targets

The Group's objective is to retain its market-leading position and to continue to focus on innovation and customer service. The Group aims to be at the forefront of technical research and development and to maintain the highest level of health and safety and sustainability performance.

4 Chairman's Statement **page 4**

8 Business Model **page 8**

16 Key Performance Indicators **page 16**

18 Risk Management and Principal Risks **page 18**

Public Sector and Commercial

Key strategic initiatives

- To target marketing, cross selling opportunities and product innovation;
- To continue to focus on "Scapes" and the introduction of new Scapes with market growth potential;
- To focus on targeted growth areas such as: Water Management, Sustainable Urban Drainage, Traffic Management, Internal Stone Paving, Stone Cladding, Education, Home Improvement, Rail and Sustainability; and
- To continue to enhance the Group's portfolio of natural stone types.

Progress in 2014

Sales to the Public Sector and Commercial end market were up 20 per cent in 2014 and the Group's UK smaller businesses (including Street Furniture, Mineral Products and Stone Cladding) collectively delivered volume revenue growth of £9.3 million and related profit growth of £2.7 million. Stone Cladding has been a particular growth area in 2014 and the Group has been supplying stone for a prestigious office building in the City of London.

Objectives and targets

The Group's objective is to maintain and develop its market-leading position in the core business and, at the same time, to focus on areas of particular growth opportunity. The Group continues to focus on innovation and new product development and to promote Marshalls' integrated product offer.

Domestic

Key strategic initiatives

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

Progress in 2014

Sales to the Domestic end market were up 9 per cent in 2014. Installer order books at the end of February 2015 were at 9.0 weeks (2014: 9.3 weeks). The Marshalls Register of approved domestic installers is unique and has grown to a total of 1,800 teams. The focus is to ensure a consistently high standard of quality and good geographical coverage.

Objectives and targets

The Group's objective is to maintain and develop its market-leading position, to improve product mix and to drive more sales through quality installers. The Group remains committed to increasing the marketing support to the installer base and the Marshalls Register through increased training, marketing materials and sales support.

International

Key strategic initiatives

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

Progress in 2014

International revenue has grown by 27 per cent in 2014, with encouraging levels of activity in Belgium despite the continuing subdued market background in mainland Europe. During the year focus has been directed to ensure that the Group's International operations are better aligned with market opportunities. This has resulted in the cessation of manufacturing at the Arendonk site in Belgium.

Objectives and targets

The Group's objective is to develop the Marshalls brand internationally and to grow the business profitably. Marshalls continues to expand its geographical reach and to extend its global supply chains and routes to market. The aim is to extend the distribution of natural stone products into key focus areas, including North America and the Middle East.

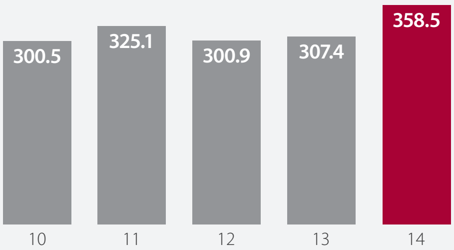
Key Performance Indicators

The Group's KPIs monitor progress towards the achievement of its objectives. All of the Group's strategic KPIs have improved significantly during 2014.

Revenue

£m

£358.5m +16.6%

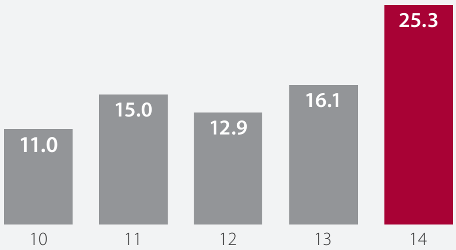


Group revenue has increased by 16.6 per cent in 2014 which is significantly ahead of the historic target of 7 per cent. International revenue has grown by 27.3 per cent in 2014 to £21.0 million and has increased to 5.9 per cent of total Group sales.

Operating profit

£m

£25.3m +57.3%

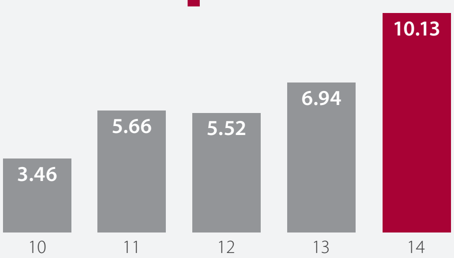


Operating profit has increased by 57.3 per cent to £25.3 million in 2014. The Group's strong operational gearing has driven an increase in reported operating margin from 5.2 per cent to 7.1 per cent, which represents an increase of 35 per cent. The increase of 1.9 per cent is ahead of the Group's targeted 1 per cent increase.

EPS

p

10.13p +46.0%

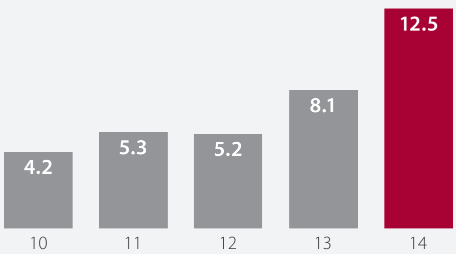


Group EPS has increased by 46.0 per cent in 2014 to 10.13 pence. The strategic target is for EPS to grow by 100 per cent over a 3 year period.

ROCE

%

12.5% +54%

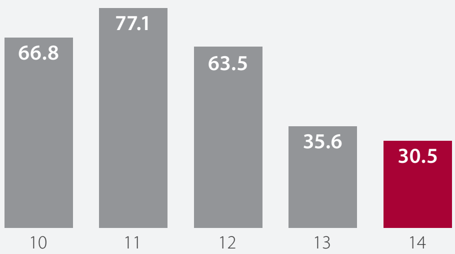


Group ROCE is 12.5 per cent for the year ended 31 December 2014, which represents an increase of 54 per cent during the year. The strategic target is for ROCE to be at least 15 per cent. ROCE is defined as EBITA/shareholders' funds plus net debt.

Net debt

£m

£30.5m



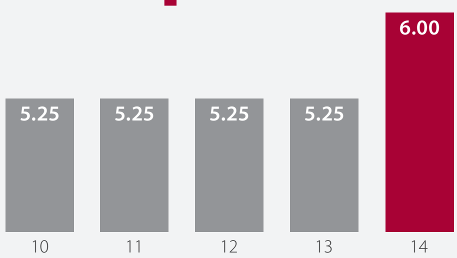
Net debt at 31 December 2014 is £30.5 million (2013: £35.6 million) which represents a reduction of 14 per cent.

The Group's strategic target is for the ratio of net debt to EBITDA to be 2 times over the business cycle. At 31 December 2014 the ratio was comfortably within this at 0.8 times.

Dividend per share (recommended)

p

6.00p *+14.3%*



A progressive dividend policy remains a key objective, with the continuing strategy of maintaining up to 2 times cover over the business cycle. On an IFRS basis the dividends declared in the year ended 31 December 2014 are 5.50 pence. The final dividend recommended is 4.00 pence per share which, including the interim dividend of 2.00 pence, gives a total for the year of 6.00 pence. For the year ended 31 December 2014 dividend cover was 1.8 times on an IFRS basis and 1.7 times on a traditional basis.

Customer service

Customer service index

97%

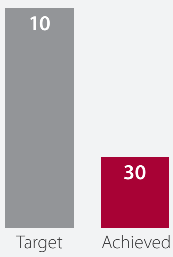
Customer service lies at the heart of the Marshalls brand. The Group's customer service index combines measures of product availability, on-time delivery performance and administrative and delivery accuracy. The Group's customer service index target is 95 per cent.

The combined customer service measure continued to be in excess of 97 per cent throughout 2014.

Health and safety

Reduction in working days lost

30%



Marshalls remains committed to meeting the highest health and safety standards for all its employees and continually strives to improve the quality and safety of the working environment. The headline target for 2014 was a 10 per cent reduction in days lost resulting from workplace incidents against 2013.

During 2014 there was a 29.6 per cent reduction in days lost from workplace incidents.

Risk Management and Principal Risks

Framework for managing risk.

Process

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

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

The Board

— 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;

— Monitors the effectiveness of the internal audit function and the independence of the external audit.

Executive Directors

— 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

— Independent review of effectiveness of internal control procedures;

— Report on effectiveness of management actions; and

— Provide assurance to the Audit Committee.

Operational Managers

— Responsible for identification of operational and strategic risks;

— Responsible for ownership and control of specific risks; and

— Responsible for establishing and managing the implementation of appropriate action plans.

Understanding movements in business risk:

Increase No change Decrease

Nature of risk	Potential impact	Mitigating factors	Change	
Macro-economic and political				
The Group is dependent on the level of activity in its UK and International end markets. Accordingly, it is susceptible to economic downturn and the impact of Government policy.	The lower activity levels could reduce sales and production volumes and therefore could have an adverse effect on the Group's financial results.	The Group closely monitors trends and lead indicators, invests in market research and is an active member of the CPA. The Group benefits from the diversity of its business and end markets. The Group focuses on sales opportunities and strategic growth initiatives, together with quality, service and its supply chain.	Economic risk has reduced as economic and sector outlook and growth rates have improved. Government expenditure is now likely to be near the cyclical low and there is now upside potential in certain focus areas, e.g. rail.	Decrease
			The economic outlook for the Eurozone continues to be difficult.	No change

Nature of risk	Potential impact	Mitigating factors	Change
Weather			
The Group is exposed to the impact of prolonged periods of bad weather.	The lower activity levels could reduce sales and production volumes and therefore could have an adverse effect on the Group's financial results.	The Group has a continuing focus on new product development including landscape water management. The Group is developing its internal flooring offer and developing its International strategy in order to diversify its activities.	Weather conditions are totally beyond the Group's control. 2014 has been a relatively benign weather year.
Customers			
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.	The loss of a significant customer may give rise to a significant adverse effect on the Group's financial results.	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.	The risk continues and is largely a consequence of the way the market is structured.
Competitor activity			
The Group has a number of existing competitors who compete on range, price, quality and service. Potential new low cost competitors may be attracted into the market through increased demand for imported natural stone products.	The increased competition could reduce volumes and margins on manufactured and traded products.	The Group has unique selling points that differentiate the Marshalls branded offer. The Group focuses on quality, service, reliability and ethical standards that differentiate Marshalls from competitor products. The Group continues to have the lowest cost to market. The Group has a continuing focus on new product development.	The improved market outlook has increased demand (relative to available supply) and this has lead to a reduction in such competitive pressure. Continuing demand for imported natural stone potentially serves to maintain this risk.
Cost and availability of raw materials			
The Group is susceptible to significant increases in the price of raw materials, utilities, fuel oil, haulage costs and vehicle availability. As demand increases, the Group is potentially more exposed to the risk of temporary raw material shortages.	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.	The Group benefits from the diversity of its business and end markets. The Group focuses on its supplier relationships, flexible contracts and the use of hedging instruments. The Group utilises sales pricing and purchasing policies designed to mitigate the risks. The Group has its own fleet of specialist delivery vehicles.	Cost inflation remains a risk as demand for raw materials increases. The improved market outlook has increased demand (relative to available supply) and there is an increased risk of temporary shortages.

Risk Management and Principal Risks *continued*

Nature of risk	Potential impact	Mitigating factors	Change
Pension			
The defined benefit pension scheme may be impacted by volatility in financial markets and the longevity of members.	These risks could increase pension scheme liabilities or reduce assets, putting pressure on accounting notional interest and therefore downward pressure on PBT and EPS. This could also result in the need for additional cash contributions.	The defined benefit section of the Pension Scheme is closed to new members and future service accrual. The Group uses liability driven investments to hedge interest rate and inflation risks. De-risking strategies continue to be pursued and risk management is a key control used by the Trustee. Professional advisers are consulted to minimise risk.	The risks surrounding the continuing funding of the past service liability remain unchanged as many of these are driven by financial markets and factors outside the Group's control.
Environmental			
An environmental contamination event may lead to a prosecution and to reputational loss.	An incident could lead to disruption to production and to financial penalties as well as a potential negative impact on the Group's reputation.	The Group uses professional specialists covering carbon reduction, water management and biodiversity. The Group focuses on the implementation of ISO standards. The Group has a formal Group sustainability strategy focusing on impact reduction.	The Group is unable to predict future changes in environmental laws or policies or the ultimate cost of compliance with such laws or policies.
Corporate, legal and regulatory			
The Group may be adversely affected by an unexpected reputational event, for example, it its ethical supply chain.	An incident could lead to a disruption to the supply of products for customers and to increased costs as well as a potential negative impact on the Group's reputation.	The Group employs compliance procedures, policies and independent audit processes which seek to ensure that local, national and international regulatory and compliance procedures are fully complied with.	The extension of the Group's activities into new international markets causes this risk to continue, notwithstanding the additional compliance procedures within the supply chain.
Access to funding			
The Group continues to require debt funding in order to meet its trading obligations and to grow the business.	Insufficient access to funding could limit the Group's ability to achieve the desired levels of growth.	The Group has significant committed facilities in place with a good spread of medium term maturities and significant headroom. The Group's policy continues to be to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities.	The improved economic outlook and the Group's reduced gearing has served to reduce this risk. There is also improved liquidity and increased competition within the banking sector.
IT infrastructure			
Disruption to the IT environment could affect the Group's ability to conduct its ongoing operations.	Ineffective procedures could lead to an adverse effect on the Group's financial results.	All IT system development projects are actively and carefully planned with defined governance and control procedures. Regular independent risk and project management audits are undertaken. The Group ensures that industry standards are adopted and disaster recovery plans and procedures exist and are regularly tested.	The continued investment in and maintenance of IT systems across the Group gives rise to good control of this risk.

Corporate Responsibility

CEO Martyn Coffey presenting Overgate Hospice with a cheque for £34,000

Overview

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

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

More information on our policies in relation to the environment and our impact on it can be found in the Group's Sustainability website.

Sustainability website
www.marshalls.co.uk/sustainability

Employees

Our success depends on our people. In 2014, Marshalls launched its shared values of leadership, excellence, trust and sustainability. These values underpin the organisation and are important in the continued success of the business, giving guidance on best business practice and setting the standards for employees throughout the Group.

Equality and diversity

In our recruitment and selection processes we recognise the importance of diversity within our workforce. We are committed to promoting and maintaining a working environment based on mutual respect, where individual talent is recognised and valued and to providing training designed to raise levels of awareness and sensitivity to matters of equality and dignity at work. We have fair and merit-based employment policies and we adhere to relevant legislation, including measures for the effective prevention of discrimination against individuals with protected characteristics under the 2010 Equality Act.

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

Our workforce comprised 2,146 employees as at 31 December 2014 with the following gender balance:

	Male	Female
Total Workforce	84%	16%
Senior Managers	85%	15%
Directors	100%	0%

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

Employee engagement

There is a dedicated resource within the Human Resources team focusing specifically on our engagement activities, through interaction with local management teams and employee focus groups. We communicate the Group's financial results, performance and overall direction by means of our internal intranet, monthly newsletter, site notice boards and face to face briefings between senior management and various employee groups. Through our employee "Options" platform, we offer a range of employee-focused benefits, which are regularly reviewed and updated and periodically offer access to employee benefits and services, such as Childcare Vouchers and "Cycle to Work" schemes.

In 2014, the Group participated for the fourth successive year in the Best Companies Workplace Engagement Survey. Participation increased by 5 per cent to almost 75 per cent of all employees and the results showed continued progress against previous workplace engagement targets, resulting in a "One to Watch" accreditation from Best Companies.

Corporate Responsibility *continued*

Charnwood Paving at Canary Wharf, London

Employees *continued*

Employee engagement *continued*

We operate a structured, consultative and collaborative interaction with recognised trades unions, their members and with our broader colleague base. In 2013, a 3 year agreement covering pay and employment terms throughout the period 2013 – 2015 was successfully negotiated with elected representatives and full time officers, providing a high level of certainty of employment costs throughout 2015. Marshalls was also accredited in 2014 as a "Living Wage Employer".

The continued development of progressive working practices across several of our larger manufacturing sites, in consultation with employees and employee representatives has facilitated significantly greater manufacturing flexibility in support of the Company's growth agenda and increased levels of demand for product. The Group's "Serious Concerns Policy", which is displayed on the intranet and at all sites, provides a framework for employees to raise any matters of concern confidentially and securely and ensures that any matters raised are properly investigated.

The Group's all-employee Share Purchase Plan provides employees with the opportunity to purchase shares in the Company. More details are on page 65. The Company is also proposing to introduce an all-employee save-as-you-earn scheme, subject to shareholder approval at the 2015 Annual General Meeting.

Training and development

The Development Review process has been further extended during 2014 and provides all employees with the opportunity for one-to-one discussions with their manager, covering work objectives, personal performance and career development. This is supported by the use of enhanced on-line resources and tools, together with site-based "tool-box talks".

A tailored team leader development programme commenced in 2014 to develop around 100 first-line managers within operations to drive manufacturing excellence. The programme, which will continue into 2015, aims to improve management and leadership skills through professional qualifications and a range of internal workshops.

In 2015, a dedicated resource within Marshalls' Human Resources team will ensure appropriate focus on aligning our people development strategy with the requirements of the growth agenda and our business plans.

Greenhouse Gas Emissions

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

The Group complied with its legal obligation in the Government's Carbon Reduction Commitment Energy Efficiency Scheme ("CRC") by submitting its Annual Report and surrender of carbon allowances for the period April 2013 to March 2014 within the time limit imposed by the legislation. The Group was certified to the Carbon Trust Standard up to December 2014 and its aim is to recertify for a further 2 years. The Group's approach to the recently introduced Energy Savings Opportunity Scheme ("ESOS") registration is to incorporate its energy management into its Integrated Management Systems through ISO 14001 and ISO 50001. The Group continues to report voluntarily to the "Carbon Disclosure Project" receiving a 98B rating for its 2014 report. This report includes a wider carbon management performance over time and also provides an insight for shareholders regarding the Group's energy, carbon and climate change impact management programme.

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

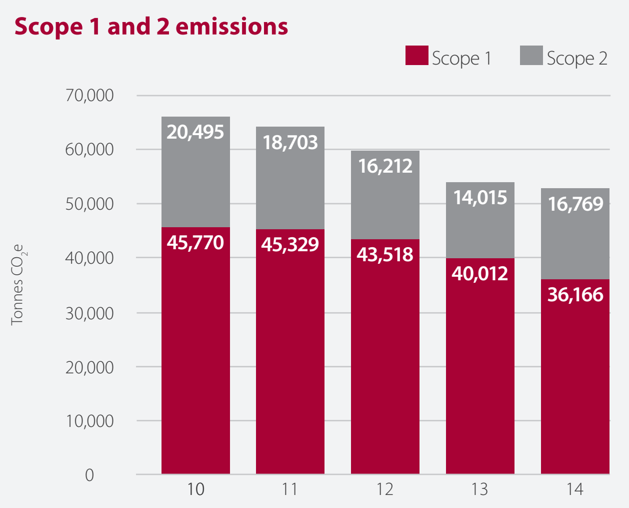
Climate Change Policy
www.marshalls.co.uk/ccp

Carbon Disclosure Project
www.cdp.net

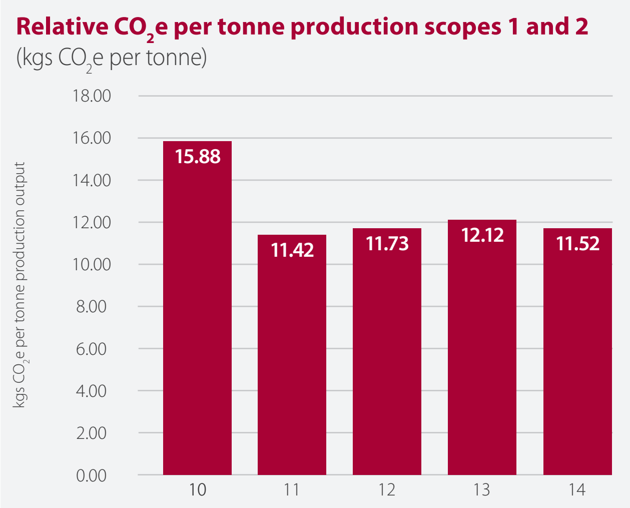
Marshalls is committed to reducing the energy and carbon impact of the business.

The Group continues to report voluntarily to the "Carbon Disclosure Project", receiving a 98B rating for its 2014 report.

The chart below illustrates the Group's UK absolute CO_2e emissions in tonnes, including transport activities between 2010 and 2014.



The chart below illustrates the Group's CO_2e intensity emissions as a proportion of production output, including transport activities between 2010 and 2014.



A number of factors have contributed to the Group's energy performance during the year including significant increases in outputs from continuing operations, business churn, particularly in the aggregates business, weather and management systems.

The Group reports that it is responsible for the GHG emissions of Marshalls NV. The CO_2 emission from Marshalls NV activities in 2014 (absolute) was 961 tonnes and (intensity) 5.73 kg per tonne of production.

Marshalls publishes its environmental KPI performance for the financial year in a separate document, the Marshalls' Environmental KPI 2015 Report. This covers our energy performance in more detail, together with reporting of our environmental governance, policies, management and key environmental impact areas such as waste, water and packaging. The Environmental KPI 2015 Report also includes details of our work with internationally recognised expert bodies such as the Carbon Trust, the Wildlife Trust and the Woodland Trust.

For more information see
www.marshalls.co.uk/EnvKPI2015

This section of the Annual Report has been audited by a qualified verifier on behalf of the British Standards Institution ("BSI"). On the basis of the work undertaken, this carbon statement is considered to be a fair reflection of the Group's performance during the financial year 2014 and contains no misleading information.

Corporate Responsibility *continued*

Brentford Marketplace

Health and safety

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

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.

Our Safety, Health and Incident Prevention ("SHIP") teams, consisting of employee representatives and managers, are the cornerstone of the safety management system at site level, and meet regularly to support and develop our safety programme and objectives. The Group's operating sites have been progressively implementing Integrated Management Registration systems accredited by the BSI incorporating accreditation to OHSAS (Occupational Health and Safety Accreditation Standard) 18001:2007. At the end of 2014 all but 1 operational site within the Group held a BS OHSAS (18001:2007) registration, and the single remaining site is scheduled for registration in 2015.

The headline target for 2014 was a 10 per cent reduction in days lost resulting from workplace incidents against 2013. The actual reductions achieved were:

— 29.6 per cent reduction in days lost resulting from workplace incidents;

— 9.9 per cent reduction in all incident frequency rate;

— 41 per cent reduction in lost time incidents ("LTIs") recorded; and

— 8.3 per cent reduction in incidents reportable to the HSE under the Reporting of Injuries, Diseases Dangerous Occurrence Regulations ("RIDDOR").

The primary target for 2015 will again be a 10 per cent reduction year on year in days lost resulting from workplace accidents. The table below shows the KPIs used by the Group to monitor performance, and progress against those KPIs over the last 5 years.

Incident frequency and severity rates (per 100,000 hrs worked)

	2010	2011	2012	2013	**2014**
All incidents	9.49	8.32	6.95	6.56	**5.91**
All lost time incidents	1.60	1.55	1.40	1.22	**0.72**
All RIDDORs	0.94	0.81	0.61	0.36	**0.33**
All days lost	14.76	20.44	13.45	11.46	**8.07**
Average headcount	2,391	2,456	2,252	2,055	**2,132**

Financial Review

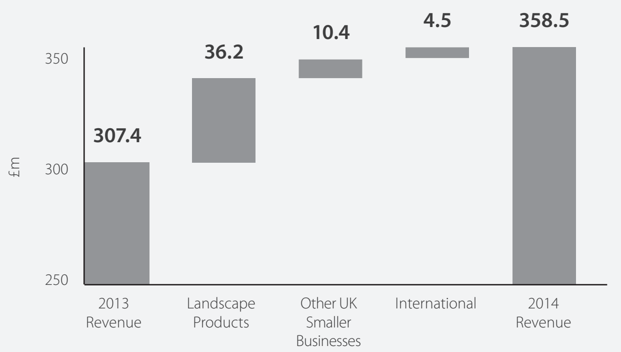
Jack Clarke
Finance Director

Trading summary

Revenue

Continuing revenue for the year ended 31 December 2014 was £358.5 million (2013: £307.4 million) which represented an increase of 16.6 per cent. Revenue for the six months to 31 December 2014 was up 18.3 per cent compared with the second half of 2013.

Revenue variance analysis 2013/2014



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

Analysis of sales by end market	2014 £m	2013 £m	change %
UK Domestic	**108.0**	99.1	9.0
Public Sector and Commercial	**229.5**	191.8	19.6
International	**21.0**	16.5	27.3
	358.5	307.4	16.6
	%	%	
UK Domestic	**30.0**	32.2	
Public Sector and Commercial	**64.1**	62.4	
International	**5.9**	5.4	

Public Sector and Commercial

In the Public Sector and Commercial end market, revenue increased by 20 per cent on a continuing basis compared with 2013. Sales in the Public Sector and Commercial end market now represent approximately 64 per cent of Group sales.

Commercial order intake has been encouraging within the Group. In the Public Sector and Commercial end market Marshalls' strategy is to build on its position as a market-leading landscape products specialist. The Group has experienced technical and sales teams who continue to focus on markets where future demand is greatest across a full range of integrated products and sustainable solutions to customers, architects and contractors. Commercial work from rail, water management and new house building continues to increase and the Group is outperforming the market in these areas. The rail sector includes Crossrail, which is the largest construction project in Europe.

UK Domestic

In the UK Domestic end market, revenue increased by 9 per cent. Sales to the UK Domestic end market now represent approximately 30 per cent of Group sales.

Installer order books at the end of February 2015 were 9.0 weeks (February 2014: 9.3 weeks), compared with 11.9 weeks at the end of October 2014. The figure has remained at historically high levels throughout 2014 and the Group continues to receive good feedback from its customers and installers for the consistency and quality of service. The GfK's Consumer Confidence index has improved significantly in the last 18 months – although has stabilised at a roughly neutral position for the last 6 months.

During 2014 the Group has continued to focus on innovation in order to develop areas of particular sales opportunity and to strengthen further the Marshalls' brand. In the UK Domestic end market the Group's strategy continues to be to drive more sales through quality installers. The Marshalls Register of approved domestic installers is unique and has grown to over 1,800 teams. The objective is to continually develop the Marshalls brand, to improve the product mix,

Financial Review *continued*

> The Group has strengthened its market position and trading margins are continuing to improve.

Trading summary *continued*

UK Domestic *continued*

to ensure a consistently high standard of quality and good geographical coverage. The Group remains committed to increasing the marketing support to the installer base through increased training, marketing materials and sales support.

International

Sales to International markets increased by £4.5 million, or 27.3 per cent, to £21.0 million. Sales from our operations in Belgium increased by 30 per cent, in local currency, in the year ended 31 December 2014. Set against the continuing difficult trading conditions in western Europe this represents a good performance and further progress has been made in developing the International business which now represents almost 6 per cent of Group sales.

Despite the Group's increased revenue the International business is not yet profitable as contribution from this revenue growth has been offset by revenue investment in the operational infrastructure which will be necessary to support further expansion for the long term. Focus has been directed to ensure that International operations are better aligned with market opportunities. This resulted in a charge of £2 million in the second half of 2014 in relation to the restructuring of Marshalls NV.

The Belgian business provides a physical stock location in mainland Europe from which to supply the Group's specialist product portfolio. Marshalls continues to expand its geographical reach and to extend its International supply chains and routes to market. Sales through the Group's new US subsidiary have been very encouraging and the objective will be to grow further the distribution of natural stone products into the North American market.

Operating profit

Continuing operations	**2014 £m**	2013 £m	change %
EBITDA	**38.5**	30.2	27
Depreciation / amortisation	**(13.2)**	(14.1)	(7)
Operating profit	**25.3**	16.1	57

Operating profit from continuing operations was £25.3 million (2013: £16.1 million). This is after charging £2 million in relation to the restructuring of Marshalls NV. EBITDA from continuing operations was £38.5 million (2013: £30.2 million).

First half / second half phasing

The following table summarises the relative performance of the second half of 2014 compared with that for the six months ended 30 June 2014. The table illustrates the continued improvement in the second half of 2014 with revenue increasing by 18.3 per cent and operating profit increasing by 53.1 per cent compared with the comparable six month period in 2013.

First half/ second half phasing	**2014 £m**	2013 £m	change %	**2014 %**	2013 %
Revenue					
HY1	**180.0**	156.5	15.0%	**50%**	51%
HY2	**178.5**	150.9	18.3%	**50%**	49%
Total	**358.5**	307.4	16.6%		
Operating profit					
HY1	**15.6**	9.8	60.0%	**61%**	61%
HY2	**9.7**	6.3	53.1%	**39%**	39%
Total	**25.3**	16.1	57.3%		

Revenue

£358.5m *+16.6%*

(2013: £307.4m)

EBITDA

£38.5m *+27.4%*

(2013: £30.2m)

Operating profit

£25.3m *+57.3%*

(2013: £16.1m)

Profit margins

The Group has strengthened its market position and trading margins are continuing to improve.

Margin analysis	Revenue £m	Operating profit £m	Margin Impact %
2013 - reported	307.4	16.1	5.2%
Price increases to recover costs (UK)	10.2	2.6	0.5%
Volume and mix – Landscape Products	27.1	6.6	1.5%
Volume and mix – other UK smaller businesses	9.3	2.7	0.7%
Organic expansion of International	4.5	(0.7)	(0.3%)
2014 – underlying	**358.5**	**27.3**	**7.6%**
Restructuring costs – Belgium	–	(2.0)	(0.5%)
2014 – reported	**358.5**	**25.3**	**7.1%**

Underlying operating profit (before restructuring costs) was £27.3 million with a resulting operating margin of 7.6 per cent (2013: 5.2 per cent). Operating profit was £25.3 million with a resulting operating margin of 7.1 per cent (2013: 5.2 per cent). In the UK, sales price increases realised £10.2 million in additional revenue, which exceeded the impact of cost inflation in the year by £2.6 million. Operating margin improved by 36.5 per cent which reflects improved operational gearing as a result of volume growth which has been ahead of CPA forecasts.

In the Public Sector and Commercial end market sales prices were up 4 per cent and volume and mix were up approximately 16 per cent.

In the UK Domestic end market sales prices were up 3 per cent and volume and mix were up approximately 6 per cent.

The Group continues to focus on the development of the Marshalls brand. Particular emphasis is being directed towards value added products and on improving product availability, in order to generate further improvement in operating margins. The Group's Landscape Products business is now a reportable segment servicing the UK Public Sector and Commercial and UK Domestic end markets.

The revenue and operating profit in the Landscape Products business from volume growth and mix increased by £27.1 million and £6.6 million respectively on a reported basis. The businesses that are not reported in the Landscape Products segment include the Group's International operations and also the smaller UK businesses which include Street Furniture, Mineral Products and Stone Cladding. There has been a significant performance improvement in these smaller UK businesses during 2014 and they have collectively delivered volume growth in revenue of £9.3 million and related profit growth of £2.7 million. Stone Cladding is a particular growth area and Marshalls has been supplying stone for a prestigious office building in the City of London.

Operational developments

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

The Group's industry-leading standards remained high in 2014 giving a combined customer service measure of 97 per cent. Marshalls continues to receive good feedback from its customers and installers for the consistency and quality of its products and service.

Capital investment in property, plant and equipment in 2014 totalled £12.0 million (2013: £6.1 million). This compares with depreciation of £12.0 million (2013: £13.5 million). The Group will continue to invest selectively in innovation to deliver new products and improvement projects that reinforce its market-leading position. These strengths support the Group's medium term growth ambitions and, in addition to the existing routes to market, a number of other markets have been identified that are opening up new opportunities for both existing and new products. Research and development expenditure in the year ended 31 December 2014 amounted to £2.7 million (2013: £2.8 million).

Financial Review *continued*

> “ Return on capital employed has improved significantly to 12.5 per cent (2013: 8.1 per cent).

Trading summary *continued*

Earnings per share

Basic EPS from continuing operations was 10.13 pence (2013: 6.94 pence), an increase of 46 per cent. EPS from total operations was 10.13 pence (2013: 7.20 pence).

Net financial expenses

Net finance costs were £2.9 million (2013: £3.1 million) and interest was covered 8.8 times (2013: 5.3 times). External charges were £2.8 million and, in addition, there was an IAS 19 notional interest debit of £0.1 million (2013: £0.6 million credit) in relation to the Group’s Pension Scheme. The IAS 19 notional interest comprises 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 on continuing operations was 18.7 per cent (2013: 0.5 per cent) and benefited from a further reduction in the rate of corporation tax and a credit arising on the finalisation of prior year tax computations. The effective tax rate in 2013 also benefited from a corporation tax rate reduction and a prior year credit. An additional deferred tax credit of £2.6 million arose in 2013 due to substantively enacted reductions in the rate of corporation tax to 20 per cent by April 2015. The Group has paid £4.0 million of corporation tax during the year. Deferred tax of £0.6 million in relation to the actuarial loss arising on the defined benefit Pension Scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

Balance sheet

Group Balance Sheet	2014 £m	2013 £m
Fixed assets	**192.6**	198.1
Current assets	**119.9**	120.8
Current liabilities	**(68.3)**	(74.2)
Non-current liabilities	**(65.7)**	(65.0)
Sub-total	**178.5**	179.7
Employee benefits	**3.4**	(4.3)
Net assets	**181.9**	175.4
Net debt	**(30.5)**	(35.6)
Net debt: EBITDA	**0.8**	1.2

Net assets at 31 December 2014 were £181.9 million (2013: £175.4 million).

The Group continues to keep a tight control of receivables and debtor days remain industry leading due to continued close control of credit management procedures. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. The Group's inventory reduction programme has led to a reduction of approximately £3.5 million despite significantly increased levels of activity.

Risk management has been a key focus for the Group’s Pension Scheme over recent years and the actions taken by the Group and the Pension Trustee have reduced actuarial volatility and risk. In accordance with the Scheme specific funding and recovery plan, the Group made cash contributions of £4.6 million into the Scheme in the year ended 31 December 2014. The fair value of the Scheme assets at 31 December 2014 was £312.5 million (2013: £258.6 million) and the present value of the Scheme liabilities is £309.1 million (2013: £262.9 million). This has given rise to an accounting surplus of £3.4 million (2013: £4.3 million deficit) at the balance sheet date. These changes have resulted in an actuarial gain, Profit before tax

£22.4m *+72.2%*

(2013: 13.0m)

Net debt

£30.5m *-14.3%*

(2013: £35.6m)

EPS

10.13p *+46.0%*

(2013: 6.94p)

net of deferred taxation, of £2.6 million (2013: £15.0 million loss) and this has been recorded in the Consolidated Statement of Comprehensive Income. In the year ended 31 December 2014 the AA corporate bond rate reduced from 4.6 per cent to 3.6 per cent and the values have been determined by the Scheme Actuary using assumptions in line with current market levels.

Analysis of net debt

	2014 £m	2013 £m
Cash and cash equivalents	**20.3**	17.7
Bank loans < 12 months	**–**	(3.4)
Bank loans > 12 months	**(50.3)**	(49.7)
Finance leases	**(0.5)**	(0.2)
	(30.5)	(35.6)

At 31 December 2014 net debt was £30.5 million (2013: £35.6 million) resulting in gearing of 16.8 per cent (2013: 20.3 per cent). This reduction is due to the operating cash flow impact of improved trading together with a continuation of the close control of inventory and the effective management of working capital. Cash management continues to be a high priority.

Borrowing facilities

The Group continues its policy of having significant committed facilities in place with a positive spread of medium term maturities. In July 2014, the Group renewed its short term working capital facilities with RBS. The Group's committed facilities are all revolving credit facilities with interest charged at variable rate based on LIBOR.

The total bank borrowing facilities at 31 December 2014 amounted to £125.0 million (2013: £145.0 million) of which £74.7 million (2013: £92.0 million) remained unutilised. This was due to the Group's decision to reduce its uncommitted loan facilities by £10.0 million on 16 July 2014 and the refinancing on 21 August 2014 of two existing committed loan facilities totalling in aggregate £50.0 million, with extended maturity dates to 2017 and 2018, at newly arranged levels totalling £40.0 million. An additional loan facility of £20.0 million reached maturity on 20 August 2014 and has been refinanced with an extended maturity date to 2019.

In addition, the Group has a seasonal working capital facility of £20.0 million which is available between 1 February and 31 August each year. The Group has significant headroom in its facilities with year end debt at 31 December 2014 representing approximately 21 per cent of the available facilities.

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

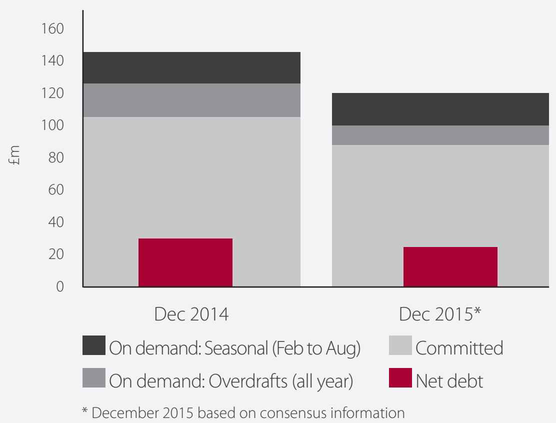
The Group has a strong balance sheet with a good range of medium term bank facilities available to fund investment initiatives to generate growth as market conditions improve.

Expiry date	Facility £m	Cumulative facility £m
Committed facilities		
Q3 2019	20	20
Q3 2018	20	40
Q3 2017	20	60
Q3 2016	25	85
Q3 2015	25	110
On-demand facilities		
Available all year	15	125
Seasonal (February to August inclusive)	20	145

Financial Review *continued*

> The Group has a strong balance sheet which supports our investment initiatives to generate growth.

Bank facilities



Trading summary *continued*

Cash generation

Group Cash Flow	2014 £m	2013 £m
Net cash from operating activities (before pension contributions)	**33.7**	32.7
Pension contributions	**(4.6)**	(5.6)
Net cash from operating activities	**29.1**	27.1
Net cash from investing activities	**(8.9)**	11.1
Net cash from financing activities	**(15.1)**	(10.3)
Movement in net debt in the period	**5.1**	27.9
Net debt at beginning of period	**(35.6)**	(63.5)
Net debt at end of period	**(30.5)**	(35.6)

The Group continues to be cash generative. In the year ended 31 December 2014 net cash flow from operating activities was £29.1 million (2013: £27.1 million) after deducting £0.2 million (2013: £0.9 million) of one-off cash expenditure in relation to operational restructuring costs paid and pension contributions of £4.6 million (2013: £5.6 million).

Analysis of cash utilisation	2014 £m	2013 £m
Free cash flow	**29.1**	27.1
Capital expenditure	**(12.0)**	(6.1)
Proceeds from sale of property assets	**3.1**	0.2
Net proceeds from disposal of discontinued operations	**–**	17.0
Payments to acquire own shares	**(4.3)**	–
Cash returned to shareholders	**(10.8)**	(10.3)
Movement in net debt	**5.1**	27.9

Total expenditure on capital expenditure in the year was £12.0 million (2013: £6.1 million). The majority of this expenditure was invested in the replacement of existing assets, in business improvements and new process technology. Proceeds from the sale of targeted property assets contributed £3.1 million (2013: £0.2 million). Dividend payments in the year were £10.8 million (2013: £10.3 million).

Jack Clarke
Finance Director

The Strategic Report section on pages 1 to 30 of this Annual Report has been reviewed and approved by the Board of Directors on 6 March 2015.

Martyn Coffey
Chief Executive

Corporate Governance

Drivesys Split Stone Basalt

Board of Directors and Secretary

Key **A** Member of the Audit Committee **R** Member of the Remuneration Committee **N** Member of the Nomination Committee

1. Andrew Allner R, N
Chairman

Term of office
Joined the Board in July 2003; appointed as Chairman in May 2010. Last re-elected in May 2014. Also chairs the Nomination Committee.

Length of service
11 years 6 months (3 years 6 months as Chairman)

Independent
Yes (on appointment as Chairman)

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

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

External appointments
Chairman of The Go-Ahead Group plc and Fox Marble Holdings plc, and Non-Executive Director and Chairman of the Audit Committee at Northgate plc.

2. Martyn Coffey
Chief Executive

Term of office
Joined the Company and appointed to the Board in September 2013.

Length of service
1 year 3 months

Independent
No

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

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

3. Jack Clarke
Finance Director

Term of office
Joined the Company and appointed to the Board on 1 October 2014.

Length of service
3 months

Independent
No

Skills and experience
Chartered Accountant. Joined Marshalls from AMEC 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

4. Alan Coppin A, R, N

Senior Independent Non-Executive Director Chairman of the Remuneration Committee

Term of office
Appointed in May 2010. Last re-elected in May 2014.

Length of service
3 years 6 months

Independent
Yes

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

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

5. Mark Edwards A, R, N

Non-Executive Director Chairman of the Audit Committee

Term of office
Appointed in May 2010. Last re-elected in May 2014.

Length of service
3 years 6 months

Independent
Yes

Skills and experience
Current CEO of AIM Altitude, a leading supplier of cabin interiors on Boeing and Airbus aircraft. Chartered Accountant with a strong operating background gained in the USA, Europe and Asia. Formerly Chief Executive of the Baxi Group and Vice President of the Construction Products Association.

External appointments
Chief Executive of AIM Altitude group of companies and Chairman of Atlas Fine Wines.

6. Tim Pile A, R, N

Non-Executive Director

Term of office
Appointed in October 2010. Last re-elected in May 2014.

Length of service
3 years 3 months

Independent
Yes

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

External appointments
Non-Executive Director of The Royal Orthopaedic Hospital, President of the Greater Birmingham Chambers of Commerce, Director of the Library of Birmingham and Governor of Bromsgrove School.

David Sarti

Chief Operating Officer (retired December 2014)

Term of office
Joined the Board in November 2004. Retired from the Board and as COO in December 2014.

Independent
No

Skills and experience
Chartered Director, wide business experience, formerly strategy consultant with Accenture.

External appointments
Until December 2014, Non-Executive Director of the British Pre-Cast Concrete Federation Limited and also Non-Executive Director of a private group of companies in the distribution and retail sector.

Ian Burrell

Finance Director (retired October 2014)

Term of office
Appointed in June 2001. Retired from the Board and as Finance Director in October 2014.

Independent
No

Skills and experience
Chartered Accountant, held a number of senior financial positions in industry, including that of Group Finance Director at Cornwell Parker plc, before joining the Company. He also chairs the board of the Company's Pension Scheme Trustee.

External appointments
Chair of the Board of Leeds Trinity University.

7. Cathy Baxandall

Group Company Secretary

Term of office
Appointed in July 2008.

Skills and experience
In addition to her role as Company Secretary, Cathy is General Counsel to the Marshalls group and has responsibility for compliance and the risk register. She has previous experience as Company Secretary and Group Counsel with Silentnight Group, Thistle Hotels plc and Jacuzzi (UK). Qualified in the City with Clifford Chance before becoming a partner in a national law firm, specialising in banking and corporate law. Graduate of the University of Oxford.

External appointments
Charity Trustee and Board member of Ilkley Literature Festival, the Open College of the Arts and Yorkshire Youth & Music.

Corporate Governance Statement

Chairman's introduction

Dear Shareholder

This Corporate Governance Statement, together with the Reports of the Audit and Remuneration Committees on pages 43 to 64, explains how Marshalls' governance framework works and how we apply the principles of business integrity, high ethical values and professionalism in all our activities. As a Board, we recognise that we are accountable to shareholders for good corporate governance, and we seek to promote consistently high standards of governance throughout the Group which are recognised and understood by all.

Good governance involves good and effective leadership, robust systems and processes that are regularly tested, and a good understanding of risk and risk appetite. The Board seeks to add value through constructive dialogue and challenge, engagement with shareholders and other stakeholders, and with a strong focus on the strategic agenda. I have commented on our key strategic priorities in my Chairman's Statement and there is a summary of Group Strategy on pages 14 and 15 of the Strategic Report.

The Board recognises the benefit of diversity in its composition. We have refocused on this following the recent period of transition in the senior Executive management of the business, which I am pleased to report has been effectively and smoothly handled through our Board Nomination and Remuneration Committees. Given the importance we ascribe to Board development, our progress in this area is highlighted in my Chairman's Statement.

This Corporate Governance Statement, which is part of the Directors' Report, has been prepared in accordance with the principles of the UK Corporate Governance Code published in September 2012 (the "Code") which the Board fully supports. We consider that the Company has complied with the relevant provisions of the Code throughout the year in all material respects. We have also considered and applied the principles of the UK Corporate Governance Code published in September 2014 which the Board fully supports. I can also confirm that in the opinion of the Directors these Annual Financial Statements present a fair, balanced and understandable assessment of the Group's position and prospects and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report on pages 41 to 42 and 67 to 68 respectively.

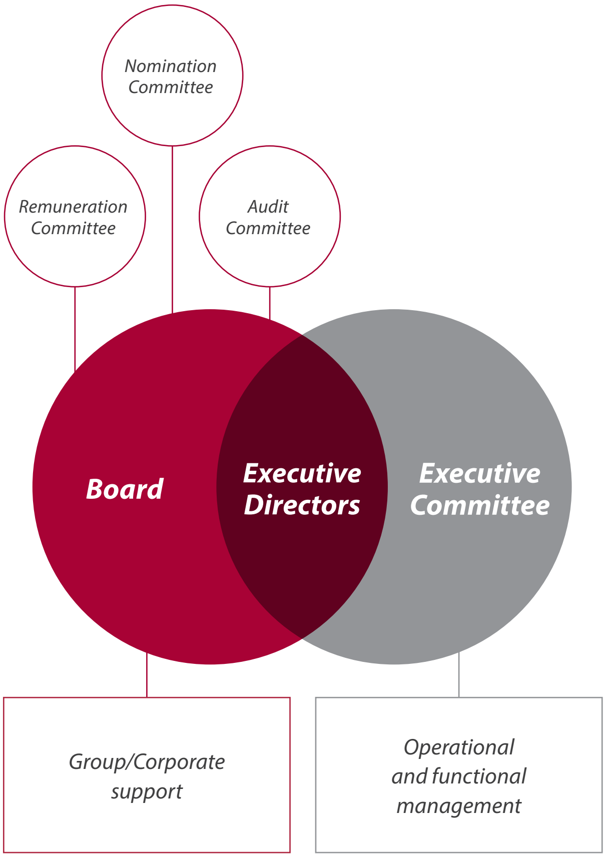
Andrew Allner
Chairman

41 Statement of Directors' Responsibilities **page 41**

43 Remuneration Committee Report **page 43**

62 Audit Committee Report **page 62**

Interaction between Board and Management bodies



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

Committee Terms of Reference
www.marshalls.co.uk

Role of the Board

The Board currently comprises an independent Non-Executive Chairman, 3 Non-Executive Directors, and 2 Executive Directors (reducing from 3 upon David Sarti's retirement) who are equally responsible for the proper stewardship and leadership of the Company. Their biographical details are on pages 32 and 33.

There is a formal Schedule of Matters Reserved for decisions of the Board. This is reviewed annually and includes:

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

The Board has delegated specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report on pages 62 to 64 provides details of how the Board applies the Code in relation to membership, Terms of Reference, Committee proceedings, financial reporting, risk management and internal controls. The Remuneration Report on pages 43 to 61 gives details of Executive Directors' remuneration and policy. The Nomination Committee's work is commented on in this report (page 39).

Other Board Committees are established periodically for particular purposes. For example, during the year, Board Committees were established to approve dividend payments and preliminary and half-yearly announcements.

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

Corporate Governance Statement *continued*

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

The positions of Chairman and Chief Executive are held by separate individuals with a clear division of responsibilities and written Terms of Reference. The Chairman leads the Board and sets its agenda, ensuring that all Directors, particularly the Non-Executive Directors, are able to make an effective contribution, and ensures that there is a constructive relationship between the Executive and the Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of strategy and policies approved by the Board.

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

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

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

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

Conflicts of interest

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

Board composition, commitment and election of Directors

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

On appointment, Board members, in particular the Chairman and the Non-Executive Directors, disclose their other commitments, and agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution. The current Board commitments of the Chairman and of the remaining members of the Board are shown on pages 32 and 33. Any conflicts of interest are dealt with in accordance with the Board conflicts procedures.

The Company's Articles of Association contain powers of removal, appointment, election and re-election of Directors and provide that at least one-third of the Board must retire at each Annual General Meeting and each Director must retire by rotation every three years. In practice, the Company requires all Directors to stand for re-election at each Annual General Meeting. Martyn Coffey was elected at the Company's 2014 Annual General Meeting following his appointment in 2013, and both he and Jack Clarke, who joined the Board in October 2014, will stand for re-election and election respectively at the Annual General Meeting in May 2015. All Non-Executive Directors will also stand for re-election or election at the 2015 Annual General Meeting. David Sarti and Ian Burrell both retired from the Board during 2014. The terms of appointment of the current Directors are reported on page 49 and the Directors' biographical details on pages 32 and 33 show their length of service on the Board.

Board induction, development and support

New Directors receive a full, formal, and tailored induction on joining the Board. There is an induction pack for new Directors incorporating the Company's constitutional and governance documents, Group policies and other key information. Directors receive training on the use of our electronic board packs, and other tailored training may be arranged to meet individual needs, for example to refresh knowledge of the Listing Rules and regulatory compliance. Typically, a new Director will meet the Chairman and other Non-Executive Directors in one-on-one sessions: he or she will have meetings with key management, briefings with external advisers and shareholders, and a programme of site visits will be arranged at which the Director meets site-based staff to gain a full understanding of the business. In the case of Martyn Coffey and Jack Clarke, meetings were also arranged to reflect the Group's key external relationships with customers, suppliers and other service providers.

All Directors receive training as part of the annual Board programme, which seeks to incorporate a range of in-depth topics of particular relevance to the business. Directors are also expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies. During 2014, on-site training relating to Health and Safety was provided, and Directors were also given presentations in relation to market trends, international growth and our specialist businesses. Training needs are identified through the Board evaluation process and through individual reviews between the Directors and the Chairman. Non-Executive Directors would be available to meet major shareholders if a meeting were requested.

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

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

Indemnities and insurance

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

Board evaluation

The Company carries out a full evaluation of Board performance and that of its 3 principal Committees annually. The 2014 evaluation was conducted in a similar way to previous years, using a detailed questionnaire, and one-to–one confidential discussions between each of the Directors and the Company Secretary. The questionnaire, which was benchmarked against external examples before the 2014 evaluation, referenced current guidance on Board effectiveness published by the Financial Reporting Council and other external investor bodies, such as the ABI, the Investment Association and NAPF, as well as the Code. It was designed to stimulate thought and discussion rather than to deliver scores, and included questions about the effectiveness of Executive and Non-Executive Directors, and the performance of the Chairman. The Senior Independent Director separately reviewed the Chairman's performance with other Non-Executive Directors. The results of the evaluation were reviewed by the Chairman and the Company Secretary and discussed by the Board.

The Board also reviewed the priorities identified for 2014 from the previous 2013 evaluation process. These included Board diversity and succession planning, auditor rotation, improvements to risk reporting and analysis, the form and content of Board reports and changes to the incentive structure for Executive Directors and senior management. Good progress against all of these priorities was made during the year. Further commentary on activity in the areas of diversity and succession, auditor rotation and incentive scheme changes can be found in the Nomination Committee section of this report and in the Audit and Remuneration Committee reports.

"

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

Corporate Governance Statement *continued*

Board evaluation *continued*

The key themes emerging from the 2014 evaluation have been applied in developing specific Board objectives for 2015. They include:

- allowing time for deeper debate on strategic issues and the long-term strategic objectives of the Group; reviewing KPIs to align more closely with strategic objectives, and increasing focus on dynamic risk reporting, recognising opportunities as well as downside risk and with particular focus on overseas risk;
- identifying particular business areas for closer review, and increasing opportunities for Non-Executive Directors to meet senior management below Board level through the programme of site visits;
- developing opportunities for contact between the Chairman and shareholders: the Board considers that current understanding and communication of shareholder views is good, but would like to ensure that dialogue continues to be open and transparent and that shareholder views are fully accounted for; and
- appointing a female Director to the Board within the next 12 months.

The Board believes that the current evaluation process works extremely well. All Directors take the opportunity to respond fully and frankly to the questionnaire, which is thorough and robust, with a genuine desire to enhance overall Board performance, and the process contains sufficient objectivity through the confidentiality of individual responses to ensure that challenge is acknowledged and acted upon. The Board considered whether to use an external facilitator for the 2014 evaluation, but concluded that the evaluation process using internal resource, led by the Company Secretary, continues to be very effective and has demonstrably helped to improve Board effectiveness since its inception. The Board will consider whether an externally assessed evaluation would be appropriate at the next review.

Board meetings

There were 7 regular Board meetings scheduled during 2014, 4 meetings of the Audit and Remuneration Committees and 1 Nomination Committee meeting. Additional meetings were held during the year for specific purposes, including strategy planning, succession planning, regulatory matters and training. Non-Executive Directors also made site visits.

Ian Burrell and David Sarti attended all scheduled meetings up to the date of their respective retirements from the Board, and Jack Clarke attended the 2 scheduled meetings following his appointment in October 2014. Alan Coppin was unable to attend the March 2014 Board and Nomination Committee meetings due to ill health. The Chief Executive and Finance Director are usually invited to attend Audit Committee meetings, although the Audit Committee also meets the auditor without any Executive Director being present. The Chief Executive is invited to attend Remuneration Committee meetings where appropriate. The Company Secretary is also Secretary to the Board Committees and attends meetings for this purpose.

Board attendance

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Andrew Allner (Non-Executive)	7/7	4/4	4/4	1/1
Ian Burrell	5/7	–	–	–
Jack Clarke	2/7	–	–	–
Martyn Coffey	7/7	–	–	–
Alan Coppin (Non-Executive)	6/7	4/4	4/4	0/1
Mark Edwards (Non-Executive)	7/7	4/4	4/4	1/1
Tim Pile (Non-Executive)	7/7	4/4	4/4	1/1
David Sarti	6/7	–	–	–

In 2015 there are 7 Board, 4 Audit Committee, 4 Remuneration Committee and 1 Nomination Committee meetings scheduled, and Board members are expected to participate in additional strategy meetings and site visits.

Performance reporting and Board information

The Group has in place a comprehensive financial review process, including detailed annual budgets, business plans and regular forecasting. There is a range of performance indicators which are tracked by management on a daily, weekly and monthly basis, as appropriate, and addressed through a programme of operational meetings and action plans. All Directors receive regular and timely information to enable them to perform their duties, including information on the Group's operational and financial performance, customer service, health and safety performance and forward trends. The Board reviews at each regular Board meeting the monthly financial results, taking account of performance indicators and the detailed annual business plan and budget. The Board also considers forward trends and performance against other key indicators, including areas where performance departs from forecasts and on contingency plans. The Board reviews and discusses medium and long-term strategy on a regular basis and meets at least annually with the Executive Committee to review strategy and also holds separate meetings with individual members of senior management to update the Board on business and strategic issues. In this way, the Board assesses the prospects of the Group using all the information at its disposal, and considering historic performance, forecast performance for the current year, and longer term forecasts over the 3-5 year business planning cycle as appropriate. In approving these accounts the Board has considered these matters in detail. The Board has a reasonable expectation that the Group is able to continue in operation and meet its liabilities as they fall due for at least the next 12 months.

Risk management and internal control

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control. The Board has carried out a review of the effectiveness of the Group's risk management and internal controls systems, including financial, operational and compliance controls. The Strategic Report comments in detail (pages 18 to 20) on the nature of the principal risks facing the Group, in particular those that would threaten our business model, future performance, solvency or liquidity and the measures in place to mitigate them. In conducting its review, the Board has included a robust assessment of these risks. The Audit Committee Report on pages 62 to 64 describes the internal control system and how it is managed and monitored. The Board acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Relations with shareholders

The Board places great emphasis on good communications with shareholders. The Chief Executive and Finance Director meet regularly with major shareholders to discuss the Group's performance, strategic issues and shareholder investment objectives, and also periodically arrange site visits for investors. Reports of these meetings and any shareholder communications during the year are provided to the Board. During 2014, 83 such meetings were held, at which at least 47 institutional shareholders were represented.

The Board also regularly receives copies of analysts' and brokers' briefings. The Chairman is available to meet major shareholders on request to discuss governance and strategy, and held a number of such meetings during 2014. The Senior Independent Director is also available to meet shareholders separately if requested. When appropriate, the Non-Executive Directors attend meetings or site visits with major shareholders. There is a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors, and the Annual and Half-yearly Reports, together with the Marshalls website, are substantial means of communication with all shareholders during the year.

During 2014, both the Chairman and Alan Coppin in his capacity as Chairman of the Remuneration Committee held meetings and consultations with shareholders in relation to remuneration policy, with particular focus on the design and introduction of the new Management Incentive Plan approved in May 2014. There is further comment on this process in the Remuneration Report.

Annual General Meeting

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

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

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

Nomination Committee Report

The Board has an established Nomination Committee which is normally chaired by Andrew Allner except where it is dealing with his own re-appointment or replacement. The members are the Non-Executive Directors as shown on pages 32 and 33.

The role of the Nomination Committee includes:

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

The performance of the Committee was evaluated as part of the Board evaluation process in 2014, and the Terms of Reference were also reviewed.

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

Corporate Governance Statement *continued*

Succession planning

The Nomination Committee's priorities during 2014 included overseeing the recruitment of a successor to Ian Burrell, who retired in October 2014 as Finance Director. The Committee worked with an external search consultant, Lygon, which has no connection with the Company other than the provision of the Board search services described in this report, to seek suitable candidates and develop a shortlist, and the Committee then went through a detailed and intensive assessment, resulting in the appointment of Jack Clarke, who joined the Board on 1 October 2014. Jack Clarke brings further strength to the Board and the Executive management team through his extensive experience of international business and significant corporate transactions, and has quickly gained a rounded understanding of the business following a thorough induction programme. Ian Burrell remains an employee until June 2015 and as Chairman of the Board of Trustees of the Marshalls pension scheme, to support an orderly and smooth handover.

Non-Executive Directors are appointed for specific terms, subject to re-appointment and the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director. During 2014, the Committee agreed a framework for succession planning with the current Non-Executive Directors designed to phase future departures, so that the composition of the Board can be refreshed whilst assuring continuity.

The Board has in previous reports made clear its intention to recruit a female Director, but considered that it would not be appropriate to pursue this actively during the recent transitional period and the handover to the new Executive management team. Following the appointment of Martyn Coffey and Jack Clarke, we renewed our search for a suitable additional Non-Executive Director with complimentary skills and experience. Working with Lygon this process has been rigorous and objective and we expect to be making an announcement to coincide with the publication of this Report.

Re-appointment of Directors

Each Non-Executive Director was, on joining, provided with a detailed description of his role and responsibilities, and received a detailed business induction, and all Directors have an annual one-to-one development review meeting with the Chairman to appraise performance, set personal objectives and discuss any development and training needs to enable them to continue to add value to the Board. Before any Director is proposed for re-election, or has their appointment renewed, the Committee conducts a review to provide assurance that the Director continues to be effective and demonstrates commitment to the role. The Chairman provides an explanation to shareholders as to why the Director should be re-elected and confirming that a formal performance evaluation has taken place when the resolution to re-elect is circulated.

It is the Company's policy that Executive Directors can only hold one external company Non-Executive Directorship. Voluntary service on the Governing Board of a social, trade or charitable organisation is also permitted. Details of the external appointments held by the Executive Directors are included in the biographical notes on pages 32 and 33.

Governance

The Committee has acted in accordance with the principles of the UK Corporate Governance Code in developing and applying its succession plans and policies. The Committee's effectiveness, including the effective application of those principles, is assessed as part of the annual Board evaluation process. The 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 transition to the current Executive team following the retirement of three Executive Directors within the last two years has been smoothly and successfully executed without disruption to the business. Having put in place a succession framework for the Non-Executive Directors, this should allow phased refreshment of skills, experience and diversity to support the needs of the business and its stakeholders in the future.

Andrew Allner
Chairman

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 EU and applicable law, 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 estimates that are reasonable and prudent;

— for the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;

— for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements; and

— prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement 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 of the annual financial report

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on pages 32 and 33 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; and

— the Strategic Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors consider the Annual Report and Financial Statements, taken as a whole, to be 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 ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

Going concern

The Directors have adopted the going concern basis in preparing these Financial Statements in accordance with "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009. The Directors considered that it was appropriate to do so, having reviewed any material uncertainties that may affect the Company's ability to continue as a going concern for the next 12 months from the date these Financial Statements were approved.

Cautionary statement and Directors' liability

This Annual Report 2014 has been prepared for, and only for, the members of the Company, as a body, and no other persons. Neither the Company nor the Directors accept or assume any liability to any person to whom this Annual Report is shown or into whose hands it may come except to the extent that such liability arises and may not be excluded under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

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

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

Annual General Meeting

The Notice convening the Annual General Meeting to be held at The Cedar Court Hotel, Ainley Top, Huddersfield HD3 3RH at 11.00 am on Wednesday 20 May 2015 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
6 March 2015

Remuneration Committee Report

Chairman's introduction

Our Remuneration Policy was approved at the Company's Annual General Meeting on 14 May 2014 and is intended to apply for 3 years. This Report summarises the key features of the Policy applied in 2014. The full policy can be found in the Company's 2013 Remuneration Report, accessible via the Investor Relations section of our website (www.marshalls.co.uk).

Alan Coppin
Chairman of the Remuneration Committee

"Our aim, in updating our Executive incentive structure in 2014, was to achieve closer alignment with our strategic objectives and to increase the proportion of variable pay taken in the form of long term shares or share equivalents. Following the introduction of the MIP, almost three quarters of the maximum opportunity for Directors now takes the form of shares."

Remuneration Committee members

- Alan Coppin - Chairman
- Andrew Allner
- Mark Edwards
- Tim Pile

I am pleased to report to you on the Remuneration Committee's activities and objectives during 2014. This Report is divided into 3 sections: the Chairman's Annual Statement (this introduction); a summary of our Remuneration Policy; and our Annual Remuneration Report, explaining how the policy was implemented during 2014.

The main focus of the Committee's work in the latter part of 2013 and early 2014 was to review and update our Executive incentive structure. In doing this, our aims were:

- to achieve closer alignment with our strategic objectives;
- to simplify the incentive structure while retaining flexibility to address changing market conditions;
- to increase the proportion of variable pay awarded in shares or share equivalents; and
- to meet new regulatory and best practice guidelines on remuneration.

In May 2014 we introduced the new Management Incentive Plan ("MIP"), which replaced both the annual deferred bonus plan (the "PIP") and the Group's 2005 Long Term Incentive Plan ("2005 LTIP") as our means of delivering future performance-related variable incentives. The MIP, which was approved by a substantial majority of our shareholders, is designed to incorporate current "best practice" remuneration principles, and includes an additional 2-year holding period for share awards vesting after 3 years. It also contains appropriate clawback and malus provisions both during and after vesting. Before proposing the MIP to shareholders, there was an extensive and detailed consultation with our major shareholders, resulting in modifications to the design to accommodate shareholder feedback. In particular, the overall maximum percentage of salary was reduced, and an underpin was applied to the long-term share award (Element B), an element of which provides for forfeiture (50%) if, during the period before vesting, EPS falls below a pre-determined base level. Following introduction of the MIP, 70 per cent of Directors' maximum variable remuneration takes the form of shares or share equivalents.

We also formalised our Remuneration Policy and put it to a shareholder vote in 2014. The Policy was approved with a strong majority of over 87 per cent of all votes cast. The Committee considers that remuneration practice during the year has been consistent with the Policy and that it remains appropriate. The Committee has considered the new Code, and believes that the level of minimum shareholding requirement is sufficient. There is a 2 year holding period following the vesting of Element B MIP awards which continues post cessation of employment. Consequently we do not propose to re-submit the Policy to a vote at the 2015 AGM, although

Remuneration Committee Report *continued*

How we performed in 2014

Strategic objective	Measure	Expressed as	Outcome
Maximise operational efficiencies and increase output to meet demand	Profit / cash	EPS / net debt	Operating profit: £25.3m (+57%); EPS: 10.13p (+46%); Gearing 16.8%
Retain market-leading position and grow profit	Profit	EPS	EPS: 10.13p (+46%)
Grow international business profitably	International sales	International sales turnover	£22.1m (+ 27%)
Strengthen the brand, develop trust and excellence	Customer service	Customer service index	97%
Grow sustainably, investing in our people and protecting their well-being	Health & safety	Health & safety accident reduction	30% reduction year on year

we have included the key features of the Policy in this report for reference. The Annual Remuneration Report and this Chair's Annual Statement will be subject to an advisory vote of shareholders.

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

Our strategic objectives in 2014 were focused on maximising our operational efficiencies to meet growing demand, retaining our market-leading position through innovation in products and services, and growing profitably our international business. The financial targets set at the beginning of 2014 for MIP awards were based on achievement of significant improvements in EPS, net debt and International sales, as the proxies for measuring progress against these objectives. Our brand, market leadership and sustainability objectives were incorporated through the addition of non-financial criteria (customer service and health and safety improvement) with a discount factor of 20 per cent if they were not met.

At the time of grant, the targets set for maximum performance took account of the "best case" consensus expectations of our shareholders and set targets to incorporate significant stretch against these expectations and the Group's budget for the year. I am delighted that our performance against these objectives in 2014 has been very strong, with EPS up by 46 per cent from 6.94 pence to 10.13 pence and net debt reducing from £35.6 million to £30.5 million. International sales also grew strongly from a low base. This outcome means that 2014 awards will be at the maximum end of the designated range for EPS and net debt and will fall just short of the maximum target for International sales. The health and safety and customer service targets were achieved. Share price rose by 33 per cent from 176.25 pence to 234.0 pence during the year and the dividend has increased by 14 per cent in line with our dividend policy.

This very positive performance in 2014 is reflected in the level of Element A and Element B awards earned under the MIP; it will also affect the levels of vesting of previous incentive awards under the 2005 LTIP and allow deferred PIP balances to be paid. Details of Directors' awards earned in 2014 and the performance measures used are shown in the Annual Remuneration Report.

The other area of focus in 2014 for the Committee related to the recruitment of Jack Clarke as Group Finance Director, who joined us in October 2014 following Ian Burrell's retirement from the Board, and the exercise of discretions under the Policy in relation to Ian Burrell and David Sarti, Group Operations Director, who retired in December 2014. Both Ian Burrell and David Sarti qualify as "good leavers" and will receive a proportionate element of their share incentive awards following retirement, details of which are disclosed in the Annual Remuneration Report. Details of Graham Holden's "good leaver" awards that became payable following his retirement as Chief Executive in October 2013 were included in the 2013 Annual Report.

Main activities of the Committee

During 2014 the Committee met 4 times, and there were additional discussions and meetings with shareholders and with external remuneration consultants ("PwC"). The Chief Executive and the Company Secretary attend Committee meetings where appropriate. Attendance at meetings is shown on page 38.

Meetings	Matters discussed
February-March 2014	Set overall Remuneration Policy. MIP: consider outcomes of shareholder consultation; finalisation of MIP design and determination of 2014 performance targets. Measure achievement of incentive targets for 2013 and approve payments under incentive schemes. Approve individual awards for 2014. Review 2013 Remuneration Committee Report. Review Board expenses paid.
April-July 2014	Review application of Remuneration Policy for retiring Directors and other "good leavers" and remuneration package and incentive awards for new joiners.
September-October 2014	Approve new FD package, including introductory MIP and LTIP awards. External advisers' recommendations on remuneration framework, including benchmarking (Executive Directors and Non-Executive Directors); report on pay and benefit conditions elsewhere in the business. Consider appropriateness of Remuneration Policy and design of incentive schemes. Review termination obligations arising under service contracts.
December 2014	Approval of proposed pay and benefits for Executive Directors in 2015. Board review of Non-Executive Directors' fees (other than Chairman's). Board expenses policy review. Review and update Committee terms of reference. Evaluate Committee performance.

Application of policy and any changes

	Decision	Rationale
Element (fixed)		
Salary	2.9% salary increase for current Executive Directors; Non-Executive Directors' fees also rose by 2.9%, both with effect from January 2015. FD role recruited at less than targeted policy level; Committee reserves right to increase FD salary by more than average once he is established in the role.	2015 increase reflects 2.9% inflation award for the workforce as a whole.
Benefits	No overall change in range of benefits.	The current range and level of benefits remains appropriate.
	NED fixed travel allowance replaced by business expense reimbursement procedure.	Simpler and more cost-effective for business expenses to be reimbursed retrospectively following change in frequency and location of Board meetings.
	Martyn Coffey continues to receive travel and accommodation expenses within his 3 year allowance.	
	Jack Clarke also receives travel and accommodation expenses pending his relocation.	
Pension	Increased CEO annual pension contribution from fixed sum (£75k) to 20% of salary from January 2015.	To bring into line with Policy and other Executive Directors.
Element (variable)		
PIP	There are no further awards under PIP: deferred balance of previously earned PIP accounts as at 31 December 2014 will vest in 2015.	Replaced by Element A of the MIP.
2005 LTIP	Final awards made in 2014. Replaced by Element B of the MIP.	Awards made in 2014 to bridge gap before potential vesting of first Element B awards under MIP; these incorporate performance targets that remain stretching, measured over the 3 years 2014-2017 that are more closely aligned with current strategic growth objectives.
MIP	Combines annual deferred bonus (Element A) and long term shareholding (Element B). Details of 2014 awards are set out in the Annual Remuneration Report. 2015 financial targets will be EPS (75%) and Net Debt (25%).	EPS and net debt remain good measures of performance against strategic objectives. Customer service and health and safety targets remain. International sales now becoming established so it is not necessary to retain a separate target, as progress will be included in overall sales.

The Committee is supportive of the Company's employee engagement agenda, part of which is to encourage wider share ownership within the business. Resolutions to approve the introduction of an all-employee Sharesave ("SAYE") scheme and a Bonus Share Plan (under which those in the wider operational bonus schemes other than the MIP may receive some of their bonus in the form of shares) and to extend the current all-employee share purchase plan will be submitted for approval at the 2015 AGM.

Statement of shareholder voting

The table below shows the May 2014 AGM voting results on the resolutions relating to remuneration.

		For and discretion	For and discretion as a percentage of votes cast	Against	Against as a percentage of votes cast	Withheld
Resolution 12 (Remuneration Policy)	Votes	123,630,225	87.31	17,973,475	12.69	5,712,750
Resolution 13 (Remuneration Report)	Votes	132,391,079	90.29	14,244,807	9.71	681,564
Resolution 14 (2014 MIP)	Votes	125,607,824	85.69	20,981,287	14.31	725,040

The Committee believes the percentage of votes in favour of the Remuneration Report shows that shareholders support the Group's remuneration arrangements.

Remuneration disclosure

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

I hope you find this report helpful and informative. I will be available at the Company's AGM on 20 May 2015 to answer any questions on our Policy, its application and this Remuneration Report.

Allan Coppin
Chairman of the Remuneration Committee

Remuneration Report

Policy summary

Element	Purpose and how it supports the strategy	Operation	Opportunity/maximum	Performance measures and period
Fixed remuneration				
Base salary	Recognises the market value of the Executive's role, skill, responsibilities, performance and experience. Fixed costs are minimised and above-median level of total remuneration is only provided where the performance elements of the package are earned.	An Executive Director's basic salary is considered by the Committee on appointment and reviewed annually or when an individual changes position or responsibility. In reviewing base salary, the Committee considers remuneration practices within the Group as a whole and, where relevant, objective research on companies within the Company's peer groups. Other factors taken into account include: — the individual performance and experience of the Executive Director; — the general performance of the Company; and — the economic environment. Salary is paid in 12 equal monthly instalments during the year.	The Remuneration Committee policy in relation to salary is: — up to the median salary on appointment depending on the experience and background of the new Executive Director; — on promotion, up to the median salary for the new role; — otherwise pay increases will not exceed the higher of inflation and/or pay rises generally for Group employees; and — individuals who are recruited or promoted to the Board may have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the average until the target positioning is achieved.	None.
Benefits	The Company provides benefits in order to be competitive and to ensure it is able to recruit and retain Executive Directors.	Benefits for Executive Directors are a fully expensed company car, an annual medical and private medical insurance (including spouse and dependent children up to age 24), and death-in-service insurance. Executive Directors may be entitled to claim travel and accommodation expenses subject to agreed limits on appointment. The cost of providing these benefits is borne by the Company. The Company may carry permanent health insurance cover in respect of up to 100% of an Executive Director's salary. Although not a benefit to Executive Directors, this insurance offers comfort to Executive Directors in the event of long term ill health.	Package consistent with standard practice and in line with peer group. The maximum value available is the cost of the benefits.	None.

Element	Purpose and how it supports the strategy	Operation	Opportunity/maximum	Performance measures and period
Pension/ pension allowance	To enable Executive Directors to make appropriate provision for retirement.	Executive Directors are entitled to membership of the defined contribution section of the Marshalls plc Pension Scheme. The Company contributes at an agreed percentage of basic salary. Executive Directors may take a pensions allowance in place of the Company's contribution to the Scheme. Pension allowances are excluded for the purposes of calculating any other element of remuneration based on a percentage of salary.	Maximum Company contribution is 20% of base salary for Executive Directors.	None.
Variable performance-related remuneration				
The Marshalls Incentive Plan ("MIP") **Element A**	To link variable pay to achievement of annual financial and business objectives. Deferral of 50% of the balance into share-linked units provides shareholder alignment and enhances retention as payment is subject to confirmed alignment. Significant proportion of overall reward is in the form of shares or share equivalent.	Annual target set by reference to strategic and operational objectives by Remuneration Committee. If conditions met, 50% of earned award paid as cash. 50% deferred as shares into individual plan account. 50% of accrued plan account balance paid out annually for 3 years, provided forfeiture threshold exceeded each year, with the final balance paid at the end of the fourth year. Awards subject to continued employment at end of the period. The forfeiture thresholds if not achieved result in the loss of up to 50% of unpaid awards. There are also malus and clawback provisions in the event of material misstatement or fraud or an error in the calculation of the performance conditions.	Maximum Company annual contribution of 150% of salary for Executive Directors.	2014 targets set for EPS, net debt and International sales performance. 2015 targets set for EPS and net debt. The Committee has the discretion to change the targets and their weightings on an annual basis. The Committee considers that the future targets for the MIP are commercially sensitive as they relate to profitability and debt limits for the financial year to come and disclosure in advance is not in the interests of the Company or shareholders. The Committee provides full retrospective disclosure to enable shareholders to judge the level of award provided against the targets set in previous years. Full disclosure of 2014 targets and achievement levels is made in the Annual Remuneration Report 2014. The Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the Committee believes that the bonus outcome is not a fair and accurate reflection of business performance.

Remuneration Report *continued*

Element	Purpose and how it supports the strategy	Operation	Opportunity/maximum	Performance measures and period
Variable performance-related remuneration *(continued)*				
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 target set by reference to strategic and operational objectives by Remuneration Committee. Awards are made annually in the form of nil cost options or conditional shares, and are subject to continued employment and a financial underpin for 3 years. Awards become exercisable or unconditional after 3 years but, once vested, may not be sold for a further 2 years. Participants build up a shareholding over 5 years. There is a financial underpin which, if not achieved over 3 years results in the loss of up to 50% of unvested awards. There are also malus and clawback provisions in the event of material misstatement or fraud or an error in the calculation of the performance conditions.	Maximum Company annual contribution of 100% of salary for Executive Directors.	The targets for Element B are the same as for Element A set out on page 47. In addition, there is a risk of forfeiture of 50% of this element of the award if a minimum performance target based on EPS is not achieved over the 3 years between award and vesting. The Committee retains the same discretion for Element B as for Element A set out on page 47. Full retrospective disclosure of 2014 targets and continued conditions is set out in the Annual Remuneration Report 2014.
Shareholding requirement	In order to ensure a long-term alignment between the Executive Directors and shareholders the Company operates a minimum shareholding requirement for Executive Directors.	Executive Directors are required to retain 50% of the net number of shares earned under the Company's incentive arrangements until the shareholding requirement is satisfied. A new Executive Director may build up the minimum requirement within the first 5 years from the year of joining. Failure to meet the shareholding requirement within 5 years of appointment will result in a reduction in the future levels of award under the Company's incentive plans.	The minimum shareholding requirement for the CEO is 200% of salary, and the minimum for other Executive Directors is 100%. The Committee has discretion to increase the level if it deems appropriate.	
Non-Executive Directors' fees	Annual fee to attract and retain experienced and skilled Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company. Fees reflect the time commitment and responsibilities of the roles. Additional fee paid to the Senior Independent Director and for Chairmanship of a Board Committee.	Terms of engagement provided in formal letters of appointment. Remuneration is determined by the Board within the limits set by the Articles of Association. The Chairman's fee is set by the Committee. Fees are reviewed annually and periodically benchmarked against equivalent roles in the same comparator groups as are used for Executive Directors. Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans, and are not eligible to join the Company's pension scheme. Non-Executive Directors receive a travel and accommodation allowance in connection with the performance of their duties, which was a fixed sum in 2014.	The Company's policy in relation to fees is: — up to median level fees on appointment depending on the experience and background of the new Non-Executive Director; — increases during a term of office will not normally exceed the lower of inflation or the general rise for employees; and — fees may be adjusted to recognise significant change in responsibility levels (for example if the Company's ranking as a constituent of the FTSE All Share Index changes).	None.

Recruitment policy

Remuneration element	Policy
Base salary	Salaries reflect the role and responsibility of the individual, using external benchmarks as a point of reference for comparative roles in line with policy for existing Executive Directors. The Company would wherever possible aim to recruit at a salary lower than the previous salary for the same role (except where the previous salary was below median). In exceptional circumstances the Committee may offer salaries in excess of the median for the right candidate with an appropriate business case and in such cases will provide a full explanation to shareholders.
Benefits	The Company's standard benefit package will be offered. This may include relocation / travel and accommodation allowance where required to attract the right candidate.
Pension	Maximum contribution on recruitment is 20% of salary.
MIP	The maximum award value is set in line with the Company's policy for existing Executive Directors.
Maximum level of variable remuneration	The maximum level of annual variable remuneration which may be earned by an Executive Director under the Company's MIP is 250% of salary.
"Buy Outs"	The Committee's policy is not to provide buy outs as a matter of course but it reserves the right to do so where the individual circumstances of recruitment justify the provision of a buyout broadly up to the equivalent value of the lapsed value of incentives that may be forfeited from previous employment. To the extent that it was not possible or practical to provide the buy out within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.
Internal recruit	An internal recruit will be permitted to keep any deferred payments or awards granted which the Company made or committed to before his or her appointment to the Board.

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

Service contracts and policy on termination payments

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

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

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

Remuneration Report *continued*

Policy on termination

<table>
<tr><th>Remuneration element</th><th>Treatment on exit</th><th>Committee discretion</th></tr>
<tr><td>General</td><td>When determining any loss of office payment for a departing individual the Committee will always seek to minimise the cost to the Company whilst seeking to reflect the circumstances at the time.</td><td>The Committee retains discretion to make loss of office payments appropriate to the circumstances and applying the overriding principle that there should be no element of reward for failure.</td></tr>
<tr><td>Base salary</td><td>Salary will be paid over the notice period.</td><td>The Committee has discretion to make a lump sum payment on termination equal to the value of the salary payable during the notice period. In all cases the Company will seek to mitigate any payments due.</td></tr>
<tr><td>Benefits</td><td>Benefits will normally be provided over the notice period.</td><td>The Committee has discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period. In all cases the Company will seek to mitigate any payments due.</td></tr>
<tr><td>Pension / salary supplement</td><td>Company pension contributions / pension allowance will normally be provided over the notice period.</td><td>The Company has discretion to make a lump sum payment on termination equal to the value of the Company pension contributions / allowance during the notice period. In all cases the Company will seek to mitigate any payments due.</td></tr>
<tr><td>Variable / performance-related remuneration provided under the MIP</td><td>The rules of the MIP provide that on termination of employment before the performance measurement date or prior to the relevant vesting date, no award will be granted in respect of the year of cessation and any subsisting entitlements will lapse; unless the following circumstances apply:
— injury or disability;
— redundancy within the meaning of the Employment Rights Act 1996 or equivalent legislation;
— retirement by agreement with the Company;
— the Executive being employed by a company which ceases to be a Group member;
— the Executive being employed in an undertaking or part of an undertaking which is transferred to a person who is not a Group member; or
— any other circumstances if the Committee decides in any particular case to treat the Executive Director as a "good leaver".
If an Executive Director leaves in one of the above circumstances the rules provide for the following:
Element A of the MIP
The Committee will calculate the amount of any payment pro-rated to the amount of the plan year completed on the Executive's date of cessation and taking into account the level of satisfaction of the performance targets at the next performance measurement date. Any payment is made as soon as practicable after the determination of the level of satisfaction of the performance targets.
Deferred balances will be paid, as the performance conditions were satisfied at the date of grant.
Element B of the MIP
In respect of the year of cessation the Committee will calculate any award pro-rated to the amount of the plan year completed on the Executive's date of cessation and taking into account the level of satisfaction of the performance targets at the next performance measurement date. Any award will be made as soon as practicable after the determination of the level of satisfaction of the performance targets and will remain subject to the sale restrictions.
Shares subject to subsisting awards at the date of cessation of employment vest on the date of cessation or the next measurement date as determined by the Committee pro-rated to the amount of the relevant vesting period completed and subject to the proportionate satisfaction of the financial underpin on such date provided that the shares shall remain subject to the relevant sale restrictions.</td><td>The Committee has discretion to determine that the reason for termination falls within the categories described.
The Committee will only use its general discretion to determine that an Executive Director is a "good leaver" in exceptional circumstances and will provide a full explanation to shareholders, if possible in advance, of the basis for its determination.</td></tr>
</table>

Annual Remuneration Report

This report covers the reporting period from 1 January 2014 to 31 December 2014 and explains how the Remuneration Policy has been implemented.

Total remuneration in 2014 - Executive Directors (Audited)

	Fixed (£'000)						Performance related (£'000)							
											Long term incentives			
	Salary		Other benefits		Pension contribution/ allowance		Annual bonus (MIP Element A/ PIP bonus)		MIP Element B		LTIP/MIP/PIP		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Ian Burrell	**184**	237	**8**	13	**54**	71	**183**	151	**20**	–	**1,475**	662	**1,924**	1,134
Jack Clarke	**58**	–	**2**	–	**11**	–	**43**	–	**114**	–	**–**	–	**228**	–
Martyn Coffey	**400**	125	**21**	16	**75**	23	**298**	79	**199**	–	**108**	–	**1,101**	243
David Sarti	**217**	237	**15**	16	**65**	71	**353**	151	**–**	–	**1,146**	662	**1,796**	1,137
Total	**859**	599	**46**	45	**205**	165	**877**	381	**333**	–	**2,729**	1,324	**5,049**	2,514
	Note a	Note a	Note b			Note c	Notes d and f		Note d		Notes e, f, g and h			

Notes on remuneration table

(a) Ian Burrell retired from the Board on 1 October 2014. The table includes his remuneration for the period between 1 January and 1 October 2014. David Sarti retired from the Board on 1 December 2014. The table includes his remuneration for the period between 1 January 2014 and 1 December 2014. Jack Clarke joined the Group and was appointed to the Board on 1 October 2014. The table includes his remuneration for the period between 1 October and 31 December 2014. The 2013 figure for Martyn Coffey relates to the period from his joining the Board (9 September 2013) to 31 December 2013.

(b) Benefits are car/car allowance, fuel/fuel allowance, private medical insurance, life insurance and in the case of Martyn Coffey and Jack Clarke, travel and accommodation expenses.

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

(d) The Annual bonus column shows 50 per cent of the total bonus contribution earned under the MIP Element A in respect of 2014 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 2014 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 2014 Element B shares is subject to performance and employment-based forfeiture for a 3 year deferred period. These deferred elements will be disclosed in the LTIP column when the conditions are satisfied, Note (f) explains the different treatment of "good leavers" Ian Burrell and David Sarti. For 2013, the annual PIP bonus represents 50 per cent of the total bonus contribution made to the PIP in respect of 2013 performance.

(e) The LTIP column shows the aggregate value of:

(i) sums released from PIP and MIP account balances from earlier years that are no longer subject to deferral and forfeiture risk; and

(ii) 2012 Performance Share awards under the 2005 LTIP that have vested by reference to the 2012-2014 vesting period.

(f) The "good leaver" entitlement in the case of Ian Burrell and David Sarti breaks down as follows:

(i) bonus released from PIP account balance carried over from 2013 in the normal course following the 2014 results (see Note (e) (i));

(ii) 2012 Performance Share awards under the LTIP that vest in the normal course following the 2014 results;

(iii) the estimated value of 2013 and 2014 LTIP awards which vest on a pro-rata basis on the date of leaving under the "good leaver" rules; and

(iv) the value of outstanding pro-rated MIP entitlements.

Outstanding MIP and LTIP awards have been valued in accordance with the Regulations as the number of shares/notional shares x the average share price over the last quarter of 2014 (212.76 pence) and are summarised in the following table:

	Balance of PIP account £'000	Balance of MIP Element A and B £'000	2012 LTIP[1] £'000	2013 LTIP[1] £'000	2014 LTIP[1] £'000	Total £'000
Ian Burrell	490[2]	203[3]	261[4]	377[5]	144[6]	1,475
David Sarti	490[7]	—	261[8]	302[9]	93[10]	1,146

Notes

(1) Estimated value under Regulations

(2) 230,133 shares x 212.76 pence

(3) 95,325 shares x 212.76 pence

(4) 122,511 shares x 212.76 pence

(5) 177,160 shares x 212.76 pence

(6) 67,830 shares x 212.76 pence

(7) 230,133 shares x 212.76 pence

(8) 122,511 shares x 212.76 pence

(9) 141,962 shares x 212.76 pence

(10) 43,811 shares x 212.76 pence

Annual Remuneration Report *continued*

Setting pay in context

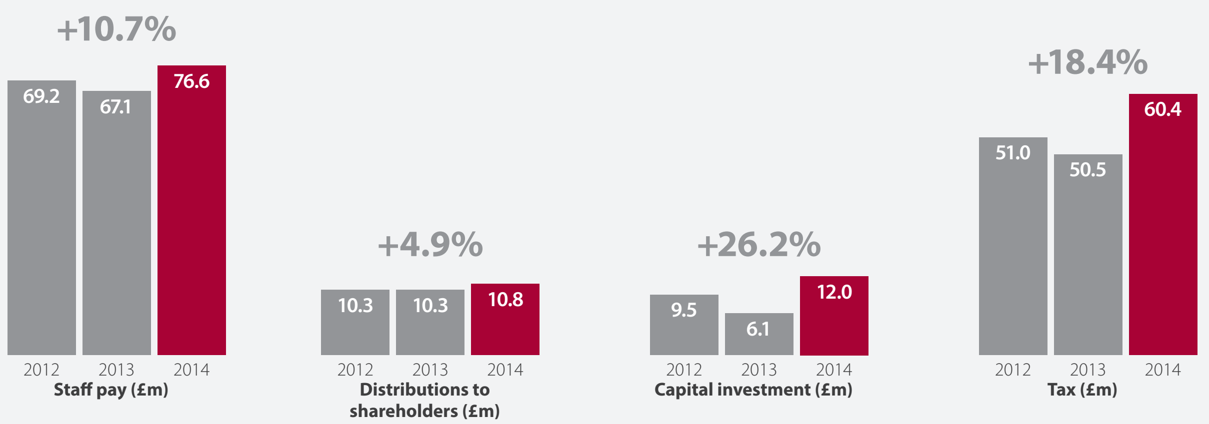
The following graphs illustrate the relationship between total expenditure on remuneration and other disbursements from profit over the past 3 years.

The 4 elements in the table 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:

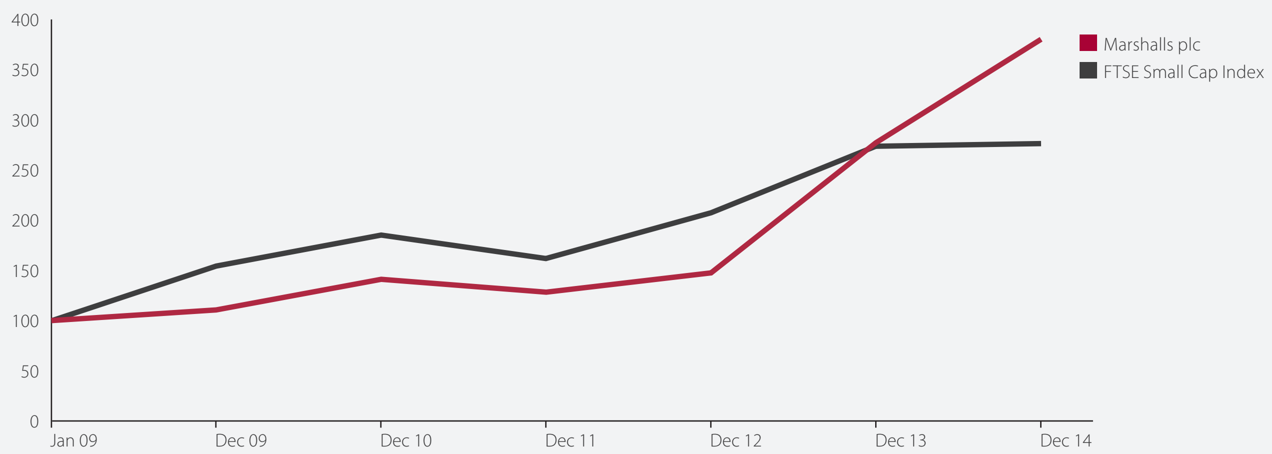
- investment – the Company restricted investment during the economic downturn, but plans to invest strategically over the next period to take advantage of the more positive economic conditions and in order to ensure that the business grows in a sustainable manner with a corresponding long-term benefit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

Relative importance of spend on pay

Percentage change



Total shareholder return



This chart shows the Group's total shareholder return ("TSR") performance compared to the FTSE Small Cap Index for the period from 1 January 2009 to 31 December 2014. TSR is defined as share price growth plus reinvested dividends. Marshalls plc was a constituent of the FTSE Small Cap Index throughout the period illustrated. This chart shows the value at 31 December 2014 of £100 invested in Marshalls plc on 31 December 2009 compared with the value of £100 invested in the FTSE Small Cap Index. The other plotted points are the intervening financial year ends. Marshalls' TSR performance was 36 per cent better than the overall performance of the FTSE Small Cap Index in 2014.

CEO pay in last 6 years

This table shows how pay for the CEO role has changed in the last 6 years. Graham Holden was succeeded by Martyn Coffey as CEO on 10 October 2013.

Year	2009 (Graham Holden) £'000	2010 (Graham Holden) £'000	2011 (Graham Holden) £'000	2012 (Graham Holden) £'000	2013 (Graham Holden/ Martyn Coffey) (Note a) £'000	**2014 (Martyn Coffey) £'000**
Single figure remuneration	711	671	752	938	3,143	**1,101**
% of maximum annual bonus earned	46.4%	38.6%	78.1%	33.0%	63.6%	**99.3%**
% of maximum LTIP awards vesting	0	0	0	0	63.0	**0**

Note (a): The 2013 single figure is made up of Graham Holden's base salary up to 10 October 2013 of £319,000, his benefits of £10,000 and his pension allowance of £96,000. He also received PIP annual bonus of £1,313,000, and LTIP awards, including 2012 and 2013 awards vesting early on a pro-rata basis due to good leaver status, of a value of £1,162,000 and these were included as part of the single figure in the 2013 Annual Report. The 2013 figure also includes Martyn Coffey's proportionate entitlement to salary, benefits and annual bonus for his period of service in 2013. Graham Holden's normal remuneration in the year excluding accelerated payments due to his good leaver status was £1,475,000.

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2013 and 2014 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 (Note a)	Bonus (note b) £'000		Percentage increase
	2014	2013	%	**2014**	2013	%	**2014**	2013	%
Graham Holden	**–**	319	N/A	**–**	10	N/A	**–**	262	N/A
Martyn Coffey	**400**	90	N/A	**21**	16	N/A	**497**	79	N/A
Sub-total	**400**	409	(2)	**21**	26	(19)	**497**	341	46
UK total pay	**73,412**	65,402	12.2	**304**	326	(6.7)	**2,336**	967	141.4
Number of employees	**2,131**	2,041	4.4	**438**	454	(3.5)	**273**	272	0.4
Average per employee	**34.4**	32.0	7.5	**0.7**	0.7	(3.3)	**8.6**	3.6	140.5

Notes:

(a) Figures for Graham Holden and Martyn Coffey in 2013 and 2014 have been annualised. The actual amounts received were less. Martyn Coffey's salary was increased on 1 January 2015 by 2.9 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.

Outcomes of incentive schemes in 2014 (audited)

This section explains how 2014 performance is reflected in rewards earned under the Company's incentive schemes.

Management Incentive Plan ("MIP")

The MIP incorporates:

— Element A, an annual bonus award carrying a maximum of 150 per cent of salary, of which 50 per cent must be deferred into shares; and

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

Both awards depend on achievement of the Performance Conditions set by the Committee at the date of award. The table below shows the 2014 Performance Conditions and the extent to which they have been satisfied.

Measurement	Percentage of maximum contribution based on measurement	Minimum target	Maximum target	**2014 Actual**	Percentage of target achieved	Percentage of salary earned (Element A)	Percentage of salary earned (Element B)
EPS	60%	6.35p	8.35p	**10.13p**	100%	90	60
Net debt	30%	£41.5m	£36.5m	**£30.5m**	100%	45	30
International sales	10%	£18.5m	£22.5m	**£22.1m[(1)]**	93.5%	14	9.3
Non-financial targets	20% deduction if not met	95% (Customer service) 10% reduction (Health and safety)	N/A	**All met**	100%	No deduction	No deduction

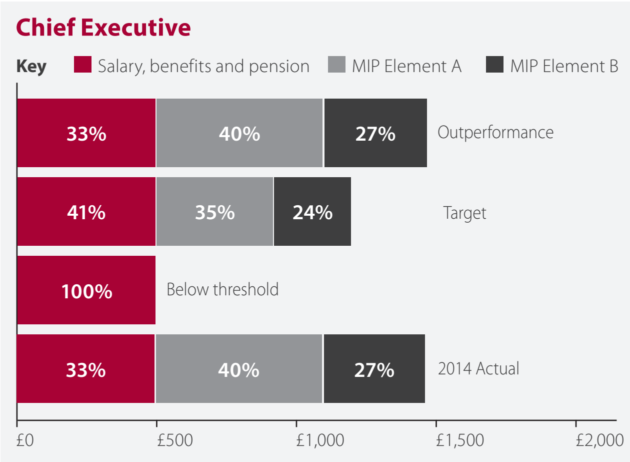
(1) at constant exchange rates

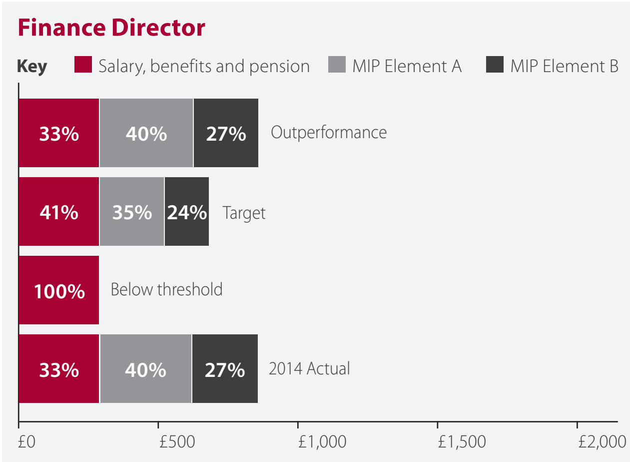
Annual Remuneration Report *continued*

Management Incentive Plan ("MIP") *continued*

Performance conditions were set at the beginning of 2014 and the Committee took account of both internal budgets and external factors such as the market consensus of investors for the full year 2014. During the year cash flow from sales improved significantly and pre-tax profit grew by 72 per cent. This performance meant that the stretching EPS and net debt targets set at the beginning of the year were achieved in full, while the good progress shown in International sales was reflected in a 93.5 per cent achievement against target. The share price improved by 33 per cent (31 December 2013: 176.25 pence; 31 December 2014: 234 pence) which means the value of share awards has increased.

The impact on the total annual remuneration opportunity for each of the continuing Executive Directors under the Policy is shown below.





Notes:

— The base salary, benefits and pension information is taken from the Single Figure Remuneration table on page 51.

— Achievement of "Target" financial conditions results in 70 per cent of the annual award under the MIP being earned.

— "Below threshold" assumes a performance that fails to meet the threshold for both Element A and Element B so is the level below which no variable pay under the MIP is earned.

— "Outperformance" represents the full 250 per cent of salary potential under the MIP.

— The Finance Director chart illustrates the outcome irrespective of the change in Finance Director during the year, as the targets for both Ian Burrell and Jack Clarke were the same. The disclosure is, therefore, on an annualised basis.

EPS

EPS relates to our strategic objective to grow profits. The Group's profit before tax on continuing operations grew from £13.0 million to £22.4 million. EPS from continuing operations improved from 6.94 pence in 2013 to 10.13 pence in 2014. EPS is measured using International Financial Reporting Standards ("IFRSs") based on the audited results of the Group and subject to the discretion of the Committee with regard to one-off items.

Net debt

Net debt is relevant for measurement of cash flow and overall sustainability. The Group's net debt at 31 December 2014 of £30.5 million was better than the lower (better) end of the target range set by the Committee at the beginning of the year.

International sales

The Group set a specific target relating to growth of International sales, chiefly in Europe through Marshalls NV and through the recently established sales office in North America. International sales grew to £22.1 million (at constant exchange rates), exceeding the budget but not reaching the maximum target of £22.5 million set at the beginning of the year.

Additional performance conditions

Our customers are at the heart of our business model, and our measurement of customer service uses factors such as product availability, on-time delivery performance and administrative and delivery accuracy to assess performance. The Group's average customer service performance, assessed monthly, exceeded its minimum target of 95 per cent throughout 2014. The Group also continued its excellent performance against its stated objective of reducing days lost to accidents by 10 per cent year on year. The actual reduction in days lost to accidents year on year was 29.6 per cent. Had these two targets not been met, the overall level of MIP award would have reduced by 20 per cent; the achievement of these measures means that no reduction factor will apply.

MIP awards 2014

Element A

Plan accounts	Martyn Coffey	Jack Clarke	Ian Burrell	David Sarti
2014 contribution (% of salary earned)	149.0	149.0	149.0	149.0
Value	£596,100	£85,689	£365,397	£353,040
2014 element released (Note a)	£(298,050)	£(42,845)	£(182,699)	£(353,040)
Closing balance (deferred into shares)	£298,050	£42,844	£182,698	–
Number of shares represented by closing balance (Note b)	130,723	18,791	80,130	–

Element B

	Martyn Coffey	Jack Clarke	Ian Burrell	David Sarti
Number of shares awarded	174,298	100,221	17,644	–
Percentage of salary (Note c)	99.35	99.35	99.35	–
Value	£397,400	£228,505	£40,229	–
EPS forfeiture threshold (Note d)	5.6p	5.6p	5.6p	–

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. In the second and each subsequent year of the MIP prior to the final year, 50 per cent of the balance in the MIP account is released. David Sarti and Ian Burrell will receive the full amount of their Element A plan account as "good leavers".

(b) Calculated by reference to the mid market average value for the 30 day period ending on 31 December 2014 (228 pence).

(c) No Element B award was made to David Sarti, in view of his retirement on 31 December 2014. The Element B award for Ian Burrell takes account of his expected retirement on 30 June 2015 and is calculated by reference to the number of days service in the 3 year holding period up to his termination date (estimated number of Element B shares as at 30 June 2015 is 17,644).

(d) If the actual EPS falls below the forfeiture threshold over the three years before vesting, 50% 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.

PIP awards

Balances in the PIP carried over from 2013 will be released following announcement of the 2014 Results, as the forfeiture threshold (EPS of 5.6 pence) was not breached.

Plan accounts	Martyn Coffey	Jack Clarke	Ian Burrell	David Sarti
Balance as at 1 January 2014	£79,309	–	£360,324	£360,324
2014 dividend added	£2,475	–	£11,244	£11,244
Impact of 2014 share price increase	£25,986	–	£118,064	£118,064
Value	£107,770	–	£489,632	£489,632
Shares released to participants (calculated by reference to the year end share price of 234 pence)	46,055	–	209,244	209,244
Balance as at 1 January 2015	–	–	–	–

2005 LTIP

A proportion of Performance Share Awards granted in 2012 under the 2005 LTIP have vested following the announcement of the 2014 annual results. Vesting of these awards was dependent on performance over the 3 financial years ended 31 December 2012, 2013 and 2014 and on continued employment.

Performance shares

Performance measurement	% of award vesting*	Actual	% of 2012 awards vesting
EPS Growth of RPI +9%	0%	EPS changed from 5.65p to 10.13p	100% of EPS target
Growth of RPI +21%	50%	Growth of RPI +71.9%	
Operating Cash Flow ("OCF") Growth of RPI +9%	0%	OCF changed from £87.9m to £103.0m	7.3% of OCF target
Growth of RPI +21%	50%	Growth of RPI +9.9%	

* Straight line vesting between points.

Notes:

(a) Performance Shares take the form of nil-cost options.

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

(c) In determining the percentage of awards vesting the Committee exercised its discretion as provided in the rules of the LTIP. The original performance condition for OCR had a step in vesting once threshold performance had been met, with 12.5 per cent of this element of the LTIP award vesting for threshold performance. The Committee decided in line with current best practice to remove this step and start threshold vesting at 0 per cent for OCR growth of RPI +9 per cent, rather than 12.5 per cent. The impact of this change has been to reduce the level of vesting under this element of the LTIP award for participants at threshold levels of performance.

Annual Remuneration Report *continued*

2005 LTIP awards made in 2014 (Audited)

Executive Director	Basis of award	Face value £'000	Number of shares	Measurement period	Performance conditions
Martyn Coffey	100% of salary	400	222,124	3 years	EPS growth OCF growth
Jack Clarke (Note a)	100% of salary	230	115,676	3 years	EPS growth OCF growth
Ian Burrell	100% of salary	245	136,157	3 years	EPS growth OCF growth
David Sarti	100% of salary	237	131,553	3 years	EPS growth OCF growth

Notes:

(a) Exceptional award granted on appointment.

(b) The number of Performance Shares is calculated based on the average mid-market closing price over the 3 days immediately preceding the date of grant.

(c) The performance conditions attached to 2014 awards are:

EPS growth (75%):

- 75% or less = 0%
- 100% = 50% vesting
- 125% = 100% vesting

OCF growth (25%)

- 5% = 0%
- 10% = 50%
- 15% = 100%

Straight line vesting between points.

(d) The 2005 LTIP Rules contain provisions relating to the lapse of awards on termination (other than as a good leaver). Amounts may be withheld in the event of financial misstatement in any year of the measurement period (2014-2016).

2005 LTIP awards: previous awards outstanding as at 31 December 2014

Executive Director	Number of Performance Shares awarded 2014	Number of Performance Shares awarded 2013	2013 target EPS (50%) and OCF (50%) growth 2014 target EPS (75%) and OCF (25%) growth	Actual 2013 awards	Potential level of vesting of 2013 awards (Note a)	Actual 2014 awards	Potential level of vesting of 2014 awards (Note b)
Ian Burrell	136,157	212,943		EPS growth = 83.5%	EPS 100%	EPS growth = 80.2%	EPS 100%
David Sarti	131,553	212,943	RPI + 9% to 21%	OCF growth = 39.1%	OCF 100%	OCF growth = 193.2%	OCF 100%
Martyn Coffey	222,124	–					
Jack Clarke	115,676	–					
Martyn Coffey	–	243,412	Share price in range 200p to 250p	Share price 176.25p	0%	Share price 234p	68%

Notes:

(a) Estimate assumes RPI to be 4.3 per cent over first 2 years of vesting period.

(b) Estimate assumes RPI to be 1.6 per cent over first year of vesting period.

(c) All estimates are measured as at 31 December 2014.

(d) The outstanding awards held by David Sarti will be pro-rated to his leaving date of 31 December 2014, and the outstanding awards held by Ian Burrell will be pro-rated to his expected leaving date of 30 June 2015. Details of the actual values likely to vest in respect of 2013 and 2014 awards are included in the notes to the Single Figure Remuneration table on page 51.

(e) Each of Ian Burrell and David Sarti holds 228,288 2012 LTIP awards and are entitled to exercise their rights in respect of 122,511 shares each following announcement of the 2014 results. The balance of the 2012 LTIP awards will lapse. Neither Martyn Coffey nor Jack Clarke have 2012 Performance Share awards.

Pension benefits (audited)

Executive Directors are eligible for membership of the defined contribution section of the Marshalls plc Pension Scheme (the "Scheme"). Ian Burrell and David Sarti ceased to be members of the Scheme in 2013, having fixed their lifetime allowance, and in 2014 each received a monthly pension allowance equal to the monthly contribution that would otherwise have been paid by the Company to the Scheme.

Neither Martyn Coffey nor Jack Clarke is a member of the Scheme. Each receives a monthly pension allowance equal to the contribution that the Company would otherwise have paid to the Scheme. Martyn Coffey received an annual fixed pension allowance of £75,000 in 2014. Jack Clarke received a pension allowance of 20 per cent of salary.

No Director is entitled to defined benefit pension under the Scheme.

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 2014. The Chairman's fees are set by the Committee and the Chief Executive; other Non-Executive Director fees are set by the Board as a whole. The Non-Executive Directors also received a fixed allowance for travel and accommodation associated with attendance at Board meetings, which is shown below as a grossed up taxable amount.

	Board fee £'000		Committee fees £'000		Allowance £'000		Total £'000	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Andrew Allner Chairman and Chairman of Nomination Committee	**133**	129	**–**	–	**10**	10	**143**	139
Alan Coppin Senior Independent Director, Chairman of Remuneration Committee Member of Audit and Nomination Committees	**43**	40	**6**	6	**6**	6	**55**	52
Mark Edwards Chairman of Audit Committee Member of Remuneration and Nomination Committees	**42**	40	**6**	6	**6**	6	**54**	52
Tim Pile Member of Audit, Remuneration and Nomination Committees	**42**	40	**–**	–	**6**	6	**48**	46
Total	**260**	249	**12**	12	**28**	28	**300**	289

The fees were increased by 3.5 per cent from 1 January 2014 in line with Executive Directors and other Group employees and Alan Coppin received an additional fee to recognise his role as the Senior Independent Director.

Payments to past Directors

Graham Holden retired from the Board on 10 October 2013 and his employment ceased on his agreed retirement date of 11 April 2014. Ian Burrell retired from the Board on 1 October 2014 and his employment is expected to cease on his agreed retirement date of 30 June 2015. David Sarti retired from the Board on 1 December 2014 and his employment ceased on his agreed retirement date of 31 December 2014.

The total amount paid to Graham Holden in respect of his salary, benefits and pension allowance between 1 January 2014 and his date of leaving is set out below. No bonus was payable to Graham Holden in respect of service during 2014.

The total amount paid to David Sarti in respect of his salary, benefits and pension allowance between 1 December 2014 (the date of his retirement as a Director) and 31 December 2014 is set out below.

Director	Salary £'000	Taxable benefits £'000	Pension allowance £'000	Total £'000	Date of leaving
Graham Holden	117	3	35	155	11 April 2014
David Sarti	20	1	6	27	31 December 2014

Ian Burrell will continue to receive his current salary and benefits until the date of his retirement expected to be 30 June 2015.

Annual Remuneration Report *continued*

Payments to past Directors *continued*

As "good leavers" on retirement, the Committee has made the following determinations in respect of incentive awards:

PIP

Graham Holden received his full PIP balance as at 11 April 2014 in the form of 749,786 shares, which were immediately repurchased at market value by the Marshalls plc Employee Benefit Trust.

Ian Burrell and David Sarti will each receive their full PIP balance as at 31 December 2014 in the form of shares following announcement of the 2014 results, calculated in accordance with PIP Rules. The current value of their Plan accounts and the number of shares to be transferred to them are shown on page 55 and reflected in the single remuneration figure table on page 51.

2005 LTIP

Performance Share awards where the vesting period has not yet expired are pro-rated for the period from the date of grant to the actual date of cessation of employment and are subject to the proportionate satisfaction of the performance conditions on the date of cessation.

Graham Holden received 213,736 shares in respect of his 2012 and 2013 awards, representing his pro-rated entitlement at the date of leaving. The remaining balance of 479,555 performance shares awarded in 2012 and 2013 lapsed. He did not receive a 2014 award.

Under the 2013 and 2014 Performance Share awards held by Ian Burrell and David Sarti, the number of shares that vest based on their dates of cessation of employment and the level of satisfaction of the performance conditions at 31 December 2014 is set out below. In the case of Ian Burrell, these are estimates based on his anticipated retirement date of 30 June 2015.

Director	2013 award shares	2014 award shares
Ian Burrell	177,160	67,831
David Sarti	141,962	43,811

2014 MIP

Ian Burrell will receive an award under Element A and Element B of the MIP. David Sarti will receive an award under Element A of the MIP, and will not be required to defer any part of his Element A award. He will not be entitled to an award under Element B of the MIP. The maximum award that could vest, based on the performance conditions at 31 December 2014, is as follows:

Director	Element A £'000	Element B £'000
Ian Burrell	365	40
David Sarti	353	–

Payments for loss of office

No payments for loss of office have been made or are due to be paid.

Statement of implementation of Remuneration Policy in the following financial year (2015)

Executive Directors:

Salary

The Committee approved a 2.9 per cent salary increase for Executive Directors effective from 1 January 2015, in line with inflation and increases for UK employees generally. There was no increase for retiring Directors. Jack Clarke's salary on appointment (1 October 2014) was £230,000.

Director	**1 January 2015 £'000**	1 January 2014 £'000	Change %
Martyn Coffey	**412**	400	2.9
Jack Clarke	**237**	230	2.9
Ian Burrell	**245**	245	–
David Sarti	**–**	237	N/A

Benefits and pension

Benefits continue on the same basis as in 2014. For 2015, the Committee has increased Martyn Coffey's pension allowance to 20 per cent of salary in line with the Policy.

Variable pay / incentives

Executive Directors will be granted performance awards under the MIP conditional upon achieving certain performance conditions in 2015. The Committee has discretion under the Remuneration Policy to change the weightings of performance criteria to align with its priorities, including measures relating to performance on ESG issues. Our strategic priorities for 2015 are focused on improving profit margins, growing our business and developing our brand, while also remaining innovative and operating sustainably with the highest standards of health, safety and social responsibility. The Committee believes that a combination of EPS and net debt are the most appropriate criteria for measuring achievement of our financial objectives and that the combination of financial and non-financial criteria avoids inadvertently motivating irresponsible behaviour. The weighting for the operation of 2015 awards under the MIP will be:

EPS	75%
Net debt	25%

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

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

— customer service (must remain at or above 95 per cent); and

— health and safety incidence (year-on-year improvement of 10 per cent).

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

The Committee also considered whether to use an externally referenced measurement (for example, TSR) but, as explained in its consultations with shareholders during 2014, has concerns about the identification of a suitable comparator group, and reservations as to whether this is the most appropriate way to measure Company performance.

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

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

The measurement period under the MIP by reference to which these targets must be met will be the full financial year ending 31 December 2015. It is the view of the Committee that the targets for the MIP are commercially sensitive as they are primarily related to budgeted future profit and debt levels in the Company and therefore their disclosure in advance is not in the interests of the Company or shareholders. The Committee will, however, provide full retrospective disclosure to enable shareholders to judge the level of award provided against the targets set.

Non-Executive Directors

The Board approved an increase in the fee by 2.9 per cent from 1 January 2015, in line with Executive Directors and employees. In view of the change in the frequency and location of Board meetings since the previous policy was determined, the annual travel and expenses allowance previously paid monthly to Non-Executive Directors ceased with effect from 1 January 2015 and Non-Executive Directors will instead reclaim business expenses incurred in the performance of their duties retrospectively against duly presented invoices.

Director	**1 January 2015 £'000**	1 January 2014 £'000	Percentage increase
Andrew Allner (Chairman)	**137.1**	133.3	2.9
Alan Coppin (SID)	**50.4**	49.0	2.9
Mark Edwards	**49.4**	48.0	2.9
Tim Pile	**42.8**	41.6	2.9

Annual Remuneration Report *continued*

Shareholdings of Directors (audited)

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

The minimum shareholding requirements for Executive Directors are as follows:

Executive Director	Percentage of salary	Timescale to achieve/achieved
Martyn Coffey	200%	Within 5 years of appointment
Jack Clarke	100%	Within 5 years of appointment
Ian Burrell	100%	Yes
David Sarti	100%	Yes

Directors' shareholdings and share interests

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

- the number of shares the Director holds unconditionally;
- the number of deferred and conditional shares held under the incentive schemes that will vest following the 2014 results; and
- the number of shares subject to unvested incentive awards.

	Shareholding requirement		Beneficially owned	Shares exercisable/ vesting on 2014 results (Note b)	Deferred shares (Note c)	Deferred and contingent share interests (Note d)	Total interests in shares (including contingent interests)
Director	% of salary	Number of shares required (Note a)	Number of shares held	Number of shares	Number of shares	Number of shares	Number of shares
Martyn Coffey	200	341,880	641	46,055	87,149	683,408	817,253
Jack Clarke	100	98,291	–	–	50,111	184,578	234,689
Ian Burrell	100	104,783	298,664	331,755	8,822	333,944	973,185
David Sarti	100	101,239	176,719	517,528	–	–	694,247
Non-Executive							
Andrew Allner	–	–	41,329	–	–	–	41,329
Alan Coppin	–	–	10,000	–	–	–	10,000
Mark Edwards	–	–	78,000	–	–	–	78,000
Tim Pile	–	–	34,740	–	–	–	34,740

(a) The closing price of 234 pence per share on 31 December 2014 has been used to measure the number of shares required.

(b) Following announcement of the 2014 annual results, 100 per cent of the deferred PIP balance as at 31 December 2014, and 53.6 per cent of 2005 LTIP Performance Shares awarded in 2012 are expected to vest. The deferred PIP balance is settled in shares, and this column includes the total number of PIP shares and 2012 LTIP shares vesting. This column shows David Sarti's conditional interests having vested on a pro-rata basis as a "good leaver" by reference to his leaving date of 31 December 2014; any remaining balance has lapsed.

(c) This column includes the 50 per cent proportion of share interests awarded in 2014 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 (i.e in March 2018) but where vesting is only dependent on continuing employment throughout the 3 year deferral period with no other performance conditions.

(d) This column includes outstanding conditional interests under the 2005 LTIP in the form of Performance Shares awarded in 2013 and 2014, and share interests awarded under the MIP (Element A deferred shares, and Element B deferred shares) that remain subject to a financial performance conditions as well as to continued employment over the relevant deferral period. 50 per cent of Element A awards and 100 per cent of Element B awards shown in this column may be forfeited if the financial condition is not satisfied. The conditional and deferred interests held by Ian Burrell are expected to vest on his leaving date of 30 June 2015 on a pro-rata basis, and his remaining balances under the LTIP will lapse.

(e) Share interests under Element A and Element B of the MIP are calculated by reference to the mid-market average value for the 30 day period ending on 31 December 2014 (228 pence).

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

The Committee and its advisers

Role of the Remuneration Committee

The Committee's responsibilities include:

— setting remuneration policy for Executive Directors;

— determining specific remuneration packages for Executive Directors and for the Chairman;

— operating the Company's employee share incentive arrangements;

— providing guidance on remuneration for senior employees who report to the CEO; and

— considering the broader remuneration policies for Group employees below Board level.

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

External advisers

The Company appointed external remuneration advisers, PricewaterhouseCoopers LLP ("PwC"), in 2010 following a competitive tender process. PwC attends meetings of the Committee by invitation. The Chief Executive attends as appropriate but may not participate in discussions about his own remuneration. The Company Secretary acts as secretary to the Committee and attends Committee meetings.

PwC's fees are agreed by the Remuneration Committee according to the work performed. The terms of its engagement are available on request from the Company Secretary. PwC also provided advice to the Company during the year in relation to corporate tax matters. The Committee is satisfied that the advice from PwC is independent based on the separation of the team advising the Committee from any other work undertaken by PwC and the fact that PwC is a signatory to the Remuneration Consultants' Group's Code of Conduct. PwC's work relating to Executive remuneration during 2014 is summarised below.

Nature of work

— supporting shareholder consultation in relation to the new MIP;

— assistance in the preparation of the Remuneration Committee Report;

— benchmarking of total remuneration in respect of the Company and its comparator group;

— advice on the remuneration package for the Finance Director role;

— attendance at Remuneration Committee meetings to provide advice when required; and

— general advice on remuneration trends, regulations and best practice.

The amount paid to PwC in respect of remuneration advice received during 2014 was £65,000.

Committee Terms of Reference
www.marshalls.co.uk

Audit Committee Report

Chairman's introduction

Dear Shareholder

I am pleased to report to you on the Audit Committee's activities and objectives during 2014. This report, which is part of the Directors' Report, explains how the Audit Committee has discharged its responsibilities during 2014, and reflects the recent changes to audit reporting under the Code. I hope you find it useful and informative.

The role of the Audit Committee is to oversee financial reporting and to review the ongoing effectiveness of the Group's internal controls. The Committee provides assurance on the Group's risk management processes and assesses information received by external audit and the internal audit function.

One key area of focus during the year has been the tender of the Group's statutory audit work. Mindful of the recommendations of the Code in relation to rotation and audit tender, and of the Competition Commission Order relating to the statutory audit market, the Committee commenced a tender process in August 2014, concluding with the recommendation that Deloitte LLP be appointed as statutory auditor in place of KPMG LLP. This appointment will take effect following completion of the 2014 audit by KPMG LLP, and a resolution to approve the appointment of Deloitte LLP as statutory auditor will be submitted to a shareholder vote at our AGM in May 2015.

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

Mark Edwards
Audit Committee Chairman

Audit Committee members

— Mark Edwards

— Alan Coppin

— Tim Pile

Role and responsibilities

The key responsibilities of the Committee are:

— to keep under review the Group's financial and other systems and controls and financial reporting procedures;

— to plan and scope the annual audit and half-yearly audit review, receive audit reports and review financial statements, taking account of accounting policies adopted and applicable reporting requirements;

— to review the Annual Report and Financial Statements and advise the Board on whether they give a fair, balanced and understandable explanation of the Company's business and performance over the relevant period;

— to conduct a detailed review of internal controls and the internal audit process and report findings at least twice yearly to the Board;

— to review and update the Company's Risk Register;

— to review external auditor independence and audit and non-audit fees and make recommendations regarding audit tender and the appointment and remuneration of the auditor; and

— to review the Anti-Bribery Code and procedures, the Serious Concerns Policy and other policies relevant to financial security, compliance and business ethics.

The Audit Committee is the body appointed by the Board with responsibility for carrying out the functions required by the Listing Rules DTR 7.1.3R.

The Chairman of the Committee is a Chartered Accountant and the Board is satisfied he has recent and relevant financial experience as required by the Code. Other members also have relevant financial experience. Their attendance at meetings is shown on page 38.

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

The Committee's performance was evaluated during 2014 as part of the Board evaluation process described in the Corporate Governance section of this Annual Report (pages 34 to 40).

Committee Terms of Reference
www.marshalls.co.uk

Highlights of 2014

When reviewing the annual and half-yearly results, the Committee exercises its judgement in relation to matters drawn to its attention by the Finance Director from the internal audit function, the Risk Committee and the Group's external auditor. The Committee meets the 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 whether the accounts are fair, balanced and understandable.

The Group has chosen to adopt FRS 101 early and has applied this standard to the 2014 Accounts.

The areas for particular focus in the course of the 2014 audit are summarised below.

Inventory provisioning

The Committee critically reviewed the carrying value of the Group's finished goods inventory, particularly with regard to management's assessment of the appropriate level of provisioning against inventory obsolescence.

The gross levels of finished goods inventory held and the provisions recorded against obsolescence were presented to the Committee. This analysis was reviewed in the context of current trading and forecast for the next financial year. In addition, the external auditor presented its findings with regard to the key audit testing over inventory valuation. The Committee concurred with management's assessment of the carrying value of Group inventories, and noted that there was considerable management focus on reduction in finished goods inventory during 2014.

IFRS 8 "Segment Reporting"

The 2014 Accounts take account of a change in management reporting and the Directors have concluded that the detailed requirements of IFRS 8 now support the reporting of the Group's Landscape Products business as a reportable segment. This includes the UK operations of the Marshalls Landscape Products hard landscaping business servicing both the UK Domestic and the UK Public Sector and Commercial end markets.

Impairment testing

The Committee considered and critically reviewed the assumptions used in management's impairment calculations. On the basis of this review, the Committee agreed with management that no impairment to goodwill and other intangible assets was necessary. In relation to Marshalls NV, which forms part of International, there has been focus on impairment testing associated with the cessation of standard block paving manufacture at the Arendonk site. The Committee is satisfied that the asset values in Marshalls NV in the accounts for 2014 are supported and that the closure of the Arendonk operations does not cause an impairment concern.

Other matters

Other matters considered by the Audit Committee included taxation, pensions and share-based expenses.

External audit, auditor independence and objectivity

The Audit Committee has primary responsibility for making a recommendation to the Board on the appointment, re-appointment and removal of the external auditor. It keeps under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditor. The Group's current auditor, KPMG LLP, has processes in place designed to maintain independence, including regular rotation of the audit partner. The current KPMG audit engagement partner, Chris Hearld, was due to rotate after the 2014 accounts. Recognising that KPMG LLP (and their predecessors) have provided audit services to the Group since 1986, this provided a sensible opportunity for the external audit contract to be tendered, as indicated in our 2013 Annual Report, to meet regulatory guidelines and best practice in relation to the maximum periods for external auditor appointments and the protection of auditor independence. The Company has no contractual commitment obliging it to select any particular audit firm.

The Committee led the tender process, setting clear and robust objective and qualitative criteria incorporated into a tender brief for the potential candidate firms, which was issued in August 2014. This was followed by presentations from a shortlist of preferred candidates and meetings with the Chair of the Committee, the Chairman, Executive Directors and senior members of our Group finance function. The Committee made a recommendation to the Board in December, and the decision was taken to appoint Deloitte LLP as statutory auditor in place of KPMG LLP, subject to formal approval at the 2015 AGM. KPMG LLP will complete the audit of the Group and its subsidiaries for 2014, and the Committee considers that KPMG LLP is independent and objective for this purpose. No matters have been drawn to the attention of the Committee by KPMG LLP in relation to the 2014 audit or the cessation of their appointment as auditor.

The Committee has adopted policies to safeguard the independence of its external auditor. Any work awarded to the external auditor with a value of more than £5,000 in aggregate in any financial year, other than audit and tax compliance, requires 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 it. Details of amounts paid to the external auditor for audit and non-audit services in 2014 are analysed in Note 3 on page 89, with the amount paid for non-audit work representing approximately £4,000, or 2.4 per cent of total fees paid to the external auditor in 2014. This was for services associated with corporate tax compliance procedures. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £195,000 (2013: £267,000).

Risk management

The Board is responsible for reviewing the effectiveness of the system of risk management and control, and for ensuring that it meets the necessary standards. The Group's risk management and internal control systems are subject to a full formal review by the Audit Committee twice a year. They are also subject to a regular rolling programme of review, the results of which are periodically reported to the Board. The Group's Risk Committee, comprising the Executive Directors and members of senior management with executive accountability for particular risk areas, meets twice yearly to identify,

Audit Committee Report *continued*

Risk management *continued*

evaluate and consider steps to manage any material risks which might threaten the Group's business objectives. Between formal meetings of the Risk Committee, there are regular risk reviews by the relevant senior managers which are reported to the Risk Committee.

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, giving each risk a relative weighting reflecting its potential impact on the Group. Against each such risk, the controls that exist to manage and, where possible, minimise or eliminate those risks are also listed. The Risk Register helps to identify areas for action, and uses programmes including independent audit assessments that are designed to test the effectiveness of the Group's risk control systems. Information in relation to the management of risks and any changes to key risks or weighting is regularly reported to the Board, and the Risk Register is updated to reflect changes in circumstances or priorities. To the extent that any failings or weaknesses are identified during the review process, appropriate measures are taken to remedy these.

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

The Audit Committee has carried out an assessment of the effectiveness of the Group's risk management and internal control system, covering all material controls including its financial, operational and compliance controls and risk management systems for the year to 31 December 2014.

Internal controls and audit

The Committee monitors and reviews the effectiveness of internal controls on an ongoing basis. The process of reviewing and reporting on the internal control system is carried out by external accountants instructed by the Finance Director who are independent from the Company's external auditor and have no other connection with the Group. Their work includes periodic site visits and regular internal audit assignments of a financial and systems nature, including checks against previously completed self-assessment questionnaires. The results are reported to the Audit Committee.

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.

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

The Committee has reviewed the current process and has concluded that it remains an effective means of managing the internal audit function. The Committee will be considering how this process can be developed further during 2015.

Whistleblowing and bribery

The Audit Committee monitors any reported incidents under the Serious Concerns Policy (our whistle-blowing policy) which is available to all employees. This policy is displayed on operating site notice boards and on the Company's intranet, and sets out the procedure for employees to raise legitimate concerns about any wrong-doing without fear of criticism, discrimination or reprisal. The Serious Concerns Policy was reviewed during the year and the Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. There were no matters raised under the Serious Concerns Policy in 2014.

The Audit Committee also takes responsibility for reviewing the policies and procedures adopted by the Company to prevent bribery. The Company is committed to a zero-tolerance position with regard to bribery, made explicit through its Anti-Bribery Code and supporting guidance for its employees, agents and contractors on hospitality and gifts. The policy and procedures are published on the Company website and displayed on operating site notice boards. Employees are offered online training to reinforce the Anti-Bribery Code and procedures and, to date, 341 employees in decision-making roles with potential exposure to bribery risk have completed the training, which represents 100 per cent of target. There is a maintained register of employee interests, and a gifts and hospitality record. The internal audit review programme included a review of the adequacy of the Company's procedures in relation to the prevention of bribery, and recommendations from the internal audit process have been implemented in 2014, including the establishment of the Fraud Register.

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

Mark Edwards
Chairman of the Audit Committee
6 March 2015

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 32 and 33.

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 (2013: 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 18 to 20. 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 94 and 95.

Greenhouse gas emissions: The Group's CO_2 (greenhouse gas) emissions in 2014 are disclosed in the Strategic Report on pages 22 and 23.

Employees: The Company's policies in relation to disabled employees and employee involvement and communication are explained in the Strategic Report on pages 21 and 22.

Corporate governance: Details of how the Group complies with the UK Corporate Governance Code are set out on pages 34 to 40.

Post-balance sheet events of importance since 31 December 2014: There have been no important events affecting the Group since the end of the financial year. Details of developments since the financial year end 31 December 2014 are included in the Strategic Report on pages 25 to 30.

Research and development: Activity and likely future developments for the business are described in the Strategic Report on pages 14 and 15.

Dividends

The Board is recommending a final dividend of 4.00 pence (2013: 3.50 pence) per share which, together with the interim dividend of 2.00 pence (2013: 1.75 pence) per share, makes a combined dividend of 6.00 pence (2013: 5.25 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 3 July 2015 to shareholders registered at the close of business on 5 June 2015. The ex-dividend date will be 4 June 2015.

The dividend paid in the year to 31 December 2014 and disclosed in the Consolidated Income Statement is 5.50 pence (2013: 5.25 pence) per share, being the previous year's final dividend of 3.50 pence (2013: 3.50 pence) per share and the interim dividend of 2.00 pence (2013: 1.75 pence) per share in respect of the year ended 31 December 2014 and these were paid on 4 July 2014 and 5 December 2014 respectively.

Share capital and authority to purchase shares

The Company's share capital at 1 January 2015 was 199,378,755 Ordinary Shares of 25 pence. There has been no change between 31 December 2014 and 6 March 2015. Details of the share capital are set out in Note 21 on page 106.

On 26 March 2014, 2,425,000 Ordinary Shares held as Treasury Shares were transferred in connection with the vesting of awards under the Company's employee share schemes, with 985,905 being transferred to participants and the balance of 1,439,095 being transferred to the Marshalls plc Employee Benefit Trust (the "EBT") for the purposes of satisfying future awards that may vest under such schemes. The purchase of shares by the EBT was funded by a loan facility from the Company made under the provisions of the Companies Act 1986 relating to financial assistance. The Ordinary Shares of the Company carry equal rights to dividends, voting and return of capital on the winding up of the Company, as set out in the Company's Articles of Association. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any arrangement between holders of its shares which may result in restrictions on the transfer of securities or voting rights, nor any arrangement whereby a shareholder has waived or agreed to waive dividends (other than the EBT).

The EBT 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 LTIP. At 31 December 2014 the EBT held 3,181,327 ordinary shares in the Company (2013: 1,091,269 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 99 to 104. The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The Trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

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

At the Annual General Meeting in May 2014 shareholders gave authority to the Directors to purchase up to 29,523,367 shares representing approximately 14.99 per cent of the Company's issued share capital in the Company in the market during the period expiring at the next Annual General Meeting at a price to be determined within certain limits. No Ordinary Shares in the Company were purchased during the year or between 31 December 2014 and 6 March 2015 under this authority, which will expire at the Annual General Meeting in May 2015. 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.

Articles of Association

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

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

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

Directors' indemnities are referenced on page 37 of the Corporate Governance section.

Directors' interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share-based payment awards are contained in the Remuneration Report on pages 46 to 61. No change in the interests of the Directors has been notified between 31 December 2014 and the date of this Report.

Substantial shareholdings

As at 6 March 2015, the Company had been notified, in accordance with DTR Rule 5, of the following disclosable interests of 3 per cent or more in its voting rights:

	As at 6 March 2015 %	As at 31 December 2014 %
Majedie Asset Management	**9.62**	9.30
Standard Life Investments	**5.75**	5.32
JO Hambro Capital Management	**5.00**	4.16
Unicorn Asset Management	**4.73**	4.73
Royal London Asset Management	**4.27**	4.13
M&G Investment Management	**3.87**	3.88
Henderson Global Investors	**3.63**	3.65
BlackRock	**3.54**	3.59

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

Cathy Baxandall
Group Company Secretary
6 March 2015

Independent Auditor's Report
to the members of Marshalls plc only

Opinions and conclusions arising from our audit

1 Our opinion on the Financial Statements is unmodified

We have audited the Financial Statements of Marshalls plc for the year ended 31 December 2014 set out on pages 70 to 118. In our opinion:

— the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;

— the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

— the Parent Company Financial Statements have been properly prepared in accordance with UK Accounting Standards, including FRS 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.

2 Our assessment of risks of material misstatement

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

Recoverable value of finished goods inventory (balance sheet value £54.1 million)

Refer to page 63 (Report of the Audit Committee), page 80 (accounting policy) and pages 92 and 108 (financial disclosure).

The risk

As described in Note 1(j), the Directors record inventory at the lower of cost and net realisable value. The Group holds a large amount of inventories in order to meet customer demand. The non-perishable nature of the inventories, the business model of production across multiple locations and the wide range of product lines contribute to a high inventory holding. Despite the significant improvement in trading during 2014 there is still a risk that inventory lines which have been held for a significant period of time could have a reduced recoverable value as management may have to significantly discount the products in order to sell them. Therefore this is considered a key audit risk.

Our response

Our audit procedures included, among others, the use of data analysis techniques to compare on a product-by-product basis, inventory on hand at the year end and respective sales history in order to build independently a profile of inventory ageing and assess the length of time expected to take the inventory to sell. We then further analysed any inventory lines which are slow moving and considered their realisable value in the context of recent trading performance and the provisions held.

We also assessed the overall level of inventory provisions made by the Directors across all products as a whole based on our knowledge of recent margins achieved by the Group across its product range. In order to assess the accuracy of management's previous estimates we analysed the throughput of inventory previously identified as slow moving and reviewed the movement in the level of inventory provisions from prior periods and the level of inventory write-offs arising on sale. We also considered whether disclosures about the carrying value of inventory and write-downs made during the year met the requirements of the accounting standards.

Carrying value of goodwill

We continue to perform audit procedures over the risk of the carrying value of goodwill. However, following significant improvement in the Group's actual and forecast funding performance and the associated increase in market capitalisation, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

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

The materiality for the Group Financial Statements as a whole was set at £1.3 million. This has been determined with reference to a benchmark of Group profit before tax of £22.4 million (of which it represents 5.8 per cent).

We report to the Audit Committee any corrected and uncorrected misstatements exceeding £65,000 for income statement items in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of all the components scoped in for Group reporting purposes as if they comprised a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 95 per cent of total Group revenue, 91 per cent of the total profits and losses that made up Group profit before tax and 94 per cent of total Group assets.

For the one remaining component, we performed analysis at Group level to re-examine our assessment that there were no significant risks of material misstatements within this component.

Independent Auditor's Report *continued*
to the members of Marshalls plc only

Opinions and conclusions arising from our audit *continued*

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

In our opinion:

— the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

— the information given in the Strategic Report and Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and

— the information given in the Corporate Governance Statement set out on pages 34 to 40 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements.

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

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

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

— we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' Statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or

— the Report of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

— adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit; or

— a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

— the Directors' Statement, set out on page 42, in relation to going concern; and

— the Corporate Governance Statement on pages 32 to 40 relating to the Company's compliance with the 10 provisions of the 2012 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on pages 41 and 42, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Chris Hearld (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment, Neville Street, Leeds, LS1 4DW
6 March 2015

Financial Statements

Shareholder Information

Consolidated Income Statement
for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Revenue	2	**358,516**	307,390
Net operating costs	3	**(333,211)**	(291,300)
Operating profit	2	**25,305**	16,090
Financial expenses	5	**(2,889)**	(3,649)
Financial income	5	**5**	585
Profit before tax	2	**22,421**	13,026
Income tax expense	6	**(4,198)**	(67)
Profit for the financial period before post tax profit of discontinued operations		**18,223**	12,959
Post tax profit of discontinued operations	7	**–**	503
Profit for the financial period		**18,223**	13,462
Profit for the period			
Attributable to:			
Equity shareholders of the parent		**19,857**	14,096
Non-controlling interests		**(1,634)**	(634)
		18,223	13,462
Earnings per share (total operations):			
Basic	8	**10.13p**	7.20p
Diluted	8	**9.89p**	7.07p
Earnings per share (continuing operations):			
Basic	8	**10.13p**	6.94p
Diluted	8	**9.89p**	6.82p
Dividend:			
Pence per share	9	**5.50p**	5.25p
Dividends declared	9	**10,791**	10,292

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

	2014 £'000	2013 £'000
Profit for the financial period	**18,223**	13,462
Other comprehensive income / (expense)		
Items that will not be reclassified to the Income Statement:		
Remeasurements of the net defined benefit liability	**3,244**	(18,735)
Deferred tax arising	**(649)**	3,747
Deferred tax on share-based payments	**460**	176
Corporation tax on share-based payments	**332**	–
Total items that will not be reclassified to the Income Statement	**3,387**	(14,812)
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	**(3,984)**	2,787
Fair value of cash flow hedges transferred to the Income Statement	**1,076**	(1,447)
Deferred tax arising	**582**	(286)
Impact of the change in rate of deferred taxation	**–**	275
Foreign currency translation differences – foreign operations	**(75)**	(51)
Foreign currency translation differences – non-controlling interests	**(186)**	45
Total items that are or may be reclassified subsequently to the Income Statement	**(2,587)**	1,323
Other comprehensive income / (expense) for period, net of income tax	**800**	(13,489)
Total comprehensive income / (expense) for the period	**19,023**	(27)
Attributable to:		
Equity shareholders of the parent	**20,843**	562
Non-controlling interests	**(1,820)**	(589)
	19,023	(27)

Consolidated Balance Sheet
at 31 December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**149,745**	154,721
Intangible assets	11	**40,581**	41,071
Investment in associates	12	**782**	664
Employee benefits	19	**3,449**	–
Deferred taxation assets	20	**1,394**	1,626
		195,951	198,082
Current assets			
Inventories	13	**67,323**	70,807
Trade and other receivables	14	**32,254**	32,373
Cash and cash equivalents	15	**20,320**	17,652
		119,897	120,832
Total assets		**315,848**	318,914
Liabilities			
Current liabilities			
Trade and other payables	16	**63,912**	65,882
Corporation tax		**4,276**	4,802
Interest bearing loans and borrowings	17	**85**	3,453
		68,273	74,137
Non-current liabilities			
Interest bearing loans and borrowings	17	**50,715**	49,768
Employee benefits	19	**–**	4,347
Deferred taxation liabilities	20	**14,966**	15,230
		65,681	69,345
Total liabilities		**133,954**	143,482
Net assets		**181,894**	175,432
Equity			
Capital and reserves attributable to equity shareholders of the parent			
Called-up share capital	21	**49,845**	49,845
Share premium account		**22,695**	22,695
Own shares		**(6,689)**	(9,512)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**(2,488)**	(162)
Retained earnings		**254,729**	246,944
Equity attributable to equity shareholders of the parent		**180,419**	172,137
Non-controlling interests	22	**1,475**	3,295
Total equity		**181,894**	175,432

Approved at a Directors' meeting on 6 March 2015.

On behalf of the Board:

M. Coffey
Chief Executive

J.J. Clarke
Finance Director

The Notes on pages 76 to 108 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement
for the year ended 31 December 2014

	2014 £'000	2013 £'000
Cash flows from operating activities		
Profit for the financial period	**18,223**	13,462
Income tax expense on continuing operations	**4,198**	67
Profit on disposal and closure of discontinued operations	**–**	(272)
Income tax expense on discontinued operations	**–**	110
Profit before tax on total operations	**22,421**	13,367
Adjustments for:		
Depreciation	**11,982**	13,455
Amortisation	**1,231**	938
Share of results of associates	**(118)**	(14)
Gain on sale of property, plant and equipment	**(360)**	(131)
Equity settled share-based expenses	**2,496**	2,353
Financial income and expenses (net)	**2,884**	3,064
Operating cash flow before changes in working capital and pension scheme contributions	**40,536**	33,032
Increase in trade and other receivables	**(159)**	(2,933)
Decrease in inventories	**3,102**	2,840
(Decrease) / increase in trade and other payables	**(2,656)**	5,146
Operational restructuring costs paid	**(235)**	(870)
Pension scheme contributions	**(4,600)**	(5,600)
Cash generated from the operations	**35,988**	31,615
Financial expenses paid	**(2,840)**	(3,649)
Income tax paid	**(4,031)**	(842)
Net cash flow from operating activities	**29,117**	27,124
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**3,077**	175
Financial income received	**5**	9
Net proceeds from disposal of discontinued operations	**–**	16,999
Acquisition of property, plant and equipment	**(11,269)**	(5,462)
Acquisition of intangible assets	**(741)**	(596)
Net cash flow from investing activities	**(8,928)**	11,125
Cash flows from financing activities		
Payments to acquire own shares	**(4,266)**	–
Net increase / (decrease) in other debt and finance leases	**269**	(95)
Decrease in borrowings	**(2,690)**	(21,328)
Equity dividends paid	**(10,791)**	(10,292)
Net cash flow from financing activities	**(17,478)**	(31,715)
Net increase in cash and cash equivalents	**2,711**	6,534
Cash and cash equivalents at beginning of the period	**17,652**	11,101
Effect of exchange rate fluctuations	**(43)**	17
Cash and cash equivalents at end of the period	**20,320**	17,652

Consolidated Statement of Changes in Equity
for the year ended 31 December 2014

	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 2014	**49,845**	**22,695**	**(9,512)**	**75,394**	**(213,067)**	**(162)**	**246,944**	**172,137**	**3,295**	**175,432**
Total comprehensive income / (expense) for the period										
Profit for the financial period attributable to equity shareholders of the parent	–	–	–	–	–	–	**19,857**	**19,857**	**(1,634)**	**18,223**
Other comprehensive income / (expense)										
Foreign currency translation differences	–	–	–	–	–	–	**(75)**	**(75)**	**(186)**	**(261)**
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	**(3,984)**	–	**(3,984)**	–	**(3,984)**
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	**1,076**	–	**1,076**	–	**1,076**
Deferred tax arising	–	–	–	–	–	**582**	–	**582**	–	**582**
Defined benefit plan actuarial gains	–	–	–	–	–	–	**3,244**	**3,244**	–	**3,244**
Deferred tax arising	–	–	–	–	–	–	**(649)**	**(649)**	–	**(649)**
Deferred tax on share-based payments	–	–	–	–	–	–	**460**	**460**	–	**460**
Corporation tax on share-based payments	–	–	–	–	–	–	**332**	**332**	–	**332**
Total other comprehensive income / (expense)	–	–	–	–	–	**(2,326)**	**3,312**	**986**	**(186)**	**800**
Total comprehensive income / (expense) for the period	–	–	–	–	–	**(2,326)**	**23,169**	**20,843**	**(1,820)**	**19,023**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based expenses	–	–	–	–	–	–	**2,496**	**2,496**	–	**2,496**
Dividends to equity shareholders	–	–	–	–	–	–	**(10,791)**	**(10,791)**	–	**(10,791)**
Purchase of own shares	–	–	**(4,266)**	–	–	–	–	**(4,266)**	–	**(4,266)**
Disposal of own shares	–	–	**7,089**	–	–	–	**(7,089)**	–	–	–
Total contributions by and distributions to owners	–	–	**2,823**	–	–	–	**(15,384)**	**(12,561)**	–	**(12,561)**
Total transactions with owners of the Company	–	–	**2,823**	–	–	**(2,326)**	**7,785**	**8,282**	**(1,820)**	**6,462**
At 31 December 2014	**49,845**	**22,695**	**(6,689)**	**75,394**	**(213,067)**	**(2,488)**	**254,729**	**180,419**	**1,475**	**181,894**

Consolidated Statement of Changes in Equity *continued*
for the year ended 31 December 2014

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

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshalls plc (the "Company") is a Company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 6 March 2015.

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

The Consolidated Financial Statements have been prepared in accordance with IFRSs as adopted for use in the EU. The Group has applied all accounting standards and interpretations issued by the IASB and International Financial Reporting Committee relevant to its operations and which are effective in respect of these Financial Statements.

The following new accounting standards and amendments to standards are mandatory and have been adopted for the first time in the year ended 31 December 2014:

— IFRS 10 – *"Consolidated Financial Statements"* and IAS 27 – *"Separate Financial Statements"*, IFRS 11 – *"Joint Arrangements"* and IAS 28 – *"Investments in Associates and Joint Ventures"*. These are part of a new suite of standards on consolidation and related standards, replacing the existing accounting for subsidiaries and joint ventures (now joint arrangements) and making limited amendments in relation to associates.

— IFRS 12 – *"Disclosure of Interests in Other Entities"*. This contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.

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

(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 (transitioned from UK GAAP); these are presented on pages 109 to 118.

(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 1 to 30. 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 18 and are subject to normal covenant arrangements. The Group's on-demand overdraft facility is reviewed on an annual basis and the current arrangements were renewed and signed on 16 July 2014. In the opinion of the Directors there are sufficient unutilised facilities held which mature after 12 months. The Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. Based on current expectations, the Group's cash forecasts continue to meet half-year and year end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

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

The accounting policies have been applied consistently throughout the Group for the purposes of these Consolidated Financial Statements and are also set out on the Company's website (www.marshalls.co.uk).

The Consolidated Financial Statements are presented in sterling, rounded to the nearest thousand.

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

1 Accounting policies *continued*

Significant accounting policies *continued*

(b) Basis of preparation *continued*

Judgements made by management in the application of adopted IFRSs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 27.

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates (equity accounted investees)

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

(iii) Transactions eliminated on consolidation

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

(d) Foreign currency transactions

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

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period in which case the exchange rates at the date of transactions are used.

(e) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, fuel pricing and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(f) Hedging

(i) Cash flow hedges

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

When a hedging instrument expires or is sold, terminated or exercised or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, it no longer meets the criteria for hedge accounting. The cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Consolidated Income Statement and cash flow hedge accounting is discontinued prospectively.

(ii) Economic hedges

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

(g) Property, plant and equipment

(i) Owned assets

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

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

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

(ii) Leased assets

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

1 Accounting policies *continued*

Significant accounting policies *continued*

(g) Property, plant and equipment *continued*

(iv) Depreciation *continued*

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

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

— costs of clearing the site (including internal and outsourced labour in relation to site workers);

— professional fees (including fees relating to obtaining planning consent);

— purchase, installation and assembly of any necessary extraction equipment; and

— costs of testing whether the extraction process is functioning properly (net of any sales of test product).

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

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

(h) Intangible assets

(i) Goodwill

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

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

— the fair value of the consideration transferred; plus

— the recognised amount of any non-controlling interests in the acquiree; plus

— the fair value of the existing equity interest in the acquiree; less

— the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

In respect of business acquisitions that have occurred since 1 January 2004 but before 1 January 2011, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired. The classification and accounting treatment of business combinations that occurred prior to 1 January 2011 were not adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2011.

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

Goodwill is subsequently stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (see accounting policy l). 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.

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(h) Intangible assets *continued*

(ii) Research and development

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

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

(iii) Other intangible assets

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

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

(i) Trade and other receivables

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

(j) Inventories

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

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

(k) Cash and cash equivalents

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

(l) Impairment

(i) Impairment review

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

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

1 Accounting policies *continued*

Significant accounting policies *continued*

(l) Impairment *continued*

(i) Impairment review *continued*

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.

(m) Share capital

(i) Share capital

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

(ii) Dividends

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

(n) Interest-bearing borrowings

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

(o) Pension schemes

(i) Defined benefit schemes

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

If the calculation results in a surplus, the resulting asset is measured at the lower of the amount of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan, or reductions in future contributions to the plan. The present value of these economic benefits is discounted by reference to market yields at the balance sheet date on high quality corporate bonds.

When the benefits of the Scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Income Statement.

Actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan are recognised immediately within the Consolidated Statement of Comprehensive Income.

(ii) Defined contribution schemes

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

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(p) Share-based payment transactions

The Group enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's incentive schemes which include the Management Incentive Plan ("MIP"), Performance Incentive Plan ("PIP") and the Long Term Incentive Plans ("LTIP").

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

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

(q) 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.

(r) Provisions

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

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

(s) Trade and other payable

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

(t) Revenue

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

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

(u) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Financial expenses

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

1 Accounting policies *continued*

Significant accounting policies *continued*

(v) Income tax

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

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

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

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

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

(w) Segment reporting

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, due to a change in the way information is reported to the CODM to include business unit level information, the detailed requirements of IFRS 8 now support the reporting of the Group's Landscape Products business as a reportable segment which includes the UK operations of the Marshalls Landscape Products hard landscaping business, servicing both the UK Domestic and the UK Public Sector and Commercial end markets. Financial information for Landscape Products is now reported to the Group's CODM for the assessment of segment performance and to facilitate resource allocation.

2 Segmental analysis

Segment revenues and results

	2014			2013		
	Landscape Products £'000	**Other £'000**	**Total £'000**	Landscape Products £'000	Other £'000	Total £'000
Total revenue	**279,500**	**83,941**	**363,441**	242,386	69,938	312,324
Inter-segment revenue	**(194)**	**(4,731)**	**(4,925)**	(87)	(4,847)	(4,934)
External revenue	**279,306**	**79,210**	**358,516**	242,299	65,091	307,390
Segment operating profit	**36,066**	**(4,549)***	**31,517**	25,591	(4,850)	20,741
Unallocated administration costs			**(6,330)**			(4,665)
Share of profits of associates			**118**			14
Operating profit			**25,305**			16,090
Finance charges (net)			**(2,884)**			(3,064)
Profit before tax			**22,421**			13,026
Taxation			**(4,198)**			(67)
Profit after tax			**18,223**			12,959

* After charging £1,995,000 in respect of restructuring costs in the Belgian business.

Notes to the Consolidated Financial Statements *continued*

2 Segmental analysis *continued*

Segment revenues and results *continued*

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

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

The accounting policies of the Landscape Products operating segment are the same as the Group's accounting policies. Segment profit represents the profit earned without allocation of the share of profit of associates and certain central administration costs that are not capable of allocation. Centrally administered overhead costs that relate directly to the reportable segment are included within the segment's results.

Segment assets

	2014 £'000	2013 £'000
Fixed assets and inventory:		
Landscape Products	**156,509**	163,276
Other	**60,559**	62,252
Total segment fixed assets and inventory	**217,068**	225,528
Unallocated assets	**98,780**	93,386
Consolidated total assets	**315,848**	318,914

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

Other segment information

	Depreciation and amortisation		Fixed asset additions	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Landscape Products	**9,919**	10,467	**7,994**	3,243
Other	**3,294**	3,670	**4,016**	2,815
	13,213	14,137	**12,010**	6,058

Geographical destination of revenue

	2014 £'000	2013 £'000
United Kingdom	**337,475**	290,855
Rest of the World	**21,041**	16,535
	358,516	307,390

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

	2014 £'000	2013 £'000
Raw materials and consumables	**137,250**	117,176
Changes in inventories of finished goods and work in progress	**(3,484)**	1,470
Personnel costs	**93,439**	80,549
Depreciation – owned	**11,907**	13,041
– leased	**75**	158
Amortisation of intangible assets	**1,231**	938
Own work capitalised	**(1,473)**	(1,071)
Other operating costs	**94,910**	80,425
International "start-up" costs	**–**	84
Restructuring costs in Marshalls NV (page 26)	**1,995**	–
Operating costs	**335,850**	292,770
Other operating income	**(2,161)**	(1,325)
Net gain on asset and property disposals	**(360)**	(131)
Share of results of associates	**(118)**	(14)
Net operating costs	**333,211**	291,300

	2014 £'000	2013 £'000
Net operating costs include:		
Auditor's remuneration (see below)	**167**	169
Leasing costs	**8,081**	7,305
Hire of plant and machinery	**4,640**	4,769
Research and development costs	**2,684**	2,775

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

	2014 £'000	2013 £'000
Audit of Marshalls plc	**20**	20
Audit of financial statements of subsidiaries of the Company	**103**	103
Half-yearly review of Marshalls plc	**40**	40
Taxation compliance services	**4**	6
	167	169

Notes to the Consolidated Financial Statements *continued*

4 Personnel costs

	2014 £'000	2013 £'000
Personnel costs (including amounts charged in the year in relation to Directors):		
Wages and salaries	**76,645**	67,119
Social security costs	**8,960**	7,636
Share-based expenses	**3,062**	1,658
Contributions to defined contribution pension scheme	**4,772**	4,136
Included within net operating costs (Note 3)	**93,439**	80,549
Personnel costs included in profit on discontinued operations (Note 7)	**–**	656
Personnel costs included in operational restructuring costs	**507**	–
Total personnel costs	**93,946**	81,205

	2014 £'000	2013 £'000
Remuneration of Directors:		
Salary	**859**	918
Other benefits	**46**	55
PIP bonus	**–**	643
MIP Element A bonus	**877**	–
MIP Element B bonus	**333**	–
Amounts receivable under the LTIP	**2,729**	3,537
Pension allowances	**205**	261
Non-Executive Directors' fees and fixed allowances	**300**	289
	5,349	5,703

The aggregate of emoluments and amounts receivable under the PIP and the LTIP of the highest paid Director was £1,924,000 (2013: £2,900,000) including a salary supplement pension allowance of £54,000 (2013: £96,000).

There are no Directors to whom retirement benefits are accruing in respect of qualifying services. As set out in the Remuneration Report on page 47, the Executive Directors receive a pension allowance 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 Report on pages 43 to 61.

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

	2014 Number	2013 Number
Continuing operations	**2,132**	2,042

5 Financial expenses and income

	2014 £'000	2013 £'000
(a) Financial expenses		
Interest expense on defined benefit pension scheme	**48**	–
Interest expense on bank loans, overdrafts and loan notes	**2,835**	3,638
Finance lease interest expense	**6**	11
	2,889	3,649
(b) Financial income		
Expected return on the defined benefit pension scheme	**–**	576
Interest receivable and similar income	**5**	9
	5	585

6 Income tax expense

	2014 £'000	2013 £'000
Current tax expense		
Current year	**5,670**	4,251
Adjustments for prior years	**(1,834)**	(1,642)
	3,836	2,609
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**(319)**	(2,944)
Adjustments for prior years	**681**	402
Income tax expense in the Consolidated Income Statement (continuing operations)	**4,198**	67
Tax on discontinued operations	**–**	210
Total tax expense	**4,198**	277

	%	2014 £'000	%	2013 £'000
Reconciliation of effective tax rate				
Profit before tax:				
Continuing operations	**100.0**	**22,421**	100.0	13,026
Tax using domestic corporation tax rate	**21.5**	**4,821**	23.3	3,051
Disallowed amortisation of intangible assets	**0.1**	**20**	0.3	33
Net income / (expenditure) not taxable	**2.3**	**510**	6.4	839
Adjustments for prior years	**(5.2)**	**(1,153)**	(9.5)	(1,240)
Impact of the change in the rate of corporation tax on deferred taxation	**–**	**–**	(20.0)	(2,616)
	18.7	**4,198**	0.5	67

The net amount of deferred taxation (debited) / credited to the Consolidated Statement of Comprehensive Income in the year was £393,000 credit (2013: £3,912,000 credit).

7 Discontinued operations

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

Notes to the Consolidated Financial Statements *continued*

7 Discontinued operations *continued*

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

	2014 £'000	2013 £'000
Revenue	–	2,989
Net operating costs	–	(2,648)
Profit before tax	–	341
Income tax expense	–	(110)
Profit after tax	–	231
Profit on disposal and closure of discontinued operations	–	272
Net profit attributable to discontinued operations	–	503
Basic earnings per share (pence)	–	0.26
Diluted earnings per share (pence)	–	0.25

8 Earnings per share

Basic earnings per share from total operations of 10.13 pence (2013: 7.20 pence) per share is calculated by dividing the profit attributable to ordinary shareholders from total operations, after adjusting for non-controlling interests, of £19,857,000 (2013: £14,096,000) by the weighted average number of shares in issue during the period of 196,116,404 (2013: 195,742,757).

Basic earnings per share from continuing operations of 10.13 pence (2013: 6.94 pence) per share is calculated by dividing the profit from continuing operations, after adjusting for non-controlling interests, of £19,857,000 (2013: £13,593,000) by the weighted average number of shares in issue during the year of 196,116,404 (2013: 195,742,757).

Profit attributable to ordinary shareholders

	2014 £'000	2013 £'000
Profit from continuing operations	**18,223**	12,959
Profit from discontinued operations	–	503
Profit for the financial period	**18,223**	13,462
Loss attributable to non-controlling interests	**1,634**	634
Profit attributable to ordinary shareholders	**19,857**	14,096

Weighted average number of ordinary shares

	2014 Number	2013 Number
Number of issued ordinary shares (at beginning of the period)	**199,378,755**	199,378,755
Effect of shares transferred into employee benefit trust	**(3,262,351)**	(1,210,998)
Effect of treasury shares acquired	–	(2,425,000)
Weighted average number of ordinary shares at end of the period	**196,116,404**	195,742,757

Diluted earnings per share from total operations of 9.89 pence (2013: 7.07 pence) per share is calculated by dividing the profit from total operations, after adjusting for non-controlling interests, of £19,857,000 (2013: £14,096,000) by the weighted average number of shares in issue during the period of 196,116,404 (2013: 195,742,757) plus potentially dilutive shares of 4,646,375 (2013: 3,635,998) which totals 200,762,799 (2013: 199,378,755).

Diluted earnings per share from continuing operations of 9.89 pence (2013: 6.82 pence) per share is calculated by dividing the profit from continuing operations, after adjusting for non-controlling interests, of £19,857,000 (2013: £13,593,000) by the weighted average number of shares in issue during the period of 196,116,404 (2013: 195,742,757) plus potentially dilutive shares of 4,646,375 (2013: 3,635,998) which totals 200,762,779 (2013: 199,378,755).

8 Earnings per share *continued*

Weighted average number of ordinary shares (diluted)

	2014 Number	2013 Number
Weighted average number of ordinary shares	**196,116,404**	195,742,757
Potentially dilutive shares	**4,646,375**	1,210,998
Effect of treasury shares acquired	**–**	2,425,000
Weighted average number of ordinary shares (diluted)	**200,762,779**	199,378,755

9 Dividends

After the balance sheet date a dividend of 4.00 pence (2013: 3.50 pence) per qualifying ordinary share was proposed by the Directors. The dividend has 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	2014 £'000	2013 £'000
2014 final	**4.00**	**7,975**	
2014 interim	**2.00**	**3,924**	
	6.00	**11,899**	
2013 final	3.50		6,861
2013 interim	1.75		3,431
	5.25		10,292

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

	Pence per qualifying share	2014 £'000	2013 £'000
2014 interim	**2.00**	**3,924**	
2013 final	**3.50**	**6,867**	
	5.50	**10,791**	
2013 interim	1.75		3,431
2012 final	3.50		6,861
	5.25		10,292

The 2014 final dividend of 4.00 pence per qualifying ordinary share, with a total value of £7,975,000, will be paid on 3 July 2015 to shareholders registered at the close of business on 5 June 2015.

Notes to the Consolidated Financial Statements *continued*

10 Property, plant and equipment

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2013	88,761	32,268	302,915	423,944
Exchange differences	29	–	12	41
Additions	115	486	4,861	5,462
Disposals	(196)	(12,653)	(10,070)	(22,919)
Transfers	634	–	(634)	–
At 31 December 2013	89,343	20,101	297,084	406,528
At 1 January 2014	**89,343**	**20,101**	**297,084**	**406,528**
Exchange differences	**(428)**	**–**	**(236)**	**(664)**
Additions	**894**	**1,072**	**9,303**	**11,269**
Reclassification	**(237)**	**237**	**–**	**–**
Disposals	**(3,640)**	**–**	**(1,301)**	**(4,941)**
At 31 December 2014	**85,932**	**21,410**	**304,850**	**412,192**

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Depreciation and impairment losses				
At 1 January 2013	32,831	8,247	207,259	248,337
Depreciation charge for the year	2,366	157	10,932	13,455
Exchange differences	–	–	17	17
Disposals	(188)	(2,618)	(7,196)	(10,002)
At 31 December 2013	35,009	5,786	211,012	251,807
At 1 January 2014	**35,009**	**5,786**	**211,012**	**251,807**
Depreciation charge for the year	**1,567**	**235**	**10,180**	**11,982**
Exchange differences	**1**	**–**	**44**	**45**
Reclassification	**(635)**	**635**	**–**	**–**
Disposals	**(1,190)**	**–**	**(930)**	**(2,120)**
Impairments	**–**	**–**	**733**	**733**
At 31 December 2014	**34,752**	**6,656**	**221,039**	**262,447**
Net book value				
At 1 January 2013	55,930	24,021	95,656	175,607
At 1 January 2014	54,334	14,315	86,072	154,721
At 31 December 2014	**51,180**	**14,754**	**83,811**	**149,745**

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

The carrying amount of tangible fixed assets includes £568,000 (2013: £215,000) in respect of assets held under finance leases. Group cost of land and buildings and plant and machinery includes £168,000 (2013: £nil) and £872,000 (2013: £607,000) respectively for assets in the course of construction.

The impairment charge of £733,000 (2013: £nil) relates to the restructuring of the Marshalls NV business (page 26) and writes down their value to their fair value less costs to sell.

10 Property, plant and equipment *continued*

Capital commitments

	2014 £'000	2013 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**246**	569

Depreciation charge

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

	2014 £'000	2013 £'000
Net operating costs		
Continuing operations (Note 3)	**11,982**	13,199
Discontinued operations	**–**	256
	11,982	13,455

11 Intangible assets

	Goodwill £'000	Customer relationships £'000	Supplier relationships £'000	Patents, trademarks and knowhow £'000	Development costs £'000	Software £'000	Total £'000
Cost							
At 1 January 2013	43,691	2,210	1,200	1,660	159	9,430	58,350
Additions	–	–	–	–	–	596	596
At 31 December 2013	43,691	2,210	1,200	1,660	159	10,026	58,946
At 1 January 2014	**43,691**	**2,210**	**1,200**	**1,660**	**159**	**10,026**	**58,946**
Additions	**–**	**–**	**–**	**–**	**–**	**741**	**741**
At 31 December 2014	**43,691**	**2,210**	**1,200**	**1,660**	**159**	**10,767**	**59,687**
Amortisation and impairment losses							
At 1 January 2013	8,912	2,210	548	1,270	69	3,928	16,937
Amortisation for the year	–	–	60	32	8	838	938
At 31 December 2013	8,912	2,210	608	1,302	77	4,766	17,875
At 1 January 2014	**8,912**	**2,210**	**608**	**1,302**	**77**	**4,766**	**17,875**
Amortisation for the year	**–**	**–**	**60**	**32**	**8**	**1,131**	**1,231**
At 31 December 2014	**8,912**	**2,210**	**668**	**1,334**	**85**	**5,897**	**19,106**
Carrying amounts							
At 1 January 2013	34,799	–	652	390	90	5,502	41,413
At 1 January 2014	34,779	–	592	358	82	5,260	41,071
At 31 December 2014	**34,779**	**–**	**532**	**326**	**74**	**4,870**	**40,581**

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 2014 and 31 December 2013 the full amount of goodwill in the Group balance sheet related to the Landscape Products CGU. These calculations use cash flow projections based on a combination of individual financial five year forecasts, containing assumptions for revenue growth and operational gearing, and appropriate long term growth rates of 2.3 per cent. To prepare value in use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rates used to calculate the value in use were 9.2 per cent (2013: 9.4 per cent), with the pre-tax discount rate used for the Landscape Products CGU being 9.2 per cent (2013: 9.4 per cent). The Directors have reviewed the recoverable amounts of the CGUs and do not consider that any reasonable change in the assumptions would give rise to the need for further impairment.

Included in software additions is £718,000 (2013: £596,000) of own work capitalised.

Notes to the Consolidated Financial Statements *continued*

11 Intangible assets *continued*

Amortisation charge

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

	2014 £'000	2013 £'000
Net operating costs (Note 3): continuing operations	**1,231**	938

12 Investment in associates

	2014 £'000	2013 £'000
Carrying value		
At 1 January	**664**	650
Share of results of associates	**118**	14
At 31 December	**782**	664

	2014 £'000	2013 £'000
Investment at cost	**2,250**	2,250
Impairment losses	**(1,566)**	(1,566)
Cumulative share of results of associates	**98**	(20)
Carrying value at 31 December	**782**	664

The Group's share of results of associates in the year ended 31 December 2014 was £118,000 profit (2013: £14,000 profit) and, on the grounds of materiality, no additional disclosure has been made.

13 Inventories

	2014 £'000	2013 £'000
Raw materials and consumables	**13,266**	12,311
Finished goods and goods for resale	**54,057**	58,496
	67,323	70,807

Inventories stated at fair value less cost to sell at 31 December 2014 amounted to £7,875,000 (2013: £8,714,000). The write down of inventories made during the year amounted to £1,236,000 (2013: £1,437,000). There were no reversals of inventory write-downs made in previous years either in 2014 or 2013.

14 Trade and other receivables

	2014 £'000	2013 £'000
Trade receivables	**21,945**	23,606
Other receivables	**2,885**	2,648
Prepayments and accrued income	**7,424**	6,119
	32,254	32,373

Ageing of trade receivables

	2014 £'000	2013 £'000
Less than 30 days	**11,084**	13,790
31–60 days	**8,103**	7,909
61–90 days	**2,382**	1,837
More than 90 days	**376**	70
	21,945	23,606

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

15 Cash and cash equivalents

	2014 £'000	2013 £'000
Bank balances	**20,289**	17,626
Cash in hand	**31**	26
Cash and cash equivalents in the Consolidated Cash Flow Statement	**20,320**	17,652

16 Trade and other payables

	2014 £'000	2013 £'000
Current liabilities		
Trade payables	**31,186**	41,018
Taxation and social security	**8,401**	7,109
Other payables	**5,828**	4,459
Accruals	**15,305**	13,012
Financial liabilities	**3,192**	284
	63,912	65,882

All trade payables are due in six months or less.

17 Loans

	2014 £'000	2013 £'000
Current liabilities		
Bank loans	**–**	3,370
Finance lease liabilities	**85**	83
	85	3,453
Non-current liabilities		
Bank loans	**50,307**	49,627
Finance lease liabilities	**408**	141
	50,715	49,768

Bank loans

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

Finance lease liabilities

	Minimum lease payments 2014 £'000	Interest 2014 £'000	Principal 2014 £'000	Minimum lease payments 2013 £'000	Interest 2013 £'000	Principal 2013 £'000
Less than one year	**95**	**10**	**85**	89	6	83
One to two years	**96**	**9**	**87**	59	4	55
Two to five years	**148**	**16**	**132**	88	2	86
In more than five years	**200**	**11**	**189**	–	–	–
	539	**46**	**493**	236	12	224

Notes to the Consolidated Financial Statements *continued*

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 and further details of which are set out in Note 17.

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 2013.

Capital management

The Group defines the capital that it manages as its total equity and net debt balances. The Group manages its capital structure in the light of current economic conditions and its strategic objectives to ensure that it is able to continue as a going concern whilst maximising the return to stakeholders through the optimisation of debt and equity balances.

The Group manages its medium term bank debt to ensure continuity of funding and the policy is to arrange funding ahead of requirements and to maintain sufficient undrawn committed facilities. A key objective is to ensure compliance with the covenants set out in the Group's bank facility agreements.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's 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 2014 and 31 December 2013.

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 18 to 20. 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 97 and 98.

(b) Interest rate risk

The Group's policy is to review regularly the terms of its available short term borrowing facilities and to assess individually and manage each long term borrowing commitment accordingly. The Group borrows principally at floating rates of interest and where appropriate uses interest rate swaps to generate the desired interest rate profile, thereby managing the Group's exposure to interest rate fluctuations.

Approximately 75 per cent of core debt is covered by interest rate swaps of varying maturities up until 2018, which reflects the maturity date of the related loans and medium term requirements, in accordance with Group policy. The Group classifies its interest rate swaps as cash flow hedges and states them at fair value. The fair value of interest rate swaps is £76,000 liability (2013: £151,000 asset) 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 £536,000 (2013: £1,268,000) has been recognised in Other Comprehensive Income for the year with £320,000 (2013: £544,000) being reclassified from equity to the Income Statement. The Interest rate swaps have been fully effective in the period.

With the addition of the fuel hedges (Note 18(e)) and forward contracts this gives a total of £3,984,000 (2013: £2,787,000) recognised in Other Comprehensive Income for the year with £1,076,000 (2013: £1,447,000) 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 instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2013.

	2014 £'000	2013 £'000
Increase of 100 basis points	**(244)**	(233)
Decrease of 100 basis points	**244**	233

(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 14 on page 92.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group. Transactions involving derivative financial instruments are with counterparties with whom the Group has a signed netting agreement as well as sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

(d) Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily Euros and US Dollars.

The Group's policy is to cover all significant foreign currency commitments in respect of trade receivables and trade payables by using forward foreign currency contracts. Most of the forward exchange contacts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £16,000 asset (2013: £5,000 asset) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2014 all outstanding forward exchange contracts have a maturity date within six months.

The foreign currency profile of monetary items was:

	2014 Sterling £'000	**2014 Euro £'000**	**2014 US Dollars £'000**	**2014 Total £'000**	2013 Sterling £'000	2013 Euro £'000	2013 US Dollars £'000	2013 Total £'000
Cash and cash equivalents	**18,807**	**1,254**	**259**	**20,320**	16,406	1,190	56	17,652
Trade receivables	**19,102**	**2,693**	**150**	**21,945**	21,058	2,548	–	23,606
Secured bank loans	**(35,000)**	**(15,307)**	**–**	**(50,307)**	(40,000)	(12,997)	–	(52,997)
Trade payables	**(22,729)**	**(7,901)**	**(556)**	**(31,186)**	(32,514)	(7,690)	(814)	(41,018)
Forward exchange contracts	**(3,175)**	**(17)**	**–**	**(3,192)**	(221)	(63)	–	(284)
Balance sheet exposure	**(22,995)**	**(19,278)**	**(147)**	**(42,420)**	(35,271)	(17,012)	(758)	(53,041)

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 2014 would have increased/decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 2013:

	2014 £'000	2013 £'000
10 per cent strengthening of £ against €	**1,895**	1,576
10 per cent weakening of £ against €	**(1,895)**	(1,576)
10 per cent strengthening of £ against $	**17**	96
10 per cent weakening of £ against $	**(17)**	(96)

(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 2014. The Group classifies its fuel hedges as cash flow hedges and states them at fair value. The fair value of the fuel hedges is £3,132,000 liability (2013: £440,000 liability) and is adjusted against the hedging reserve on an ongoing basis. The period that the fuel hedges cover is matched against future expected purchases in order to fix the impact on the Income Statement. During the year £3,448,000 (2013: £1,519,000) has been recognised in other Comprehensive Income with £756,000 (2013: £903,000) 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 18 to 20.

Effective interest rates and maturity of liabilities

At 31 December 2014 there were £493,000 (2013: £224,000) Group borrowings on a fixed rate. Interest rate swaps have been taken out with the intention to fix the interest on 75 per cent of the Group's core debt. The interest rate profile of the financial liabilities were:

	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 2014								
Cash and cash equivalents (Note 15)	Variable	**2.41**	**(20,320)**	**(20,320)**	**–**	**–**	**–**	**–**
Bank loans	Variable	**2.41**	**50,307**	**–**	**–**	**15,000**	**35,307**	**–**
Finance lease liabilities	Fixed	**8.80**	**493**	**26**	**59**	**87**	**132**	**189**
			30,480	**(20,294)**	**59**	**15,087**	**35,439**	**189**

	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 2013								
Cash and cash equivalents (Note 15)	Variable	2.46	(17,652)	(17,652)	–	–	–	–
Bank loans	Variable	2.46	52,997	–	3,370	25,000	24,627	–
Finance lease liabilities	Fixed	5.33	224	41	42	55	86	–
			35,569	(17,611)	3,412	25,055	24,713	–

18 Financial instruments *continued*

Financial risks *continued*

Effective interest rates and maturity of liabilities *continued*

At 31 December the undiscounted outstanding contractual payments (including interest) of financial liabilities was 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 2014								
Bank loans	Variable	**50,307**	**53,485**	**504**	**501**	**15,901**	**36,579**	**–**
Trade payables	Variable	**31,186**	**31,186**	**31,186**	**–**	**–**	**–**	**–**
Finance lease liabilities	Fixed	**493**	**539**	**31**	**64**	**96**	**148**	**200**
Financial liabilities	Fixed	**3,192**	**3,345**	**1,050**	**1,005**	**1,247**	**43**	**–**
		85,178	**88,555**	**32,771**	**1,570**	**17,244**	**36,770**	**200**

	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 2013								
Bank loans	Variable	52,997	55,256	565	3,902	25,848	24,941	–
Trade payables	Variable	41,018	41,018	41,018	–	–	–	–
Finance lease liabilities	Fixed	224	236	44	45	59	88	–
Financial liabilities	Fixed	284	921	386	306	92	137	–
		94,523	97,431	42,013	4,253	25,999	25,166	–

Borrowing facilities

The total bank borrowing facilities at 31 December 2014 amounted to £125.0 million (2013: £145.0 million) of which £74.7 million (2013: £92.0 million) remained unutilised. There are additional seasonal bank working capital facilities of £20.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2014, in respect of which all conditions precedent had been met, were as follows:

	2014 £'000	2013 £'000
Committed:		
Expiring in more than two years but not more than five years	**34,693**	50,373
Expiring in one year or less	**25,000**	16,630
Uncommitted:		
Expiring in one year or less	**15,000**	25,000
	74,693	92,003

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

The total borrowing facilities at 31 December 2014 amounted to £125.0 million. This was due to the Group's decision to reduce its uncommitted loan facilities by £10.0 million on 16 July 2014 and the refinancing on 21 August 2014 of two existing committed loan facilities totalling in aggregate £50.0 million with extended maturity dates to 2017 and 2018 at newly arranged levels totalling £40.0 million. An additional loan facility of £20.0 million reached maturity on 20 August 2014 and has been refinanced with an extended maturity date to 2019.

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:		
Q3: 2019	20,000	20,000
Q3: 2018	20,000	40,000
Q3: 2017	20,000	60,000
Q3: 2016	25,000	85,000
Q3: 2015	25,000	110,000
On demand facilities:		
Available all year	15,000	125,000
Seasonal (February to August inclusive)	20,000	145,000

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 2014 is shown below:

	2014		2013	
	Book amount £'000	**Fair value £'000**	Book amount £'000	Fair value £'000
Trade and other receivables	**32,254**	**32,254**	32,373	32,373
Cash and cash equivalents	**20,320**	**20,320**	17,652	17,652
Bank loans	**(50,307)**	**(49,451)**	(52,997)	(52,061)
Finance lease liabilities	**(493)**	**(539)**	(224)	(236)
Trade and other payables	**(60,720)**	**(60,720)**	(65,598)	(65,598)
Interest rate swaps, forward contracts and fuel hedges	**(3,192)**	**(3,192)**	(284)	(284)
Financial liabilities – net	**(62,138)**		(69,078)	
Other assets – net	**244,032**		244,510	
	181,894		175,432	

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

(a) Derivatives

Derivative contracts are either marked to market using listed market prices or by discounting the contractual forward price at the relevant rate and deducting the current spot rate. For interest rate swaps broker quotes are used.

(b) Interest-bearing loans and borrowings

Fair value is calculated based on the expected future principal and interest cash flows discounted at the market rate of interest at the balance sheet date.

(c) Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

(d) Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

18 Financial instruments *continued*

Borrowing facilities *continued*

Estimation of fair values *continued*

e) Fair value hierarchy

The table below analyses financial instruments, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

— Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.

— Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

— Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2014				
Derivative financial liabilities	**–**	**3,192**	**–**	**3,192**
31 December 2013				
Derivative financial liabilities	–	284	–	284

19 Employee benefits

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

The defined benefit section of the Scheme closed to future service accrual with effect from 30 June 2006 and members no longer pay contributions to the defined benefit section. Company contributions after this date are used to fund any deficit in the Scheme and 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 Scheme poses a number of risks to the Company, for example longevity risk, investment risk, interest rate risk and inflation risk. The Trustee is aware of these risks and uses various techniques to control them. The Trustee has a number of internal control policies including a risk register which are in place to manage and monitor the various risks they face. The Trustee's investment strategy incorporates the use of liability driven investments ("LDIs") to minimise sensitivity of the actuarial funding position to movements in interest rates and inflation rates.

The Scheme is subject to regular actuarial valuations, which are carried out at intervals of no less than every 3 years. The next actuarial valuation is expected to be carried out with an effective date of 5 April 2015. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and include deliberate margins for prudence. This contrasts with these accounting disclosures which are determined using best estimate assumptions.

An interim actuarial valuation was carried out as at 5 April 2014. The results of that valuation have been projected to 31 December 2014 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:

	2014 £'000	2013 £'000	2012 £'000
Present value of a Scheme liabilities	**(309,067)**	(262,900)	(246,573)
Fair value of Scheme assets	**312,516**	258,553	254,785
Net amount recognised at year end (before any adjustments for deferred tax)	**3,449**	(4,347)	8,212

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Notes to the Consolidated Financial Statements *continued*

19 Employee benefits *continued*

The amounts recognised in Comprehensive Income were:

The current and past service costs, settlement and curtailments, together with the net interest expense for the year are included in the employee benefits expense in the Statement of Comprehensive Income. Re-measurements of the net defined benefit surplus / (liability) are included in Other Comprehensive Income.

	2014 £'000	2013 £'000
Service cost:		
Net interest expense / (credit) recognised in the Consolidated Income Statement	**48**	(576)
Remeasurements of the net liability:		
Difference between actual and expected investment return	**(46,766)**	5,108
Loss arising from changes in financial assumptions	**44,242**	13,437
Loss arising from changes in demographic assumptions	**–**	987
Experience gain	**(720)**	(797)
(Credit) / charge recorded in Other Comprehensive Income	**(3,244)**	18,735
	(3,196)	18,159

The principal actuarial assumptions used were:

	2014 £'000	2013 £'000
Liability discount rate	**3.60%**	4.60%
Inflation assumption – RPI	**3.10%**	3.40%
Inflation assumption – CPI	**2.10%**	2.40%
Rate of increase in salaries	**n/a**	n/a
Revaluation of deferred pensions	**2.10%**	2.40%
Increases for pensions in payment:		
CPI pension increases (maximum 5% pa)	**2.10%**	2.40%
CPI pension increases (maximum 5% pa, minimum 3% pa)	**3.10%**	3.20%
CPI pension increases (maximum 3% pa)	**2.00%**	2.20%
Mortality assumption – before retirement	**Same as post retirement**	Same as post retirement
Mortality assumption – after retirement (males)	**S1PMA tables**	S1PMA tables
Loading	**105%**	105%
Projection basis	**Year of birth**	Year of birth
	CMI_2012 1.0%	CMI_2012 1.0%
Mortality assumption – after retirement (females)	**S1PFA tables**	S1PFA tables
Loading	**105%**	105%
Projection basis	**Year of birth**	Year of birth
	CMI_2012 1.0%	CMI_2012 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	**21.9**	21.9
Female age 65 at year end	**24.2**	24.1
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	**23.3**	23.2
Female age 45 at year end	**25.7**	25.6

19 Employee benefits *continued*

Changes in the present value of assets over the period:

	2014 £'000	2013 £'000
Fair value of assets at start of period	**258,553**	254,785
Interest income	**11,833**	11,961
Return on assets (excluding amount included in net interest expense)	**46,766**	(5,108)
Contributions from the employer	**4,600**	5,600
Benefits paid	**(9,236)**	(8,685)
Fair value of assets at end of period	**312,516**	258,553
Actual return on assets over the period	**58,599**	6,853

Changes in the present value of liabilities over the period:

	2014 £'000	2013 £'000
Liabilities at start of period	**262,900**	246,573
Interest cost	**11,881**	11,385
Remeasurement (gains) / losses:		
Actuarial losses arising from changes in financial assumptions	**44,242**	13,437
Actuarial losses arising from changes in demographic assumptions	**–**	987
Other experience gains	**(720)**	(797)
Benefits paid	**(9,236)**	(8,685)
Liabilities at end of period	**309,067**	262,900

The split of the Scheme's liabilities by category of membership is as follows:

	2014 £'000	2013 £'000
Deferred pensioners	**161,195**	133,817
Pensioners in payment	**147,872**	129,083
	309,067	262,900
Average duration of the Scheme's liabilities at the end of the period (years)	**18**	19

The major categories of Scheme assets are as follows:

	2014 £'000	2013 £'000
Return seeking assets		
UK equities	**35,997**	40,428
Overseas equities	**14,534**	13,836
Other equity type investments	**39,729**	38,200
Total return seeking assets	**90,260**	92,464
Debt instruments		
Insured pensioners	**1,396**	1,295
Cash	**2,443**	2,564
Liability driven investments	**218,417**	162,230
Total matching assets	**222,256**	166,089
Total market value of assets	**312,516**	258,553

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

Under the recovery plan in place as at 31 December 2014, the Company has agreed to contribute £4,600,000 to the Scheme during the year ending 31 March 2015.

Notes to the Consolidated Financial Statements *continued*

19 Employee benefits *continued*

Sensitivity of the liability value to changes in the principal assumptions

If the discount rate was 0.1 per cent higher (lower), the Scheme liabilities would decrease by approximately £5.4 million (increase by £5.5 million) if all the other assumptions remained unchanged.

If the inflation assumption was 0.1 per cent higher (lower), the Scheme liabilities would increase by £2.0 million (decrease by £2.1 million). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, including 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 £10.8 million (decrease by £11.6 million) if all the other assumptions remained unchanged.

Share-based payments

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

Share-based payment awards have been made during the year in accordance with the rules of the LTIP. The LTIP rules provide for the award of Matching Shares and Performance Shares subject, in the case of Matching Shares, to participants investing a stated percentage of their annual bonus in the LTIP. There are no Matching Share awards outstanding under the LTIP. Performance Shares may be awarded to participants without requiring a qualifying investment.

Performance Shares are subject to the achievement of a 3 year performance target. The awards lapse if the performance target is not met over the 3 year vesting period. Matching Share awards are dependent on an improvement in reported earnings per share, whilst Performance Share awards are dependent on an improvement in reported earnings per share and operating cash flow, each measured using IFRSs. The Remuneration Committee may exercise its discretion with regard to the effect of one off items. Full details of the performance criteria are set out in the Remuneration Report on pages 40 to 50.

The Performance Shares take the form of options which are settled by physical delivery of shares. The exercise price is £nil in relation to any of these grants and there is no entitlement to dividends during the vesting period. There are no market conditions associated with these instruments.

	Number of instruments	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	243,412	10 September 2013	3 years
	222,124	1 April 2014	3 years
	115,676	2 October 2014	3 years
Equity settled awards granted to former Directors of Marshalls plc	456,576	20 March 2012	3 years
	425,886	17 April 2013	3 years
	267,710	1 April 2014	3 years
Equity settled awards granted to other employees	794,044	20 March 2012	3 years
	755,057	17 April 2013	3 years
	439,955	1 April 2014	3 years
	50,073	29 April 2014	3 years

	Weighted average share price at date of grant (pence per share) 2014	**Number of options 2014**	Weighted average share price at date of grant (pence per share) 2013	Number of options 2013
Outstanding at 1 January	**116**	**5,570,167**	108	3,951,999
Granted	**182**	**1,149,818**	134	1,702,299
Lapsed	**113**	**(1,249,946)**	107	(84,131)
Exercised	**112**	**(1,699,526)**	–	–
Outstanding at 31 December	**137**	**3,770,513**	116	5,570,167

None of the options were exercisable at 31 December 2014.

19 Employee benefits *continued*

Share-based payments *continued*

Marshalls plc 2005 Long Term Incentive Plan (the "LTIP") *continued*

The fair value of services received in return for shares granted is measured by reference to the fair value of these awards at the date of grant. The estimate of the fair value of the services received is measured based on a Black-Scholes valuation model.

	2 October 2014 grant	29 April 2014 grant	1 April 2014 grant	10 September 2013 grant	17 April 2013 grant	20 March 2012 grant
Fair value at grant date (pence per share)	181	160	166	60	106	84
Share price on date of grant (pence per share)	199	176	180	173	127	101
Expected volatility used in the modelling under the Black-Scholes valuation model	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%
Dividend yield	3.0%	3.0%	3.0%	3.0%	4.0%	6.0%
Risk-free interest rate (based on national Government bonds)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

The Company's share price at 31 December 2014 was 234p.

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

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

	2014 £'000	2013 £'000
Awards granted and total expense recognised as employee costs	**1,551**	716

Performance Incentive Plan ("PIP")

Share-based payment awards have vested during the year in accordance with the rules of the PIP. Full details of the performance criteria and the basis of operation of the PIP are set out in the Remuneration Report on page 46 to 61.

Equity settled awards are settled by physical delivery of shares. The following equity settled awards have been granted.

	Number of instruments	£'000	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	44,997	79	31 December 2013	2 years
Equity settled awards granted to former Directors of Marshalls plc	927,365	839	31 December 2011	4 years
	374,762	365	31 December 2012	3 years
	319,861	564	31 December 2013	2 years
Equity settled awards granted to other employees	466,179	422	31 December 2011	4 years
	233,609	228	31 December 2012	3 years
	215,388	380	31 December 2013	2 years
	2,582,161	2,877		

Analysis of closing balance (deferred into shares):

	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	108	46,055
Equity settled awards granted to former Directors of Marshalls plc	979	418,488
Equity settled awards granted to other employees	1,071	457,738
	2,158	922,281

Notes to the Consolidated Financial Statements *continued*

19 Employee benefits *continued*

Share-based payments *continued*

Performance Incentive Plan ("PIP") *continued*

	Value £'000	**Number of options 2014**	Value £'000	Number of options 2013
Outstanding at 1 January	**1,588**	**901,101**	1,403	1,439,243
Granted	**–**	**–**	1,023	580,246
Change in value of notional shares	**570**	**21,180**	1,209	–
Element released	**–**	**–**	(2,047)	(1,118,388)
Outstanding at 31 December	**2,158**	**922,281**	1,588	901,101

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

	2014 £'000	2013 £'000
Awards granted and total expense recognised as employee costs	**523**	942

Further details in relation to the Directors are set out in the Remuneration Report on pages 46 to 61.

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 Report on page 46 to 61.

Equity settled awards are settled by physical delivery of shares. The following equity settled awards have been granted:

	Number of instruments	£'000	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	413,162	967	11 April 2014	4 years
Equity settled awards granted to former Directors of Marshalls plc	358,195	838	11 April 2014	4 years
Equity settled awards granted to other employees	657,699	1,539	11 April 2014	4 years
	1,429,056	3,344		

Analysis of closing balance (deferred into shares):

	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	967	413,162
Equity settled awards granted to former Directors of Marshalls plc	838	358,195
Equity settled awards granted to other employees	1,539	657,699
	3,344	1,429,056

	Value £'000	**Number of options 2014**	Value £'000	Number of options 2013
Outstanding at 1 January	**–**	**–**	–	–
Granted	**3,344**	**1,429,056**	–	–
Change in value of notional shares	**–**	**–**	–	–
Element released	**–**	**–**	–	–
Outstanding at 31 December	**3,344**	**1,429,056**	–	–

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

	2014 £'000	2013 £'000
Awards granted and total expense recognised as employee costs	**2,471**	–

Further details in relation to the Directors are set out in the Remuneration Report on pages 46 to 61.

Employee profit sharing scheme

At 31 December 2014 the scheme held 42,370 (2013: 42,370) ordinary shares in the Company.

20 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Property, plant and equipment	**–**	–	**(12,934)**	(13,206)
Intangible assets	**–**	–	**(315)**	(335)
Inventories	**–**	–	**(450)**	(500)
Employee benefits	**–**	869	**(690)**	–
Equity settled share-based expenses	**1,394**	757	**–**	–
Other items	**–**	–	**(577)**	(1,189)
Tax assets / (liabilities)	**1,394**	1,626	**(14,966)**	(15,230)

The 2014 Budget on 19 March 2014 announced that the UK corporation tax rate will reduce to 20 per cent by 2015. Reductions in the rate to 21 per cent (effective April 2014) and 20 per cent (effective April 2015) were substantially enacted, following the receipt of Royal Assent, in July 2014. This will reduce the Group's future current tax charge accordingly. The deferred taxation liability at 31 December 2014 has been calculated based on the rate of 20 per cent substantively enacted at the balance sheet date.

The deferred taxation liability of £690,000 (2013: £869,000 asset) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £3,449,000 (2013: £4,347,000 net deficit) (Note 19) calculated at 20 per cent (2013: 20 per cent).

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

Movement in temporary differences

Year ended 31 December 2014

	1 January 2014 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	**31 December 2014 £'000**
Property, plant and equipment	(13,206)	272	–	**(12,934)**
Intangible assets	(335)	20	–	**(315)**
Inventories	(500)	50	–	**(450)**
Employee benefits	869	(910)	(649)	**(690)**
Equity settled share-based expenses	757	177	460	**1,394**
Impact on other comprehensive income of the change in rate of deferred tax	367	–	–	**367**
Other items	(1,556)	29	583	**(944)**
	(13,604)	(362)	394	**(13,572)**

Notes to the Consolidated Financial Statements *continued*

20 Deferred taxation *continued*

Movement in temporary differences *continued*

Year ended 31 December 2013

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

21 Capital and reserves

Called-up share capital

	Issued and paid up	
	2014 £'000	2013 £'000
At 1 January and at 31 December	**49,845**	49,845
Number of 25 pence ordinary shares	**199,378,755**	199,378,755

Consolidation reserve

On 8 July 2004 Marshalls plc was introduced as the new holding company of the Group by way of a Court approved Scheme of Arrangement under Section 425 of the Companies Act 1985. The restructuring was accounted for as a capital reorganisation and accounting principles were applied as if the Company had always been the holding company of the Group. The difference between the aggregate nominal value of the new shares issued by the Company and the called up share capital, capital redemption reserve and share premium account of Marshalls Group plc (the previous holding company) was transferred to a consolidation reserve.

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging, principally from the Group's interest rate swaps, energy price contracts and forward exchange contracts.

Dividends

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided and there were no income tax consequences.

	2014 £'000	2013 £'000
4.00 pence (2013: 3.50 pence) per ordinary share	**7,975**	6,861

22 Non-controlling interests

	2014 £'000	2013 £'000
Non-controlling interests		
At 1 January	**3,295**	3,884
Share of result for the period	**(1,634)**	(634)
Foreign currency transaction differences	**(186)**	45
At 31 December	**1,475**	3,295

23 Analysis of net debt

	1 January 2014 £'000	Cash flow £'000	Other changes £'000	**31 December 2014 £'000**
Cash at bank and in hand	17,652	2,711	(43)	**20,320**
Debt due within one year	(3,370)	3,370	–	**–**
Debt due after one year	(49,627)	(1,536)	856	**(50,307)**
Finance leases	(224)	(282)	13	**(493)**
	(35,569)	4,263	826	**(30,480)**

Reconciliation of net cash flow to movement in net debt

	2014 £'000	2013 £'000
Net increase in cash equivalents	**2,711**	6,534
Cash outflow from decrease in debt and lease financing	**1,552**	21,568
Effect of exchange rate fluctuations	**826**	(128)
Movement in net debt in the period	**5,089**	27,974
Net debt at 1 January	**(35,569)**	(63,543)
Net debt at 31 December	**(30,480)**	(35,569)

24 Operating leases

The Group had non-cancellable minimum lease payments to be paid in respect of operating leases on property, plant, machinery and vehicles as follows:

31 December 2014	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
Expiring:						
within one year	**749**	**564**	**185**	**–**	**–**	**–**
between one and five years	**20,252**	**3,147**	**3,129**	**5,647**	**8,329**	**–**
in more than five years	**48,806**	**2,221**	**2,209**	**4,429**	**12,887**	**27,060**
	69,807	**5,932**	**5,523**	**10,076**	**21,216**	**27,060**

31 December 2013	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
Expiring:						
within one year	1,025	799	226	–	–	–
between one and five years	20,477	2,918	2,902	5,213	9,444	–
in more than five years	31,430	788	784	1,573	4,873	23,412
	52,932	4,505	3,912	6,786	14,317	23,412

The minimum lease payments under non-cancellable operating leases (above) comprise property £29,134,000 (2013: £30,069,000) and plant, machinery and vehicles £40,673,000 (2013: £22,863,000).

Certain leased properties have been sublet by the Group. Sublease payments of £89,913 (2013: £106,371) are expected to be received during the following financial year. An amount of £121,014 (2013: £118,720) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

Notes to the Consolidated Financial Statements *continued*

25 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
XL Winterthur	£300,000	19 Dec 2003 to 31 Oct 2015	Employer's liability
Mitsui Sumitomo Insurance (London Management) Limited	£1,610,000	23 Dec 2011 to 31 Oct 2015	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 31 Oct 2015	Vehicle insurance

26 Related parties

Identity of related parties

The Group has a related party relationship with its Directors.

Transactions with key management personnel

Other than the Directors, there are no senior managers in the Group who are relevant for establishing that Marshalls has the appropriate expertise and experience for the management of its business.

Directors of the Company and their immediate relatives control 0.0003 per cent (2013: 0.24 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 Report on pages 46 to 61.

27 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 76 to 83.

Note 13 contains details of the Group's inventory. 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.

Note 2 contains information about the assumptions and judgements made relating to the identification of operating segments for the Group as defined in IFRS 8 *"Operating Segments"*.

In relation to the Group's intangible fixed assets (Note 11) impairment tests have been undertaken using commercial judgement and a number of assumptions and estimates in relation to relevant trading volumes and margins. These estimates have been determined using the best available information derived from a combination of business specific analysis (both current and historic) and the latest available external industry forecasts. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates in order to calculate present values.

Note 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 99.

Note 20 contains details of the Group's deferred taxation. Liabilities recognised are determined by reference to the likelihood of settlement and the likelihood that assets are received is based on assumptions of future actions.

Parent Company Statement of Comprehensive Income

for the year ended 31 December 2014

	2014 £'000	Restated* 2013 £'000
Loss for the financial year	**(4,908)**	(4,373)
Other comprehensive income		
Items that will not be reclassified to the Income Statement		
Deferred tax on share-based payments	**95**	301
Total items that will not be reclassified to the Income Statement	**95**	301
Other comprehensive income for the period, net of income tax	**95**	301
Total comprehensive expense for the period	**(4,813)**	(4,072)

* Restated for adoption of FRS 101 as explained in note 41.

Parent Company Statement of Changes in Equity
for the year ended 31 December 2014

	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 2014 (restated)	**49,845**	**22,695**	**(9,512)**	**75,394**	**1,595**	**187,803**	**327,820**
Loss for the financial year	–	–	–	–	–	**(4,908)**	**(4,908)**
Other comprehensive income							
Deferred tax on share-based payments	–	–	–	–	**95**	–	**95**
Total other comprehensive income	–	–	–	–	**95**	–	**95**
Total comprehensive expense for the period	–	–	–	–	**95**	**(4,908)**	**(4,813)**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based expenses	–	–	–	–	**1,075**	**1,421**	**2,496**
Dividends to equity shareholders	–	–	–	–	–	**(10,791)**	**(10,791)**
Purchase of own shares	–	–	**(4,266)**	–	–	–	**(4,266)**
Disposal of own shares	–	–	**7,089**	–	–	**(7,089)**	–
Total contributions by and distributions to owners	–	–	**2,823**	–	**1,075**	**(16,459)**	**(12,561)**
Total transactions with owners of the Company	–	–	**2,823**	–	**1,170**	**(21,367)**	**(17,374)**
At 31 December 2014	**49,845**	**22,695**	**(6,689)**	**75,394**	**2,765**	**166,436**	**310,446**

Parent Company Statement of Changes in Equity *continued*
for the year ended 31 December 2014

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Prior year							
At 1 January 2013	49,845	22,695	(9,571)	75,394	388	200,529	339,280
Loss for the financial year	–	–	–	–	–	(4,373)	(4,373)
Other comprehensive income							
Deferred tax on share-based payments	–	–	–	–	301	–	301
Total other comprehensive income	–	–	–	–	301	–	301
Total comprehensive income / (expense) for the period	–	–	–	–	301	(4,373)	(4,072)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based expenses	–	–	–	–	906	1,998	2,904
Dividends to equity shareholders	–	–	–	–	–	(10,292)	(10,292)
Disposal of own shares	–	–	59	–	–	(59)	–
Total contributions by and distributions to owners	–	–	59	–	906	(8,353)	(7,388)
Total transactions with owners of the Company	–	–	59	–	1,207	(12,726)	(11,460)
At 31 December 2013 (restated)*	49,845	22,695	(9,512)	75,394	1,595	187,803	327,820

* Restated for adoption of FRS 101 as explained in note 41.

Company Balance Sheet
at 31 December 2014

	Notes	2014 £'000	Restated* 2013 £'000	2012 £'000
Fixed assets				
Investments	31	**340,953**	339,634	338,728
Deferred taxation assets	32	**806**	1,089	–
		341,759	340,723	338,728
Current assets				
Debtors	33	**1,343**	958	898
Current liabilities				
Creditors	34	**(32,656)**	(13,861)	(346)
Net current (liabilities) / assets		**(31,313)**	(12,903)	552
Net assets		**310,446**	327,820	339,280
Capital and reserves				
Called-up share capital	35	**49,845**	49,845	49,845
Share premium account		**22,695**	22,695	22,695
Own shares		**(6,689)**	(9,512)	(9,571)
Capital redemption reserve		**75,394**	75,394	75,394
Equity reserve		**2,765**	1,595	388
Profit and loss account		**166,436**	187,803	200,529
Equity shareholders' funds		**310,446**	327,820	339,280

* Restated for adoption of FRS 101 as explained in Note 41.

Approved at a Directors' meeting on 6 March 2015.

On behalf of the Board:

M. Coffey
Chief Executive

J.J. Clarke
Finance Director

The Notes on pages 113 to 118 form part of these Company Financial Statements.

Notes to the Company Financial Statements

28 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 2014 were authorised for issue by the Board of Directors on 6 March 2014. Marshalls plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are publicly traded on the London Stock Exchange and the Company is not under the control of any single shareholder.

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 "*Reduced Disclosure Framework* ("FRS101").

No profit or loss is presented by the Company as permitted by Section 408 of the Companies Act 2006.

(b) Basis of preparation

The Company has transitioned to FRS 101 from the UK Generally Accepted Accounting Practice for all periods presented. The Company has adopted FRS 101 early which is permitted under the standard. Transition tables showing all material adjustments are disclosed in Note 41.

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31 December 2014.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraph 45(b) and 46-52 of IFRS 2 *"Share-based Payments"*;
- the requirement of IFRS 7 *"Financial Instruments: Disclosures"*;
- the requirement of paragraphs 91-99 of IFRS 13 *"Fair Value Measurement"*;
- the requirement in paragraph 38 of IAS 1 *"Presentation of Financial Statements to present comparative information in respect of: Paragraph 79(a)(iv) of IAS 1";*
- the requirements of paragraphs 10(d), 10(f), 16, 39(c), 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *"Presentation of Financial Statements"*;
- the requirements of IAS 7 *"Statement of Cashflows"*;
- 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 two 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"*.

(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.

Notes to the Company Financial Statements *continued*

28 Accounting policies *continued*

(d) Share capital

(i) Share capital

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

(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 99 to 102.

(ii) Defined contribution scheme

Obligations for contributions to defined contribution schemes are recognised as an expense as incurred.

(f) Share-based payment transactions

The Company enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's incentive schemes which include the Management Incentive Plan ("MIP") and, in previous years, the Performance Incentive Plan ("PIP") and the Long Term Incentive Plan ("LTIP").

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

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

(g) Own shares held by the Employee Benefit Trust

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

(h) Trade and other payables

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

28 Accounting policies *continued*

(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.

29 Operating costs

The audit fee for the Company was £20,000 (2013: £20,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditor for services other than the statutory audit of the Company are not disclosed in the notes to the Company Financial Statements since the consolidated accounts of the Group are required to disclose non-audit fees on a consolidated basis.

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed on pages 51 to 61 of the Annual Remuneration Report.

30 Ordinary dividends: equity shares

	2014		2013	
	pence per share	**£'000**	pence per share	£'000
2013 Final: paid 4 July 2014	**3.50p**	**6,867**	3.50p	6,861
2014 Interim: paid 5 December 2014	**2.00p**	**3,924**	1.75p	3,431
	5.50p	**10,791**	5.25p	10,292

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.

	2014 £'000	2013 £'000
4.00 pence (2013: 3.50 pence) per ordinary share	**7,975**	6,861

31 Investments

	£'000
At 1 January 2014	339,634
Additions	1,319
At 31 December 2014	**340,953**

Investments comprise shares in the subsidiary undertaking, Marshalls Group Limited. The Directors have considered the carrying value of the Company's investments and are satisfied that no provision is required.

The increase in the year of £1,319,000 represents adjustments to the number of shares expected to vest in respect of share-based payment awards granted to employees of Marshalls Group Limited.

Notes to the Company Financial Statements *continued*

31 Investments *continued*

Pursuant to Sections 409 and 410(2) of the Companies Act 2006, the principal subsidiary undertakings of Marshalls plc at 31 December 2014 are set out below. With the exception of Marshalls NV, Xiamen Marshalls Import Export Company Limited and Marshalls Landscape Products (North America) Inc. all the companies operate within the United Kingdom and are registered in England and Wales. Marshalls NV is registered in Belgium. Xiamen Marshalls Import Export Company Limited is registered in China and Marshalls Landscape Products (North America) Inc. is registered in the USA.

Subsidiaries	Principal activities	Class of share	% ownership
Marshalls Group Limited	Intermediate holding company	Ordinary	100
Marshalls Mono Limited*	Landscape products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products	Ordinary	100
Marshalls NV*	Landscape products manufacturer and supplier	Ordinary	66.7
Xiamen Marshalls Import Export Company Limited*	Sourcing and distribution of natural stone products	Ordinary	100
Marshalls Landscape Products (North America) Inc.*	Landscape products supplier	Ordinary	100

* held by subsidiary undertaking.

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.

32 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets			Liabilities		
	2014 £'000	Restated* 2013 £'000	2012 £'000	**2014 £'000**	Restated* 2013 £'000	2012 £'000
Equity settled share-based expense	**806**	1,089	–	**–**	–	–

* Restated for adoption of FRS 101 as explained in note 41.

Movement in temporary differences

	Restated* 1 January 2014 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	**31 December 2014 £'000**
Year ended 31 December 2014				
Equity settled share-based expense	1,089	(378)	95	**806**

* Restated for adoption of FRS 101 as explained in note 41.

33 Debtors

	2014 £'000	2013 £'000
Corporation tax	**1,343**	958

No debtors were due after more than one year.

34 Creditors

	2014 £'000	2013 £'000
Amounts owed to subsidiary undertakings	**32,656**	13,861

35 Capital and reserves

Called-up share capital

As at 31 December 2014, the issued and fully paid-up share capital was as follows:

	Issued and paid up			
	2014 Number	**2014 nominal value £'000**	2013 Number	2013 nominal value £'000
At 31 December	**199,378,755**	**49,845**	199,378,755	49,845

Equity reserve

The equity reserve represents the number of shares expected to vest in respect of share-based payment awards granted to employees of the Company.

36 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2014 or 31 December 2013.

37 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.

38 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
XL Winterthur	£300,000	19 Dec 2003 to 31 Oct 2015	Employer's liability
Mitsui Sumitomo Insurance (London Management) Limited	£1,610,000	23 Dec 2011 to 31 Oct 2015	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 31 Oct 2015	Vehicle insurance

39 Pension scheme

The Company is the sponsoring employer of the Marshalls plc Pension Scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances. As set out in Note 19 the Group introduced a new defined contribution section to the Scheme to replace the existing defined benefit section which closed to future service accrual on 1 July 2006.

Full details of the Scheme are provided in Note 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 Scheme was carried out as at 6 April 2014 and was updated for the purposes of the 31 December 2014 Financial Statements by a qualified independent actuary. Certain employees are members of the Company defined contribution Scheme, which invests funds in which the contributions for each individual member, are separately identifiable and the benefits calculated accordingly.

40 Accounting estimates and judgements

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions. Although these judgements and estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are disclosed below.

Note 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 102.

Note 32 contains details of the Company's deferred taxation. Liabilities recognised are determined by reference to the likelihood of settlement and the likelihood that assets are received is based on assumptions of future actions.

Notes to the Company Financial Statements *continued*

41 Transition to FRS 101

For all periods up to and including the year ended 31 December 2013 the Company prepared its Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). These Financial Statements for the year ended 31 December 2014 are the first the Company has prepared in accordance with FRS 101 *"Reduced Disclosure Framework"*.

The table below shows the restated prior year comparative figures for the Parent Company balance sheet as at 1 January 2013 and 31 December 2013. The restatement reflects the retrospective adjustments required on first time adoption of FRS 101.

	31 December 2013			1 January 2013		
	Reported £'000	Impact of FRS 101 £'000	Restated £'000	Reported £'000	Impact of FRS 101 £'000	Restated £'000
Fixed assets						
Investments	339,634	–	339,634	338,728	–	338,728
Deferred taxation assets	569	520	1,089	–	–	–
	340,203	520	340,723	338,728	–	338,728
Current assets						
Debtors: amounts falling due within one year	958	–	958	898	–	898
	958	–	958	898	–	898
Creditors: amounts falling due within one year	(13,861)	–	(13,861)	(346)	–	(346)
Net (liabilities) / current assets	(12,903)	–	(12,903)	552	–	552
Total assets less current liabilities	327,300	520	327,820	339,280	–	339,280
Creditors: amounts falling due after more than one year	–	–	–	–	–	–
Retirement benefit obligations	–	–	–	–	–	–
Provisions for liabilities other	–	–	–	–	–	–
Net assets	327,300	520	327,820	339,280	–	339,280
Capital and reserves						
Called-up share capital	49,845	–	49,845	49,845	–	49,845
Share premium	22,695	–	22,695	22,695	–	22,695
Own shares	(9,512)	–	(9,512)	(9,571)	–	(9,571)
Capital redemption reserve	75,394	–	75,394	75,394	–	75,394
Equity reserve	1,463	132	1,595	388	–	388
Retained earnings	187,415	388	187,803	200,529	–	200,529
Total equity	327,300	520	327,820	339,280	–	339,280

Restatement from UK GAAP to FRS 101

Deferred tax asset and provision for liabilities

Deferred tax has been restated to take into account temporary differences at the balance sheet date between the tax base of assets and liabilities for taxation purposes and their carrying amounts in the Financial Statements, rather than timing differences. On restatement, temporary differences have been recognised in respect of equity settled share-based expenses.

42 Related parties

Related party relationships exist with other members of the Group. All operating costs are borne by Marshalls Group Limited and are re-charged to Marshalls plc in respect of specifically attributable costs. All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Financial History – Consolidated Group

	Year to December 2010** £'000	Year to December 2011* £'000	Year to December 2012** £'000	Year to December 2013* £'000	**Year to December 2014 £'000**
Consolidated Income Statement					
Revenue	299,934	325,112	300,938	307,390	**358,516**
Net operating costs	(288,962)	(310,117)	(288,087)	(291,300)	**(333,211)**
Operating profit (before operational restructuring and works closure costs, goodwill and intangible asset impairments)	10,972	14,995	12,851	16,090	**25,305**
Operational restructuring and works closure costs, goodwill and intangible asset impairments	–	–	(21,521)	–	**–**
Operating profit / (loss)	10,972	14,995	(8,670)	16,090	**25,305**
Financial income and expenses (net)	(2,563)	(3,007)	(3,578)	(3,064)	**(2,884)**
Profit before tax (before operational restructuring and works closure costs, goodwill and intangible asset impairments and redemption of debenture)	8,409	11,988	9,273	13,026	**22,421**
Profit / (loss) before tax	8,409	11,988	(12,248)	13,026	**22,421**
Income tax (expense) / credit	(1,638)	(1,071)	5,874	(67)	**(4,198)**
Profit / (loss) for the financial period before post tax loss of discontinued operations	6,771	10,917	(6,374)	12,959	**18,223**
Post tax profit / (loss) of discontinued operations	579	(3,661)	676	503	**–**
Profit / (loss) for the financial period	7,350	7,256	(5,698)	13,462	**18,223**
Profit / (loss) for the period attributable to:					
Equity shareholders of the parent	7,350	7,390	(5,684)	14,096	**19,857**
Non-controlling interests	–	(134)	(14)	(634)	**(1,634)**
	7,350	7,256	(5,698)	13,462	**18,223**
EBITA	12,405	16,174	(7,423)	17,028	**26,536**
EBITDA	29,101	32,413	6,538	30,227	**38,518**
EBITA before operational restructuring and works closure costs, goodwill and intangible asset impairments	12,405	16,174	14,098**	17,028	**26,536**
EBITDA before operational restructuring and works closure costs, goodwill and intangible asset impairments	29,101	32,413	28,059**	30,227	**38,518**
Earnings per share (pence)					
Basic: (continuing operations)	3.46	5.66	(3.26)	6.94	**10.13**
Basic: (total operations)	3.76	3.78	(2.91)	7.20	**10.13**
Basic continuing operations: (before operational restructuring and works closure costs, goodwill and intangible asset impairments and redemption of debenture)	3.46	5.66	5.52**	6.94	**10.13**
Dividends per share (pence) – IFRS	5.25	5.25	5.25	5.25	**5.50**
Dividend cover (times) – IFRS (continuing)	0.66	1.08	1.12**	1.32	**1.84**
Dividends per share (pence) – traditional	5.25	5.25	5.25	5.25	**6.00**
Dividend cover (times) – traditional (continuing)	0.66	1.08	1.12**	1.32	**1.69**
Year end share price (pence)	104.8	90.5	97.5	176.25	**234.0**
Tax rate (%)	19.5	8.9	(16.3)**	0.5	**18.7**

* the comparatives have been restated in respect of discontinued operations.
** before operational restructuring and works closure costs, goodwill and intangible asset impairments and redemption of debenture.

Financial History – Consolidated Group *continued*

	2010 £'000	2011 £'000	2012 £'000	2013 £'000	**2014 £'000**
Consolidated Balance Sheet					
Non-current assets	236,906	249,271	225,882	198,082	**195,951**
Current assets	113,610	128,640	116,735	120,832	**119,897**
Total assets	350,516	377,911	342,617	318,914	**315,848**
Current liabilities	(94,616)	(88,550)	(64,440)	(74,137)	**(68,273)**
Non-current liabilities	(57,660)	(83,297)	(94,603)	(69,345)	**(65,681)**
Net assets	198,240	206,064	183,574	175,432	**181,894**
Net borrowings	(66,841)	(77,101)	(63,543)	(35,569)	**(30,480)**
Gearing ratio	33.7%	37.4%	34.6%	20.3%	**16.8%**

Shareholder Information

Shareholder analysis at 31 December 2014

Size of shareholding	Number of shareholders	%	Number of ordinary shares	%
1 to 500	1,951	41.84	289,353	0.14
501 to 1,000	574	12.31	433,067	0.22
1,001 to 2,500	753	16.15	1,283,802	0.64
2,501 to 5,000	535	11.47	1,906,051	0.95
5,001 to 10,000	350	7.51	2,494,224	1.25
10,001 to 25,000	196	4.20	3,103,880	1.56
25,001 to 100,000	150	3.22	7,407,112	3.72
100,001 to 250,000	55	1.18	8,663,814	4.35
250,001 to 500,000	34	0.73	13,144,824	6.59
500,001 and above	65	1.39	160,652,628	80.58
	4,663	100.0	199,378,755	100.0

Financial calendar

Preliminary Announcement of results for the year ended 31 December 2014	Announced	6 March 2015
Annual General Meeting		20 May 2015
Final dividend for the year ended 31 December 2014	Payable	3 July 2015
Half-yearly results for the year ending 31 December 2015	Announcement	27 August 2015
Half-yearly dividend for the year ending 31 December 2015	Payable	4 December 2015
Results for the year ending 31 December 2015	Announcement	Early March 2016

Advisers

Stockbrokers
Peel Hunt
Numis Securities Limited

Auditor
KPMG LLP

Legal advisers
Herbert Smith LLP
Eversheds LLP
Pinsent Masons LLP

Financial advisers
N M Rothschild & Sons Limited

Bankers
Royal Bank of Scotland plc
Lloyds TSB Bank plc
HSBC Bank plc
Barclays Bank plc

Registrars
Computershare Investor Services PLC
The Pavilions
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